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UNITED COMPANY RUSAL PLC

(Incorporated under the laws of Jersey with limited liability)

(Stock Code: 486)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

Key highlights

- United Company RUSAL Plc (“**UC RUSAL**” or the “**Company**”, together with its subsidiaries, the “**Group**”) continued to see challenging environment in the aluminium industry during 2016. The Company’s revenue for the year ended 31 December 2016 decreased by 8.0% to USD 7,983 million as compared to USD8,680 million for 2015 following a 3.5% decrease in the average London Metals Exchange (“**LME**”) aluminium price from USD1,663 per tonne in 2015 to USD1,604 per tonne in 2016 and a 43.4% drop in the average realized premiums to the LME price.
- At the same time, the LME aluminium price increased by 14.4% to USD1,710 in the fourth quarter of 2016 as compared to USD1,495 in the same quarter of 2015, which together with the 5.3% growth in aluminium sales volumes between the comparable periods resulted in the increase in revenue by 9.2% to USD2,027 million in the last quarter of 2016 as compared to USD1,857 million in the same period of 2015 with the average realized price increasing by 4.0% to USD1,799 per tonne for the last quarter of 2016 as compared to USD1,729 per tonne in the same period of 2015.

- Aluminium segment cost per tonne decreased by 4.7% to USD1,344 in the fourth quarter of 2016 in comparison with USD1,410 in the same period of 2015 resulting from continuous cost control measures and the decrease in raw material price. This, along with improvement in average sales price and sales volume, allowed the Company to increase Adjusted EBITDA to USD412 million with an Adjusted EBITDA margin of 20.3% in the fourth quarter of 2016 as compared to USD306 million with Adjusted EBITDA margin of 16.5% in the same quarter of 2015. Aluminium segment cost per tonne decreased by 8.4% to USD1,333 in 2016 in comparison with USD1,455 in 2015. The Company achieved Adjusted Net Profit and Recurring Net Profit of USD590 million and USD1,257 million, respectively, for the year ended 31 December 2016 as compared to USD671 million and USD1,097 million for the prior year. In the fourth quarter of 2016, the Company achieved Adjusted Net Profit of USD342 million and Recurring Net Profit of USD505 million.
- In July 2016 the Group entered into an agreement to sell its 100% stake in the Alumina Partners of Jamaica (“Alpart”) to the Chinese state industrial group, JIUQUAN IRON & STEEL (GROUP) Co. Ltd. (“JISCO”) for a consideration of USD299 million. In November 2016 the Group completed the sale of Alpart and received the full consideration in cash.

Statement of the Chief Executive Officer

“Despite a challenging start of the year, with aluminium prices reaching multi-year lows, RUSAL achieved a solid financial performance in 2016. On the one hand, we saw improved market conditions in the second half of the year, supporting our key performance metrics and on the other, our solid results were down to our dedication to cost management, production discipline, and a stronger focus on innovation and value added products (VAP) development.

RUSAL recorded a net profit of USD1.18 billion and recurring net profit of USD1.26 billion, both higher than our 2015 results. Cash cost per tonne decreased to USD1,333, 8.4% below last year’s average with a healthy Adjusted EBITDA margin of 18.65%. In order to expand our VAP proposition, we invested into new casthouse projects at our Krasnoyarsk and Khakas smelters, with new alloys expected to be shipped to customers already in 2017.

Another milestone achievement the previous year was the launch of the superpower RA-550 cell running at over 550 kA at our Sayanogorsk smelter. RUSAL's proprietary technology counters a major drawback of superpower cells which, in most cases, lose efficiency or increase energy consumption as amperage increases. RUSAL's commitment to improve its energy efficiency across its production chain will work alongside achieving its climate change goals of aiming to be among the most efficient low carbon aluminium producers worldwide.

I would also highlight that post the reporting period, RUSAL completed its debut offering of a 5-year Eurobond with a principal amount of USD600 million. While the bond proceeds were used to refinance some of RUSAL's existing pre-export finance facility and improved the Company's debt maturity profile, the successful debut placement is a testament to RUSAL's credit strength and its name recognition in the investor community.

Looking ahead into 2017, we expect the aluminium market to remain in a good shape with demand increasing by 5% and global market deficit widening to 1.1mn tonnes."

Vladislav Soloviev
Chief Executive Officer

17 March 2017

Financial and Operating Highlights

	Quarter ended 31 December		Change, quarter on quarter, (4Q to 4Q)	Quarter ended 30 September	Change, quarter on quarter, (4Q to 3Q)	Year ended 31 December		Change, year-on- year
	2016 unaudited	2015 unaudited		2016 unaudited		2016	2015	
Key operating data								
<i>('000 tonnes)</i>								
Aluminium	930	921	1.0%	920	1.1%	3,685	3,645	1.1%
Alumina	1,939	1,906	1.7%	1,865	4.0%	7,528	7,402	1.7%
Bauxite	2,841	2,850	(0.3%)	3,211	(11.5%)	12,187	12,112	0.6%
<i>('000 tonnes)</i>								
Sales of primary aluminium and alloys	922	876	5.3%	981	(6.0%)	3,818	3,638	4.9%
<i>(USD per tonne)</i>								
Aluminium segment cost per tonne ¹	1,344	1,410	(4.7%)	1,330	1.1%	1,333	1,455	(8.4%)
Aluminium price per tonne quoted on the LME ²	1,710	1,495	14.4%	1,621	5.5%	1,604	1,663	(3.5%)
Average premiums over LME price ³	151	179	(15.6%)	150	0.7%	159	281	(43.4%)
Average sales price	1,799	1,729	4.0%	1,754	2.6%	1,732	2,001	(13.4%)
Alumina price per tonne ⁴	307	234	31.2%	234	31.2%	253	303	(16.5%)
Key selected data from the consolidated statement of income								
<i>(USD million)</i>								
Revenue	2,027	1,857	9.2%	2,060	(1.6%)	7,983	8,680	(8.0%)
Adjusted EBITDA	412	306	34.6%	421	(2.1%)	1,489	2,015	(26.1%)
margin (% of revenue)	20.3%	16.5%	NA	20.4%	NA	18.7%	23.2%	NA
Profit /(Loss) for the period	645	(267)	NA	273	136.3%	1,179	558	111.3%
margin (% of revenue)	31.8%	(14.4%)	NA	13.3%	NA	14.8%	6.4%	NA
Adjusted Net Profit for the period	342	55	521.8%	181	89.0%	590	671	(12.1%)
margin (% of revenue)	16.9%	3.0%	NA	8.8%	NA	7.4%	7.7%	NA
Recurring Net Profit /(Loss) for the period	505	(40)	NA	327	54.4%	1,257	1,097	14.6%
margin (% of revenue)	24.9%	(2.2%)	NA	15.9%	NA	15.7%	12.6%	NA

¹ For any period, “Aluminium segment cost per tonne” is calculated as aluminium segment revenue less aluminium segment results less amortisation and depreciation divided by sales volume of the aluminium segment.

² Aluminium price per tonne quoted on the LME representing the average of the daily closing official prices for each period.

³ Average premiums over LME realized by the Company based on management accounts.

⁴ The average alumina price per tonne provided in this table is based on the daily closing spot prices of alumina according to Non-ferrous Metal Alumina Index FOB Australia USD per tonne.

Key selected data from consolidated statement of financial position

	As at		
	31 December 2016	31 December 2015	Change year-on-year
<i>(USD million)</i>			
Total assets	14,452	12,809	12.8%
Total working capital ⁵	1,691	1,596	6.0%
Net Debt ⁶	8,421	8,372	0.6%

Key selected data from consolidated statement of cash flows

	Year ended		
	31 December 2016	31 December 2015	Change year-on-year
<i>(USD million)</i>			
Net cash flows generated from operating activities	1,244	1,568	(20.7%)
Net cash flows generated from investing activities	104	261	(60.2%)
<i>of which dividends from associates and joint ventures</i>	336	755	(55.5%)
<i>of which CAPEX⁷</i>	(575)	(522)	10.2%
Interest paid	(452)	(516)	(12.4%)

Overview of Trends in the Aluminium Industry and Business Environment

Highlights for the full year 2016

- Global aluminium demand grew by 5.5% in 2016 year-on-year (YoY), as a result of strong demand in China, Europe, Asia and North America. Aluminium demand in 2017 is estimated to grow at approximately 5% YoY

⁵ Total working capital is defined as inventories plus trade and other receivables minus trade and other payables.

⁶ Net Debt is calculated as Total Debt less cash and cash equivalents as at the end of any period. Total Debt refers to UC RUSAL's loans and borrowings and bonds outstanding at the end of any period.

⁷ CAPEX is defined as payment for the acquisition of property, plant and equipment and intangible assets.

- Global aluminium supply grew at a slower pace in 2016, increasing by 3.6% to 59 mln tonnes, compared to 6% growth in 2015 due to Chinese supply slowdown
- In 2017, Chinese supply will be challenged by significant cost inflation, environmental regulation as well as the continuation of supply side reform. In 2016, Chinese semis export declined by 3.2% YoY with a further downside risk in 2017 due to anti-dumping tensions and the ongoing WTO case
- In 2016, the global aluminum market reached a deficit of 0.7 mln tonnes which is set to widen to approximately 1.1 mln tonnes in 2017
- Aluminum premiums in key consuming regions started to improve at the end of 4Q16 with a 20% rise in October-December compared to the beginning of this year. This was supported by strong demand and reduced supply in key regions after smelting capacity reduction/closures (NA, Australia).

The LME aluminium price reached USD1,934/t in March 2017 and has remained stable around USD1,900/t since mid-February-March. This was attributable to a growing global metal deficit (0.7 mln tonnes) driven by the US, EU and continued supply moderation in China coupled with significant production cost inflation. Global manufacturing activity in the beginning of 2017 expanded to its highest level since 2011 underpinning strong metal demand for the rest of the year.

Aluminium demand

Global aluminium demand grew by 5.5% in 2016 to 59.7 million tonnes. Demand rose in the world (excluding China) by 3.4% to 28.3 million tonnes, while China's growth alone increased 7.6% to 31.4 million tonnes.

China's economy hit its growth target last year accelerating towards the end of the year. China's economic growth remained stable in 3Q, ensuring the government achieved its full-year growth target. Gross domestic product expanded 6.7% in 2016 YoY, above the official target of 6.5%. The China Caixin Manufacturing PMI rose to 51.9 in December from 50.9 in November, avoiding contractionary territory for the sixth month straight.

China's industrial output rose 6% YoY with retail sales increasing 10.9% in 2016. Fixed-asset investment for the whole year grew 8.1% YoY. China produced 28.19 million units of vehicles in 2016, up 14.5% YoY, according to monthly data released by the China Association of Automobile Manufacturers (CAAM). Sales of commercial buildings rose 35% in 2016, and residential sales climbed 36% for the same period. As prices continued to increase in 2016, this led to healthy property restocking and growth in construction activity.

In North America, Donald Trump's win in the US Presidential elections saw a surge in economic optimism. His proposed infrastructure spending plan increased most indicators by the end of the year. The US manufacturing sector ended 2016 on a buoyant note, with promising signs of further growth in 2017. The pace of growth signaled by the PMI in December (54.7) was at its strongest for almost two years, driven almost entirely by rising demand from domestic customers, with exports hindered by the dollar's recent surge. Construction was relatively strong with the number of new housing growing by nearly 5% in 2016 YoY. Automotive production increased by 1.2% in North America.

The Eurozone manufacturing sector also ended 2016 on a high note; the PMI climbed up to 54.9 in December. Alongside the improved performance of the Eurozone manufacturing sector, production and new orders witnessed its fastest growth. Rates of expansion in both were either at, or close to, the steepest increase since early 2011. Car production in Europe increased in 2016 on the back of EUR/USD depreciation in 2H16, as well as increased demand in exporting countries such as the US and China, where demand is supported by tax reduction for lower-powered light vehicles. Preliminary data for the first eleven months of 2016 showed a rise by 3.7% YoY.

The final months of 2016 saw Japan's economy expand with exports rebounding meaningfully along with production backed by the sharp depreciation of the yen and improving global demand. The PMI posted 52.4 in December, up from 51.3 in November, signaling a sharper improvement in manufacturing conditions in Japan and this contributed to the strongest quarterly average since 4Q 2015. In 2016, Japanese new house building increased by over 5% according to the latest data for the January-November period.

Growth in the ASEAN economy remained on track with annual growth at 4.7% in 2016, a slight pick-up from 4.5% in 2015. Car production growth gained momentum at the end of 2016, largely in Thailand (2.7%), Indonesia (5.6%), and Vietnam (38.4%) where domestic demand and exports uptick boosted manufacturing. According to preliminary data for the January-November period, automotive production grew by 3% in the region.

In 2016, Russia's key economic indicators continued to decrease. According to preliminary data, the GDP index was -0.7%, industrial production index for processing industries was -0.7%, and fixed assets investments decreased by -3.3%.

However, by the end of the year there were signs of stabilization. Current forecasts for 2017 predict that indicators will be positive. In the second half of 2016, PMI demonstrated steady growth, peaking in November/December at 53.7, which is the highest it has been for 69 months. Cheap ruble currency make domestic producers

more competitive for both domestic and export markets. Passenger car production continued to decline due to a lower automotive market demand, but commercial vehicles (trucks, light commercial vehicles, buses) production increased by +8.2% in 2016 compared to 2015.

Against the backdrop of a weak ruble, in 2016 the volume of aluminium semis imports significantly decreased while exports increased. As a result, the volume of exports of aluminum products exceeded imports for the first time. That has allowed domestic enterprises to retain production volume in terms of reducing domestic demand.

Supply

Overall global aluminum supply rose by 3.6% to 59 mln tonnes in 2016 YoY.

IAI and CRU data show that during 2016, primary aluminium production in the world excluding China rose 2.2% to 26.7 million tonnes mostly due to growth in Asia, Malaysia and Eastern Europe. According to the Aladdiny agency, aluminum production in China increased by 5.5% to 32.3 mln tonnes. This was as a result of new capacity ramping up in Q4 2016.

Despite 4 mln tonnes of new Chinese capacity in 2016 and some restarted capacity, we believe that the Chinese market will become more balanced due to its adoption of the new antipollution plan. In addition, the country may still have a high risk of supply tightness due to the new environmental measures against pollution including outlined capacity closures (below 300KA) and a significant decline in new capacity additions. This is similar to what we have witnessed and was implemented in the steel sector.

The Chinese Ministry of Environmental Protection (MEP) is tightening control over pollution due to an increase in heavy smog during December-January. Four provinces near Beijing 2+26 cities (namely, Hebei, Shandong, Henan, Shanxi) occupy just 7% of the territory of China but produce 340 Mt of steel (43% of China's total), 47% of coke, 12 Mt of energy intensive aluminium (38%), 460 Mt of cement (19%) and 27% of coal-fired power. This scale of pollution producing facilities within a relatively small area creates enormous pressure on both the environment and on the civilian's health. According to the new antipollution plan developed by the MEP with other authorized bodies and approved by the Chinese Government, 30% of approximately 10Mtpy of aluminium smelting capacity in these provinces is due to close between November to March in 2017-2018. This would result in a 1.2Mt impact in the first full year of the policy. It would also make greenfield and brownfield expansions in these key producing provinces unlikely. In addition, 30% of alumina and 50% of anode/cathode production in 2+26 cities could potentially affect further key raw

materials prices appreciation used for aluminum production. Since January last year, the average weighted production cash cost for China's aluminum industry climbed by 40% and according to February 2017 cash cost data and SHFE average price in February (RMB13,800/t), there were 14% (or 5Mt) of loss making capacities in China based on the estimation current cost curve which has a strong support at RMB14,000/t level.

Forecast for 2017

Strong market and regional fundamentals will contribute to a widening deficit of 1.1 mln tonnes.

- Global aluminum demand to grow by 5.0% to 62.7 mln tonnes. Chinese demand to grow by 6.7% to 33.5 mln tonnes and ex.China by 3.3% to 29.2 mln tonnes driven by growth in EMEA, North America and Asian economies
- Global aluminum supply will grow by 4.3% to 61.6 mln tonnes vs 3.7% growth in 2016 and will be affected by a tight supply in China due to the new antipollution plan. Chinese supply will grow by 6% to 34.3 mln tonnes. Ex.China supply will grow by 2.4% to 27.3 mln tonnes
- Global aluminum market deficit to widen to 1.1 mln tonnes in 2017 vs 0.7 mln tonnes in 2016

Business review

Aluminium

- Aluminium production in 4Q2016 totaled 930 thousand tons (+1.1% quarter-on-quarter), with Siberian smelters representing 94% of total aluminium output. Smelters utilization remained on average at a high of 95%.
- In 4Q2016 aluminium sales totaled 922 thousand tons (-6.0% quarter-on-quarter), including value added product (VAP) sales of 405 thousand tons. Aluminium sales dynamics are largely explained by the previous period high base effect and seasonal increase of goods in transit (to be realized in the next period).

- In 4Q2016 the average aluminium realized price increased 2.6% quarter-on-quarter to USD1,799/t. The increase was largely driven by the London Metal Exchange (“LME”) QP component growth which increased by 2.7% quarter-on-quarter to USD1,648/t in 4Q2016. The average realised aluminium premium was USD151/t in the period.
- In 2016 aluminium production totaled 3,685 thousand tons (+1.1% YoY).
- In 2016 aluminium sales volumes totaled 3,818 thousand tons (+4.9% YoY). The increase was largely attributable to the additional volumes of the Boguchansky smelter. In 2016 VAP sales grew to 1,677 thousand tons (+6.7% YoY). The average realized price in 2016 was USD1,732/t (-13.4% YoY). The average price reduction is explained by the structurally different market environment in 2015 versus 2016 and lower aluminium LME prices and premiums YoY.

Alumina

- In 4Q2016, total alumina production increased 4.0% quarter-on-quarter, totaling 1,939 thousand tons. Russian operations accounted for 34% of the total output. The production growth at Nikolaev (+12.3% quarter-on-quarter) refinery was attributable to the capacity upgrade. The rest of the Group alumina assets performance was largely in line with the production plan.
- In 2016 alumina output totaled 7,528 thousand tons (+1.7% YoY). The production increase largely came from the Russian (namely Urals, Bogoslovsk) and Ukrainian (Nikolaev) refineries as a result of modernization and debottlenecking of the capacities.

Bauxites

- In 4Q2016, bauxite output totaled 2,841 thousand tons (-11.5% quarter-on-quarter). The Timan mine bauxite output reduced by 26.6% quarter-on-quarter from 911 thousand tons due to higher volumes of waste mined in 4Q2016. In the next quarter the output at the facility is expected to normalize. The bauxite and nepheline ore output dynamics at the rest of the Group’s assets are largely explained by the mining works schedule.
- In 2016, bauxite output totaled 12,187 thousand tons (+0.6% YoY). Nepheline ore output increased by 7.8% YoY to 4,432 thousand tons.

Financial Overview

Revenue

	Year ended 31 December 2016			Year ended 31 December 2015		
	<i>USD</i>		<i>Average</i>	<i>USD</i>		<i>Average sales</i>
	<i>million</i>	<i>kt</i>	<i>sales price</i> <i>(USD/tonne)</i>	<i>million</i>	<i>kt</i>	<i>price</i> <i>(USD/tonne)</i>
Sales of primary aluminium and alloys	6,614	3,818	1,732	7,279	3,638	2,001
Sales of alumina	622	2,267	274	595	1,722	346
Sales of foil	240	77	3,117	270	81	3,333
Other revenue	<u>507</u>	—	—	<u>536</u>	—	—
Total revenue	<u>7,983</u>			<u>8,680</u>		

Total revenue decreased by USD697 million or by 8.0% to USD7,983 million in 2016 compared to USD8,680 million in 2015. The decrease in total revenue was primarily due to the lower sales of primary aluminium and alloys, which accounted for 82.9% and 83.9% of UC RUSAL's revenue for 2016 and 2015, respectively.

	Quarter ended 31 December		Change, quarter on quarter, (4Q to 4Q)	Quarter ended 30 September	Change, quarter on quarter, (4Q to 3Q)	Year ended 31 December		Change, year-on- year
	2016	2015		2016		2016	2015	
	<i>unaudited</i>	<i>unaudited</i>		<i>unaudited</i>				
<i>(USD million)</i>								
Sales of primary aluminium and alloys								
<i>USD million</i>	1,659	1,515	9.5%	1,721	(3.6%)	6,614	7,279	(9.1%)
<i>kt</i>	922	876	5.3%	981	(6.0%)	3,818	3,638	4.9%
<i>Average sales price (USD/t)</i>	1,799	1,729	4.0%	1,754	2.6%	1,732	2,001	(13.4%)
Sales of alumina								
<i>USD million</i>	164	144	13.9%	157	4.5%	622	595	4.5%
<i>kt</i>	570	485	17.5%	566	0.7%	2,267	1,722	31.6%
<i>Average sales price (USD/t)</i>	288	297	(3.0%)	277	4.0%	274	346	(20.8%)
Sales of foil (USD million)	65	63	3.2%	62	4.8%	240	270	(11.1%)
Other revenue (USD million)	<u>139</u>	<u>135</u>	3.0%	<u>120</u>	15.8%	<u>507</u>	<u>536</u>	(5.4%)
Total revenue (USD million)	<u>2,027</u>	<u>1,857</u>	9.2%	<u>2,060</u>	(1.6%)	<u>7,983</u>	<u>8,680</u>	(8.0%)

Revenue from sales of primary aluminium and alloys decreased by USD665 million, or by 9.1%, to USD6,614 million in 2016, as compared to USD7,279 million in 2015, primarily due to 13.4% decrease in the weighted-average realized aluminium price per tonne driven by a decrease in the LME aluminium price (to an average of USD1,604 per tonne in 2016 from USD1,663 per tonne in 2015), as well as a decrease in premiums above the LME prices in the different geographical segments (to an average of USD159 per tonne from USD281 per tonne in 2016 and 2015, respectively).

Revenue from sales of alumina increased by USD27 million or by 4.5% to USD622 million for the year ended 31 December 2016 as compared to USD595 million for the previous year. The increase was mostly attributable to 31.6% growth in alumina sales volume partially offset by a 20.8% decrease in the average sales price.

Revenue from sales of foil decreased by 11.1% to USD240 million in 2016, as compared to USD270 million in 2015, primarily due to a 6.5% decrease in the weighted average sales price and 4.9% decrease in sales volumes.

Revenue from other sales, including sales of other products, bauxite and energy services decreased by 5.4% to USD507 million for the year ended 31 December 2016 as compared to USD536 million for the previous year, due to a 22.0% decrease in sales of other materials (such as silicon by 16.2%, soda by 12.2%, potassium sulfate by 48.9%).

Cost of sales

The following table shows the breakdown of UC RUSAL's cost of sales for the years ended 31 December 2016 and 2015, respectively:

	Year ended		Change,	Share
	31 December	2015	year-on-year	of costs
	2016			
<i>(USD million)</i>				
Cost of alumina	716	733	(2.3%)	11.8%
Cost of bauxite	427	538	(20.6%)	7.0%
Cost of other raw materials and other costs	2,131	2,189	(2.6%)	35.1%
Purchases of primary aluminium from JV	229	58	294.8%	3.8%
Energy costs	1,568	1,680	(6.7%)	25.8%
Depreciation and amortisation	434	434	0.0%	7.2%
Personnel expenses	520	505	3.0%	8.6%
Repairs and maintenance	56	58	(3.4%)	0.9%
Net change in provisions for inventories	____(11)	____20	NA	____(0.2%)
Total cost of sales	<u>6,070</u>	<u>6,215</u>	(2.3%)	<u>100.0%</u>

Total cost of sales decreased by USD145 million, or by 2.3%, to USD6,070 million in 2016, as compared to USD6,215 million in 2015. The decrease was primarily driven by the continuing depreciation of the Russian Ruble and the Ukrainian Hryvnia against the US Dollar by 10.0% and 17.0%, respectively, between the reporting periods which was partially offset by the increase in volumes of primary aluminium and alloys sold.

Cost of alumina decreased in the reporting period (as compared to 2015) by USD17 million, or by 2.3%, primarily as a result of a decrease in alumina transportation costs following significant Russian Ruble depreciation and a slight decrease in tariff.

Cost of bauxite decreased by 20.6% for the year ended 31 December 2016 as compared to the same period of prior year, primarily as a result of a decrease in the purchase price.

Cost of raw materials (other than alumina and bauxite) and other costs decreased by 2.6% due to the lower raw materials purchase price in 2016 as compared to the previous year (such as raw petroleum coke by 30.0%, calcined petroleum coke by 20.9%, pitch by 6.2%, raw pitch coke by 2.5%).

Increase in purchases of primary aluminium and alloys were mainly caused by start of aluminium production at BoAZ and further increase of its production capacity. The Group purchases aluminium from BoAZ under long-term purchase commitment for further export.

Energy cost decreased in 2016 by 6.7% to USD1,568 million compared to USD1,680 million in 2015 primarily due to the continuing depreciation of the Russian Ruble against the US Dollar and 5.5% decrease in the average electricity tariff.

Distribution, administrative and other expenses

Distribution expenses decreased by 1.5% to USD331 million in 2016, compared to USD336 million in 2015, primarily due to the decrease in transportation tariffs as well as the continuing depreciation of the Russian Ruble against the US Dollar between the periods.

Administrative expenses, which include personnel costs, decreased by 2.3% to USD521 million in 2016, compared to USD533 million in 2015 and primarily resulted from the depreciation of the Russian Ruble to the US Dollar within the comparable periods.

Gross profit

As a result of the foregoing factors, UC RUSAL reported a gross profit of USD1,913 million for the year ended 31 December 2016 as compared to USD2,465 million for the previous period, representing gross margins of the periods of 24.0% and 28.4%, respectively.

Adjusted EBITDA and results from operating activities

	Year ended 31 December		Change
	2016	2015	year-on-year
<i>(USD million)</i>			
Reconciliation of Adjusted EBITDA			
Results from operating activities	1,068	1,409	(24.2%)
Add:			
Amortisation and depreciation	453	457	(0.9%)
(Reversal of)/ impairment of non-current assets	(44)	132	NA
Loss on disposal of property, plant and equipment	<u>12</u>	<u>17</u>	(29.4%)
Adjusted EBITDA	<u>1,489</u>	<u>2,015</u>	(26.1%)

Adjusted EBITDA, defined as results from operating activities adjusted for amortisation and depreciation, impairment charges and loss on disposal of property, plant and equipment, decreased to USD1,489 million for the year ended 31 December 2016, as compared to USD2,015 million for the previous year. The factors that contributed to the decrease in Adjusted EBITDA margin were the same that influenced the operating results of the Company.

Results from operating activities decreased by 24.2% to USD1,068 million for the year ended 31 December 2016, as compared to USD1,409 million for the previous year, representing operating margins of 13.4% and 16.2%, respectively.

Finance income and expenses

	Year ended 31 December		Change
	2016	2015	year-on-year
<i>(USD million)</i>			
Finance income			
Interest income on third party loans and deposits	18	21	(14.3%)
Interest income on loans to related party — <i>companies under common control</i>	<u>1</u>	<u>2</u>	(50.0%)
	<u>19</u>	<u>23</u>	(17.4%)
Finance expenses			
Interest expense on bank loans, company loans, bonds and other bank charges, including	(610)	(627)	(2.7%)
<i>Interest expense</i>	(537)	(571)	(6.0%)
<i>Bank charges</i>	(73)	(56)	30.4%
Interest expense on provisions	(7)	(13)	(46.2%)
Net foreign exchange loss	(105)	(140)	(25.0%)
Change in fair value of derivative financial instruments, including	(157)	(352)	(55.4%)
<i>Change in fair value of embedded derivatives</i>	(77)	47	NA
<i>Change in other derivatives instruments</i>	<u>(80)</u>	<u>(399)</u>	(79.9%)
	<u>(879)</u>	<u>(1,132)</u>	(22.3%)

Finance income decreased by USD4 million to USD19 million in 2016 as compared to USD23 million in 2015, due to the decrease in the interest income on time deposit at several subsidiaries of the Group.

Financial expenses decreased by 22.3% to USD879 million in 2016 as compared to USD1,132 million in 2015 primarily due to a decrease in interest expenses, the foreign exchange loss and the net loss from the change in fair value of derivative financial instruments, slightly offset by an increase in bank charges.

Interest expenses on bank and company loans in 2016 decreased by USD17 million to USD610 million from USD627 million in 2015 due to the reduction of the principal amount payable to international and Russian lenders and the decrease of the overall interest margin between the periods.

The decrease of the net foreign exchange loss to USD105 million in 2016 from USD140 million for the same period of 2015 was driven by the revaluation of working capital items of several Group companies denominated in foreign currencies.

The net loss from the change in fair value of derivative financial instruments decreased to USD157 million for the years ended 31 December 2016 from USD352 million for the same period of 2015 as a result of the Russian Ruble's fluctuations which led to the revaluation of certain cross-currency instruments.

Share of profits of associates and joint ventures

	Year ended		Change
	31 December	2015	year-on-year
	2016		
<i>(USD million)</i>			
Share of profits of Norilsk Nickel, <i>with</i>	688	486	41.6%
<i>Effective shareholding of</i>	27.82%	28.05%	
Share of losses of other associates	—	(293)	NA
Share of profits of associates	<u>688</u>	<u>193</u>	256.5%
Share of profits of joint ventures	<u>160</u>	<u>175</u>	8.6%

The Company's share in profits of associates for the years ended 31 December 2016 and 2015 comprised USD688 million and USD193 million, respectively. Share in results of associates in both periods resulted primarily from the profit from the Company's investment in Norilsk Nickel, which amounted to USD688 million and USD486 million for 2016 and 2015, respectively, due to the better performance of Norilsk Nickel between periods.

The market value of the investment in Norilsk Nickel at 31 December 2016 was USD7,348 million as compared to USD5,542 million as at 31 December 2015.

Share of profits of joint ventures was USD160 million for the year ended 31 December 2016 as compared to USD175 million for the same period in 2015. This represents the Company's share of profits in joint ventures, namely BEMO, LLP Bogatyr Komir, Mega Business and Alliance (transportation business in Kazakhstan) and North United Aluminium Shenzhen Co., Ltd.

Result from disposal of a subsidiary

In July 2016 the Company entered into an agreement to sell 100% stake in the Alumina Partners of Jamaica ("Alpart") to the Chinese state industrial group, JIUQUAN IRON & STEEL (GROUP) Co. Ltd. ("JISCO").

In November 2016 the Company completed the sale for a consideration of USD299 million received in cash.

Profit before income tax

UC RUSAL earned a profit before income tax in an amount of USD1,354 million for the year ended 31 December 2016, as compared to a profit before income tax in an amount of USD763 million for the year ended 31 December 2015 due to reasons set out above.

Income tax

Income tax expense decreased by USD30 million to USD175 million in 2016, as compared to USD205 million in 2015.

Current tax expenses decreased by USD51 million, or 29.5%, to USD122 million for the year ended 31 December 2016, as compared to USD173 million for the previous year primarily due to the reduction withholding tax on dividends received from Norilsk Nickel.

Deferred tax increased by USD21 million, or 65.6%, to USD53 million for the year ended 31 December 2016, as compared to USD32 million for the previous year primarily due to reversal of impairment non-current assets of several subsidiaries.

Profit for the period

As a result of the above, the Company recorded a profit of USD1,179 million in 2016, as compared to USD558 million in 2015.

Adjusted and Recurring Net Profit

	Year ended 31 December 2016	2015	Change, year-on-year
<i>(USD million)</i>			
Reconciliation of Adjusted Net Profit			
Net Profit for the period	1,179	558	111.3%
Adjusted for:			
Share of profits and other gains and losses attributable to Norilsk Nickel, net of tax effect	(667)	(426)	56.6%
Change in derivative financial instruments, net of tax (20.0%)	122	342	(64.3%)
Foreign currency translation gain recycled from other comprehensive income on deconsolidation of subsidiaries	—	(95)	(100.0%)
Impairment of non-current assets, net of tax	(44)	132	NA
Net impairment of underlying net assets of joint ventures and associates	—	160	(100.0%)
Adjusted Net Profit	<u>590</u>	<u>671</u>	(12.1%)
Add back:			
Share of profits of Norilsk Nickel, net of tax	<u>667</u>	<u>426</u>	56.6%
Recurring Net Profit	<u>1,257</u>	<u>1,097</u>	14.6%

Adjusted Net Profit for any period is defined as the profit adjusted for the net effect of the Company's investment in Norilsk Nickel, the net effect of derivative financial instruments, gains and losses recycled from other reserves and the net effect of non-current assets impairment and restructuring costs. Recurring Net Profit for any period is defined as Adjusted Net Profit plus the Company's net effective share in Norilsk Nickel results.

Assets and liabilities

UC RUSAL's total assets increased by USD1,643 million, or 12.8% to USD14,452 million as at 31 December 2016 as compared to USD12,809 million as at 31 December 2015. The increase in total assets is mainly resulted from the increase in the carrying value of the investment in Norilsk Nickel.

Total liabilities decreased by USD265 million, or 2.3%, to USD11,153 million as at 31 December 2016 as compared to USD11,418 million as at 31 December 2015. The decrease was mainly due to the decrease in the Company's provisions and financial liabilities.

Cash flows

The Company generated net cash from operating activities of USD1,244 million for the year ended 31 December 2016 as compared to USD1,568 for the previous year. Net increase in working capital and provisions comprised USD178 million for 2016 as compared to USD281 million for the previous year.

Net cash generated from the investing activities for 2016 decreased to USD104 million as compared to USD261 million for 2015 primarily due to a decrease in dividends received from associates and joint ventures in amount USD336 million for 2016 as compared to USD755 million for the prior year.

The above mentioned factors allowed the Company to assign USD143 million of its own cash flows for the debt repayment that together with the interest payments of USD452 million, dividends paid in amount of USD250 million and settlement of derivative financial instruments of USD446 million represent the main components of the cash used in the financing activities with the total amount of USD1,305 million for 2016.

Segment reporting

The Group has four reportable segments, as described in the annual report of the Company, which are the Group's strategic business units: Aluminium, Alumina, Energy, Mining and Metals. These business units are managed separately and results of their operations are reviewed by the CEO on a regular basis.

The core segments are Aluminium and Alumina.

	Year ended 31 December			
	2016		2015	
	<i>Aluminium</i>	<i>Alumina</i>	<i>Aluminium</i>	<i>Alumina</i>
<i>(USD million)</i>				
Segment revenue				
<i>kt</i>	3,891	8,165	3,749	6,901
<i>USD million</i>	6,708	2,071	7,426	2,094
Segment result	1,157	2	1,607	212
Segment EBITDA ⁸	1,519	90	1,971	298
Segment EBITDA margin	<u>22.6%</u>	<u>4.3%</u>	<u>26.5%</u>	<u>14.2%</u>
Total capital expenditure	<u>336</u>	<u>146</u>	<u>303</u>	<u>164</u>

The segment result margin (calculated as a percentage of segment profit to total segment revenue per respective segment) for aluminium segment decreased to 17.2% for the year ended 31 December 2016 from 21.6% for the year ended 31 December 2015, and decreased to 0.1% compared to 10.1%, respectively, for the alumina segment. Key drivers for the decrease in margin in the aluminium segment are disclosed in "Revenue", "Cost of sales" and "Adjusted EBITDA and results from operating activities" sections above. Detailed segment reporting can be found in the consolidated financial statements for the year ended 31 December 2016.

⁸ Segment EBITDA for any period is defined as segment result adjusted for amortisation and depreciation for the segment.

Capital expenditure

UC RUSAL recorded a total capital expenditure of USD575 million for the year ended 31 December 2016. UC RUSAL's capital expenditure in 2016 was aimed at maintaining existing production facilities.

	Year ended 31 December	
	2016	2015
<i>(USD million)</i>		
Development capex	192	158
Maintenance		
Pot rebuilds costs	89	106
Re-equipment	<u>294</u>	<u>258</u>
Total capital expenditure	<u>575</u>	<u>522</u>

The BEMO project companies utilise the project financing proceeds to make necessary contributions to the ongoing construction projects and do not require contributions from the joint ventures partners at this time.

Consolidated financial statements

The following section contains the audited consolidated financial statements of UC RUSAL for the year ended 31 December 2016 which were approved by the directors of UC RUSAL (the “**Directors**”) on 16 March 2017, and reviewed by the Audit Committee.

The full set of audited consolidated financial statements of UC RUSAL, together with the report of the independent auditor is available on UC RUSAL's website at http://www.rusal.ru/en/investors/financial_stat.aspx.

United Company RUSAL Plc
Consolidated Statement of Income for the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	USD million	USD million
Revenue	5	7,983	8,680
Cost of sales	6(a)	(6,070)	(6,215)
Gross profit		1,913	2,465
Distribution expenses	6(b)	(331)	(336)
Administrative expenses	6(b)	(521)	(533)
Reversal of/(impairment) of non-current assets	6(b)	44	(132)
Net other operating expenses	6(b)	(37)	(55)
Results from operating activities		1,068	1,409
Finance income	7	19	23
Finance expenses	7	(879)	(1,132)
Share of profits of associates and joint ventures	15	848	368
Result from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	1(b)	298	95
Profit before taxation		1,354	763
Income tax	8	(175)	(205)
Profit for the year		1,179	558
Attributable to Shareholders of the Company		1,179	558
Profit for the year		1,179	558
Earnings per share			
Basic and diluted earnings per share (USD)	12	0.078	0.037
Adjusted EBITDA	6(d)	1,489	2,015

		Year ended 31 December	
		2016	2015
	Note	USD million	USD million
Profit for the year		1,179	558
Other comprehensive income			
<i>Items that will never be reclassified subsequently to profit or loss:</i>			
Actuarial gain/(loss) on post retirement benefit plans	20	1	(3)
		1	(3)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Share of other comprehensive income of associates	15	-	4
Change in fair value of cash flow hedges	21	36	144
Items recycled from other comprehensive income on deconsolidation of subsidiaries	1(b)	22	(95)
Foreign currency translation differences for equity-accounted investees	15	675	(975)
Foreign currency translation differences on foreign operations		245	(229)
		978	(1,151)
Other comprehensive income for the period, net of tax		979	(1,154)
Total comprehensive income for the year		2,158	(596)
Attributable to:			
Shareholders of the Company		2,158	(596)
Total comprehensive income for the year		2,158	(596)

There was no significant tax effect relating to each component of other comprehensive income.

United Company RUSAL Plc
Consolidated Statement of Financial Position as at 31 December 2016

		31 December	31 December
		2016	2015
	Note	USD million	USD million
ASSETS			
Non-current assets			
Property, plant and equipment	13	4,065	3,854
Intangible assets	14	2,470	2,274
Interests in associates and joint ventures	15	4,147	3,214
Deferred tax assets	8	51	51
Derivative financial assets	21	51	71
Other non-current assets		52	51
Total non-current assets		10,836	9,515
Current assets			
Inventories	16	1,926	1,837
Trade and other receivables	17(a)	819	710
Dividends receivable		311	189
Derivative financial assets	21	16	50
Cash and cash equivalents	17(c)	544	508
Total current assets		3,616	3,294
Total assets		14,452	12,809

		<u>31 December</u>	<u>31 December</u>
		<u>2016</u>	<u>2015</u>
	Note	<u>USD million</u>	<u>USD million</u>
EQUITY AND LIABILITIES			
Equity	18		
Share capital		152	152
Share premium		15,786	15,786
Other reserves		2,882	2,823
Currency translation reserve		(9,058)	(9,978)
Accumulated losses		(6,463)	(7,392)
Total equity		<u>3,299</u>	<u>1,391</u>
Non-current liabilities			
Loans and borrowings	19	7,532	7,525
Provisions	20	423	487
Deferred tax liabilities	8	585	531
Derivative financial liabilities	21	3	-
Other non-current liabilities		51	63
Total non-current liabilities		<u>8,594</u>	<u>8,606</u>
Current liabilities			
Loans and borrowings	19	1,433	1,355
Trade and other payables	17(b)	1,054	951
Derivative financial liabilities	21	32	421
Provisions	20	40	85
Total current liabilities		<u>2,559</u>	<u>2,812</u>
Total liabilities		<u>11,153</u>	<u>11,418</u>
Total equity and liabilities		<u>14,452</u>	<u>12,809</u>
Net current assets		<u>1,057</u>	<u>482</u>
Total assets less current liabilities		<u>11,893</u>	<u>9,997</u>

Approved and authorised for issue by the board of directors on 16 March 2017.

Vladislav A. Soloviev
Chief Executive Officer

Alexandra Y. Bouriko
Chief Financial Officer

United Company RUSAL Plc
Consolidated Statement of Changes in Equity for the year ended 31 December 2016

		Share capital	Shares held for vesting	Share premium	Other reserves	Currency translation reserve	Accumulated losses	Total equity
	Note	USD million	USD million	USD million	USD million	USD million	USD million	USD million
Balance at 1 January 2016		152	-	15,786	2,823	(9,978)	(7,392)	1,391
Profit for the year		-	-	-	-	-	1,179	1,179
Other comprehensive income for the year		-	-	-	59	920	-	979
Total comprehensive income for the year		-	-	-	59	920	1,179	2,158
Dividends	11	-	-	-	-	-	(250)	(250)
Balance at 31 December 2016		<u>152</u>	<u>-</u>	<u>15,786</u>	<u>2,882</u>	<u>(9,058)</u>	<u>(6,463)</u>	<u>3,299</u>
Balance at 1 January 2015		152	(1)	15,786	2,679	(8,679)	(7,700)	2,237
Profit for the year		-	-	-	-	-	558	558
Other comprehensive income for the year		-	-	-	145	(1,299)	-	(1,154)
Total comprehensive income for the year		-	-	-	145	(1,299)	558	(596)
Share-based compensation	18(b)	-	1	-	(1)	-	-	-
Dividends	11	-	-	-	-	-	(250)	(250)
Balance at 31 December 2015		<u>152</u>	<u>-</u>	<u>15,786</u>	<u>2,823</u>	<u>(9,978)</u>	<u>(7,392)</u>	<u>1,391</u>

		Year ended 31 December	
	Note	2016	2015
		USD million	USD million
OPERATING ACTIVITIES			
Profit for the year		1,179	558
<i>Adjustments for:</i>			
Depreciation	6	445	443
Amortisation	6	8	14
(Reversal of)/impairment of non-current assets	6(b)	(44)	132
(Reversal of)/impairment of trade and other receivables	6(b)	(3)	8
Debtors write-off		-	1
(Reversal of)/impairment of inventories	16	(11)	20
(Reversal of)/provision for legal claims	6(b)	(1)	6
Pension provision/(reversal of pension provision)		3	(2)
Change in fair value of derivative financial instruments	7	157	352
Net foreign exchange loss	7	105	140
Loss on disposal of property, plant and equipment		12	17
Interest expense	7	617	640
Interest income	7	(19)	(23)
Income tax expense	8	175	205
Result from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	1(b)	(298)	(95)
Share of profits of associates and joint ventures	15	(848)	(368)
Cash from operating activities before changes in working capital and provisions		1,477	2,048
(Increase)/decrease in inventories		(73)	148
Increase in trade and other receivables		(62)	(88)
Decrease in prepaid expenses and other assets		5	7
Decrease in trade and other payables		(13)	(323)
Decrease in provisions		(35)	(25)
Cash generated from operations before income tax paid		1,299	1,767
Income taxes paid	8	(55)	(199)
Net cash generated from operating activities		1,244	1,568

		Year ended 31 December	
	Note	2016	2015
		USD million	USD million
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		33	8
Interest received		17	21
Acquisition of property, plant and equipment		(558)	(510)
Dividends from associates and joint ventures		336	755
Loans given to joint ventures		(6)	-
Acquisition of intangible assets	14	(17)	(12)
Proceeds from disposal of a subsidiary	1(b)	298	-
Changes in restricted cash	17(c)	1	(1)
Net cash generated from investing activities		104	261
FINANCING ACTIVITIES			
Proceeds from borrowings		2,923	735
Repayment of borrowings		(3,066)	(1,476)
Refinancing fees and other expenses		(14)	-
Interest paid		(452)	(516)
Settlement of derivative financial instruments		(446)	(320)
Dividends	11	(250)	(250)
Net cash used in financing activities		(1,305)	(1,827)
Net increase in cash and cash equivalents		43	2
Cash and cash equivalents at the beginning of the year	17	494	557
Effect of exchange rate fluctuations on cash and cash equivalents		(6)	(65)
Cash and cash equivalents at the end of the year	17	531	494

Restricted cash amounted to USD13 million and USD14 million at 31 December 2016 and 31 December 2015, respectively.

Non-cash repayment of borrowings and interest amounted to USD192 million and USD173 million for the years ended 31 December 2016 and 31 December 2015, respectively.

1 Background

(a) Organisation

United Company RUSAL Plc (the “Company” or “UC RUSAL”) was established by the controlling shareholder of RUSAL Limited (“RUSAL”) as a limited liability company under the laws of Jersey on 26 October 2006. On 27 January 2010, the Company successfully completed a dual placing on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and the Professional Segment of NYSE Euronext Paris (“Euronext Paris”) (the “Global Offering”) and changed its legal form from a limited liability company to a public limited company.

On 23 March 2015, the shares of the Company were admitted to listing on PJSC Moscow Exchange MICEX-RTS (“Moscow Exchange”) in the First Level quotation list. The trading of shares on Moscow Exchange commenced on 30 March 2015. There was no issue of new shares.

The Company’s registered office is 44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands.

The Company directly or through its wholly owned subsidiaries controls a number of production and trading entities (refer to note 26) engaged in the aluminium business and other entities, which together with the Company are referred to as “the Group”.

The shareholding structure of the Company as at 31 December 2016 and 31 December 2015 was as follows:

	31 December	31 December
	2016	2015
En+ Group Limited (“En+”)	48.13%	48.13%
Onexim Holdings Limited (“Onexim”)	17.02%	17.02%
SUAL Partners Limited (“SUAL Partners”)	15.80%	15.80%
Amokenga Holdings Limited (“Amokenga Holdings”)	8.75%	8.75%
Held by Directors	0.25%	0.25%
Publicly held	10.05%	10.05%
Total	100%	100%

Ultimate beneficiary of En+ is Mr. Oleg Deripaska. Ultimate beneficiary of Onexim is Mr. Mikhail Prokhorov. Major ultimate beneficiaries of SUAL Partners are Mr. Victor Vekselberg and Mr. Len Blavatnik. Amokenga Holdings is a wholly owned subsidiary of Glencore International Plc (“Glencore”).

In February 2017 Onexim has disposed of 3.3% of its shares in the Company which resulted in decrease of its shareholding to 13.72% and increase of publicly held shareholding to 13.35%.

At 31 December 2016 and 2015, the directors consider the immediate parent of the Group to be En+, which is incorporated in Jersey with its registered office at 44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands. En+ is controlled by Fidelitas International Investments Corp. (a company incorporated in Panama) through its wholly-owned subsidiary. Mr. Oleg V. Deripaska is the founder, the trustee and a principal beneficiary of a discretionary trust, which controls Fidelitas International Investments Corp. None of these entities produce financial statements available for public use.

Related party transactions are disclosed in note 25.

(b) Deconsolidation and disposal of subsidiaries

In 2015 the Group deconsolidated ZALK and another subsidiary, as a result of which USD95 million foreign currency translation gain was recycled through profit and loss.

In July 2016 the Group entered into an agreement to sell its 100% stake in the Alumina Partners of Jamaica (“Alpart”) to the Chinese state industrial group, JIUQUAN IRON & STEEL (GROUP) Co. Ltd. (“JISCO”) for a consideration of USD299 million. In November 2016 the Group completed the sale of Alpart and received the full consideration in cash.

(c) Operations

The Group operates in the aluminium industry primarily in the Russian Federation, Ukraine, Guinea, Jamaica, Ireland, Italy, Nigeria and Sweden and is principally engaged in the mining and refining of bauxite and nepheline ore into alumina, the smelting of primary aluminium from alumina and the fabrication of aluminium and aluminium alloys into semi-fabricated and finished products. The Group sells its products primarily in Europe, Russia, other countries of the Commonwealth of Independent States (“CIS”), Asia and North America.

(d) Business environment in emerging economies

The Russian Federation, Ukraine, Jamaica, Nigeria and Guinea have been experiencing political and economic changes that have affected, and may continue to affect, the activities of enterprises operating in these environments. Consequently, operations in these countries involve risks that typically do not exist in other markets, including reconsideration of privatisation terms in certain countries where the Group operates following changes in governing political powers.

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

The consolidated financial statements reflect management’s assessment of the impact of the Russian, Ukrainian, Jamaican, Nigerian and Guinean business environments on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes all International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (“IASB”), and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing these financial statement the Group has applied the following standards and interpretations which are effective in respect of the financial years beginning on 1 January 2016.

- Annual Improvements to IFRSs, 2012-2014 cycle, various standards
- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: applying the consolidation exemption*
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IFRS 11: *Accounting for acquisitions of interests in joint operations*
- Amendments to IAS 1: *Disclosure Initiative*
- Amendments to IAS 16 and IAS 38: *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to IAS 16 and IAS 41, *Agriculture: Bearer plants*
- Amendments to IAS 27, *Separate Financial Statements: Equity Method in Separate Financial Statements*

As part of applying Amendments to IAS 1: *Disclosure Initiative* the Group has adopted a new presentation approach which would provide more relevant, clear and concise presentation and disclosures. Other above mentioned standards have not had significant impact on these consolidated financial statements.

The IASB has issued the following amendments, new standards and interpretations which are not yet effective in respect of the financial years included in these consolidated financial statements, and which have not been adopted in these consolidated financial statements.

	Effective for accounting periods beginning on or after
IFRS 9, <i>Financial Instruments</i>	1 January 2018
IFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, *Financial instruments*

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial

liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss and (3) fair value through other comprehensive income as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as fair value through other comprehensive income then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is fair value through profit or loss regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as fair value through other comprehensive income. If an equity security is designated as fair value through other comprehensive income then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and fair value through profit or loss will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at fair value through profit or loss and therefore this new requirement may not have any impact on the group on adoption of IFRS 9.

(ii) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(iii) Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9 and therefore it does not expect that the accounting for its hedging relationships will be significantly impacted.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements.

Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(i) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 5. Currently, revenue arising from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (1) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (2) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (3) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that for some of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once IFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

IFRS 16, Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will replace the following lease standard and Interpretations upon its effective date: IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is currently assessing the impacts of adopting IFRS 16 on its financial statements.

Based on the preliminary assessment, the Group has identified the following area which is likely to be affected: classification and recognition of lease assets and liabilities. The Group estimates that insignificant amounts related to leases may be recognised in the Group's statement of financial position.

IFRS 16 introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

If a lessee elects not to apply the general requirements of IFRS 16 to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets, the lessee should recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, similar to the current accounting for operating leases.

(b) Basis of measurement

The consolidated financial statements have been prepared in accordance with the historical cost basis except as set out in the significant accounting policies in the relates notes below.

(c) Functional and presentation currency

The Company's functional currency is the United States Dollar ("USD") because it reflects the economic substance of the underlying events and circumstances of the Company. The functional currencies of the Group's significant subsidiaries are the currencies of the primary economic environment and key business processes of these subsidiaries and include USD, Russian Roubles ("RUB"), Ukrainian Hryvna and Euros ("EUR"). The consolidated financial statements are presented in USD, rounded to the nearest million, except as otherwise stated herein.

(d) Use of judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported revenue and costs during the relevant period.

Management bases its judgements and estimates on historical experience and various other factors that are believed to be appropriate and reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year relate to:

- measurement of recoverable amount of property, plant and equipment (note 13) and goodwill (note 14)
- measurement of net realizable value of inventories (note 16);
- measurement of recoverable amount of investments in associates (note 15);
- estimates in respect of legal proceedings, restoration and exploration, taxation and pension reserve (note 20).

3 Significant accounting policies

Significant accounting policies are described in the related notes to the financial statements captions and in this note. The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies and judgements applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2015 and have been consistently applied to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items in a foreign currency are measured based on historical cost are translated using the exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in the statement of income, except for differences arising on the retranslation of qualifying cash flow hedges to the extent the hedge is effective, which is recognised in the other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated from their functional currencies to USD at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates approximating exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income and presented in the currency translation reserve in equity. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item are recognised in the statement of comprehensive income.

When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount of the currency translation reserve is transferred to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the statement of income.

4 Segment reporting

(a) Reportable segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete consolidated financial information or statements are available.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods

used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group has four reportable segments, as described below, which are the Group's strategic business units. These business units are managed separately and the results of their operations are reviewed by the CEO on a regular basis.

Aluminium. The Aluminium segment is involved in the production and sale of primary aluminium and related products.

Alumina. The Alumina segment is involved in the mining and refining of bauxite into alumina and the sale of alumina.

Energy. The Energy segment includes the Group companies and projects engaged in the mining and sale of coal and the generation and transmission of electricity produced from various sources. Where the generating facility is solely a part of an alumina or aluminium production facility it is included in the respective reportable segment.

Mining and Metals. The Mining and Metals segment includes the equity investment in PJSC MMC Norilsk Nickel ("Norilsk Nickel").

Other operations include manufacturing of semi-finished products from primary aluminium for the transportation, packaging, building and construction, consumer goods and technology industries; and the activities of the Group's administrative centres. None of these segments meet any of the quantitative thresholds for determining reportable segments in 2016 and 2015.

The Aluminium and Alumina segments are vertically integrated whereby the Alumina segment supplies alumina to the Aluminium segment for further refining and smelting with limited sales of alumina outside the Group. Integration between the Aluminium, Alumina and Energy segments also includes shared servicing and distribution.

(b) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of income tax assets and corporate assets. Segment liabilities include trade and other payables attributable to the production and sales activities of the individual segments. Loans and borrowings are not allocated to individual segments as they are centrally managed by the head office.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments excluding impairment.

The measure used for reporting segment results is the statement of income before income tax adjusted for items not specifically attributed to individual segments, such as finance income, costs of loans and borrowings and other head office or corporate administration costs. The segment profit or loss is included in the internal management reports that are reviewed by the Group's CEO. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment revenue), the carrying value of investments and share of profits/(losses) of associates and joint ventures, depreciation,

amortisation, impairment and additions of non-current segment assets used by the segments in their operations. Inter-segment pricing is determined on a consistent basis using market benchmarks.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets other than goodwill.

(i) Reportable segments

Year ended 31 December 2016

	Aluminium	Alumina	Energy	Mining and Metals	Total segment result
	USD million	USD million	USD million	USD million	USD million
Revenue from external customers	6,613	655	1	-	7,269
Inter-segment revenue	95	1,416	284	-	1,795
Total segment revenue	6,708	2,071	285	-	9,064
Segment profit	1,157	2	-	-	1,159
Reversal of/(impairment) of non-current assets	134	(27)	-	-	107
Share of profits of associates and joint ventures	-	-	160	688	848
Depreciation/amortisation	(362)	(88)	-	-	(450)
Non-cash expense other than depreciation	(26)	(48)	-	-	(74)
Additions to non-current segment assets during the year	336	146	2	-	484
Non-cash additions to non-current segment assets related to site restoration	17	8	-	-	25
	Aluminium	Alumina	Energy	Mining and Metals	Total segment result
	USD million	USD million	USD million	USD million	USD million
Segment assets	8,206	2,053	59	-	10,318
Interests in associates and joint ventures	-	-	552	3,592	4,144
Total segment assets					14,462
Segment liabilities	(1,285)	(721)	(23)	-	(2,029)
Total segment liabilities					(2,029)

Year ended 31 December 2015

	<u>Aluminium</u>	<u>Alumina</u>	<u>Energy</u>	<u>Mining and Metals</u>	<u>Total segment result</u>
	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>
Revenue from external customers	7,279	617	1	-	7,897
Inter-segment revenue	147	1,477	-	-	1,624
Total segment revenue	7,426	2,094	1	-	9,521
Segment profit/(loss)	1,607	212	(2)	-	1,817
Impairment of non-current assets	(76)	(56)	-	-	(132)
Share of (losses)/profits of associates and joint ventures	(19)	(293)	194	486	368
Depreciation/amortisation	(364)	(86)	-	-	(450)
Non-cash expense other than depreciation	(32)	(26)	-	-	(58)
Additions to non-current segment assets during the year	303	164	1	-	468
Non-cash additions to non-current segment assets related to site restoration	-	30	-	-	30
Segment assets	7,631	1,763	48	-	9,442
Interests in associates and joint ventures	-	-	438	2,776	3,214
Total segment assets					12,656
Segment liabilities	(1,419)	(704)	(101)	-	(2,224)
Total segment liabilities					(2,224)

(ii) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	Year ended 31 December	
	2016	2015
	<u>USD million</u>	<u>USD million</u>
Revenue		
Reportable segment revenue	9,064	9,521
Elimination of inter-segment revenue	(1,795)	(1,624)
Unallocated revenue	714	783
Consolidated revenue	7,983	8,680

	Year ended 31 December	
	2016	2015
	USD million	USD million
Profit		
Reportable segment profit	1,159	1,817
Reversal of/(impairment) of non-current assets	44	(132)
Share of profits of associates and joint ventures	848	368
Finance income	19	23
Finance expenses	(879)	(1,132)
Result from disposal and deconsolidation of a subsidiaries including other items recycled from other comprehensive income	298	95
Unallocated expenses	(135)	(276)
Consolidated profit before taxation	1,354	763
	31 December	31 December
	2016	2015
	USD million	USD million
Assets		
Reportable segment assets	14,462	12,656
Elimination of inter-segment receivables	(493)	(346)
Unallocated assets	483	499
Consolidated total assets	14,452	12,809
	31 December	31 December
	2016	2015
	USD million	USD million
Liabilities		
Reportable segment liabilities	(2,029)	(2,224)
Elimination of inter-segment payables	493	346
Unallocated liabilities	(9,617)	(9,540)
Consolidated total liabilities	(11,153)	(11,418)

(iii) Geographic information

The Group's operating segments are managed on a worldwide basis, but operate in four principal geographical areas: the CIS, Europe, Africa and the Americas. In the CIS, production facilities operate in Russia and Ukraine. In Europe, production facilities are located in Italy, Ireland and Sweden. African production facilities are represented by bauxite mines and an alumina refinery in Guinea and an aluminium plant in Nigeria. In the Americas the Group operates one production facility in Jamaica, one in Guyana and a trading subsidiary in the United States of America.

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and interests in associates and joint ventures ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset. Unallocated specified non-current assets comprise mainly goodwill and interests in associates and joint ventures.

Revenue from external customers		
Year ended 31 December		
	2016	2015
	USD million	USD million
Russia	1,666	1,680
USA	1,189	631
Netherlands	664	1,708
Turkey	633	834
Japan	610	584
Poland	375	404
South Korea	313	411
Greece	260	254
Italy	240	223
Sweden	182	220
Germany	181	129
Norway	179	103
France	178	189
China	24	78
Other countries	1,289	1,232
	7,983	8,680

Specified non-current assets		
31 December		
	2016	2015
	USD million	USD million
Russia	7,162	6,206
Ireland	414	372
Ukraine	192	195
Sweden	152	16
Guinea	117	56
Unallocated	2,799	2,670
	10,836	9,515

5 Revenue

Accounting policies

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the good and the amount of revenue can be measured reliably. This is generally when title passes. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

For the majority of sales transactions agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent.

Revenue is not reduced for royalties or other taxes payable from production.

Disclosures

	Year ended 31 December	
	2016	2015
	USD million	USD million
Sales of primary aluminium and alloys	6,614	7,279
<i>Third parties</i>	3,991	4,208
<i>Related parties – companies capable of exerting significant influence</i>	2,489	2,945
<i>Related parties – companies under common control</i>	134	125
<i>Related parties – associates and joint ventures</i>	-	1
Sales of alumina and bauxite	655	617
<i>Third parties</i>	377	382
<i>Related parties – companies capable of exerting significant influence</i>	186	207
<i>Related parties – associates and joint ventures</i>	92	28
Sales of foil	240	270
<i>Third parties</i>	239	265
<i>Related parties – companies under common control</i>	1	5
Other revenue including energy and transportation services	474	514
<i>Third parties</i>	381	426
<i>Related parties – companies capable of exerting significant influence</i>	11	17
<i>Related parties – companies under common control</i>	20	20
<i>Related parties – associates and joint ventures</i>	62	51
	7,983	8,680

The Group's customer base is diversified and includes only one major customer - Glencore International AG (a member of Glencore International Plc Group which is a shareholder of the Company with a 8.75% share – refer to note 1(a)) - with whom transactions have exceeded 10% of the Group's revenue. In 2016 revenues from sales of primary aluminium and alloys to this customer amounted to USD2,322 million (2015: USD2,710 million).

6 Cost of sales and operating expenses

(a) Cost of sales

	Year ended 31 December	
	2016	2015
	USD million	USD million
Cost of alumina, bauxite and other materials	(2,793)	(3,111)
<i>Third parties</i>	(2,579)	(2,923)
<i>Related parties – companies capable of exerting significant influence</i>	(146)	(129)
<i>Related parties – companies under common control</i>	(68)	(55)
<i>Related parties – associates and joint ventures</i>	-	(4)
Purchases of primary aluminium	(444)	(163)
<i>Third parties</i>	(215)	(105)
<i>Related parties – associates and joint ventures</i>	(229)	(58)
Energy costs	(1,568)	(1,680)
<i>Third parties</i>	(968)	(1,086)
<i>Related parties – companies capable of exerting significant influence</i>	(5)	(23)
<i>Related parties – companies under common control</i>	(484)	(428)
<i>Related parties – associates and joint ventures</i>	(111)	(143)
Personnel costs	(520)	(505)
Depreciation and amortisation	(434)	(434)
Other costs	(311)	(322)
<i>Third parties</i>	(156)	(156)
<i>Related parties – companies under common control</i>	(29)	(25)
<i>Related parties – associates and joint ventures</i>	(126)	(141)
	(6,070)	(6,215)

(b) Distribution, administrative and other operating expenses, and impairment of non-current assets

	Year ended 31 December	
	2016	2015
	USD million	USD million
Transportation expenses	(264)	(280)
Personnel costs	(261)	(256)
Reversal of/(impairment) of non-current assets	44	(132)
Consulting and legal expenses	(63)	(80)
Taxes other than on income	(42)	(48)
Lease and security	(40)	(37)
Other materials	(27)	(25)
Depreciation and amortisation	(19)	(23)
Loss on disposal of property, plant and equipment	(12)	(17)
Charitable donations	(14)	(11)
Auditors' remuneration	(6)	(7)
Reversal of/(impairment) of trade and other receivables	3	(8)
Reversal of/(provision) for legal claims	1	(6)
Other expenses	(145)	(126)
	(845)	(1,056)

Reversal of impairment of non-current assets comprises net results of reversal of impairment of property, plant and equipment of USD113 million and impairment of other non-current assets of USD69 million

(c) Personnel costs

Accounting policies

Personnel costs comprise salaries, annual bonuses, annual leave and cost of non-monetary benefits. Salaries, annual bonuses, paid annual leave and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The employees of the Group are also members of retirement schemes operated by local authorities. The Group is required to contribute a certain percentage of their payroll to these schemes to fund the benefits. The Group's total contribution to those schemes charged to the statement of income during the years presented is shown below.

The Group's net obligation in respect of defined benefit pension and other post-retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that

have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognised directly in the statement of comprehensive income.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service costs that had not previously been recognised.

Disclosures

	Year ended 31 December	
	2016	2015
	USD million	USD million
Contributions to defined contribution retirement plans	160	143
Contributions to defined benefit retirement plans	2	2
Total retirement costs	162	145
Wages and salaries	619	616
	781	761

(d) EBITDA and operating effectiveness measures

Adjusted EBITDA is the key non-IFRS financial measure used by the Group as reference for assessing operating effectiveness.

	Year ended 31 December	
	2016	2015
	USD million	USD million
Results from operating activities	1,068	1,409
<i>Add:</i>		
Amortisation and depreciation	453	457
(Reversal of)/ impairment of non-current assets	(44)	132
Loss on disposal of property, plant and equipment	12	17
Adjusted EBITDA	1,489	2,015

7 Finance income and expenses

Accounting policies

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and changes in the fair value of financial assets at fair value through profit or loss. All borrowing costs are recognised in the statement of income using the effective interest method, except for borrowing costs related to the acquisition, construction and production of qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

Disclosures

	Year ended 31 December	
	2016	2015
	USD million	USD million
Finance income		
Interest income on third party loans and deposits	18	21
Interest income on loans to related parties – <i>companies under common control</i>	1	2
	19	23
Finance expenses		
Interest expense on bank loans wholly repayable within 5 years, bonds and other bank charges	(603)	(315)
Interest expense on bank loans wholly repayable after 5 years	-	(290)
Interest expense on company loans from related parties – <i>companies exerting significant influence</i>	(7)	(22)
Change in fair value of derivative financial instruments (refer to note 21)	(157)	(352)
Net foreign exchange loss	(105)	(140)
Interest expense on provisions	(7)	(13)
	(879)	(1,132)

8 Income tax

Accounting policies

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of income and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liability. Such changes to tax liabilities will impact tax expenses in the period that such a determination is made. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividends is recognised.

Disclosures

(a) Income tax expense

	Year ended 31 December	
	2016	2015
	USD million	USD million
Current tax		
Current tax for the year	122	173
Deferred tax		
Origination and reversal of temporary differences	53	32
Actual tax expense	175	205

The Company is a tax resident of Cyprus with an applicable corporate tax rate of 12.5%. Subsidiaries pay income taxes in accordance with the legislative requirements of their respective tax jurisdictions. For subsidiaries domiciled in Russia, the applicable tax rate is 20%; in Ukraine of 18%; Guinea of 0%; China of 25%; Kazakhstan of 20%; Australia of 30%; Jamaica of 25%; Ireland of 12.5%; Sweden of 22% and Italy of 30.4%. For the Group's subsidiaries domiciled in Switzerland the applicable tax rate for the period is the corporate income tax rate in the Canton of Zug, Switzerland, which may vary depending on the subsidiary's tax status. The rate consists of a federal income tax and cantonal/communal income and capital taxes. The latter includes a base rate and a multiplier, which may change from year to year. Applicable income tax rates for 2015 are 9.27% and 14.60% for different subsidiaries. For the Group's significant trading companies, the applicable tax rate is 0%. The applicable tax rates for the year ended 31 December 2016 were the same as for the year ended 31 December 2015.

	Year ended 31 December			
	2016		2015	
	USD		USD	
	million	%	million	%
Profit before taxation	1,354	100	763	100
Income tax at tax rate applicable to the tax residence of the Company	169	13	95	13
Effect of different income tax rates	(8)	(1)	(71)	(10)
Financial expenses non-deductible for tax purposes	-	-	74	10
Effect of changes in investment in Norilsk Nickel	(64)	(5)	(1)	-
Effect of impairment of non-current assets	12	1	-	-
Change in unrecognised deferred tax assets	31	2	98	13
Other non-deductible taxable items	35	3	10	1
Actual tax expense	175	13	205	27

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following temporary differences:

USD million	Assets		Liabilities		Net	
	31	31	31	31	31	31
	December 2016	December 2015	December 2016	December 2015	December 2016	December 2015
Property, plant and equipment	47	29	(580)	(548)	(533)	(519)
Inventories	47	29	(8)	(1)	39	28
Trade and other receivables	14	10	(6)	-	8	10
Derivative financial liabilities	-	-	(11)	(22)	(11)	(22)
Tax loss carry-forwards	9	27	-	-	9	27
Others	66	62	(112)	(66)	(46)	(4)
Deferred tax assets/(liabilities)	183	157	(717)	(637)	(534)	(480)
Set-off of deferred taxation	(132)	(106)	132	106	-	-
Net deferred tax assets/(liabilities)	51	51	(585)	(531)	(534)	(480)

(c) Movement in deferred tax assets/(liabilities) during the year

USD million	1 January 2015	Recognised in profit or loss	Foreign currency translation	31 December 2015
Property, plant and equipment	(542)	23	-	(519)
Inventories	41	(13)	-	28
Trade and other receivables	6	4	-	10
Derivative financial liabilities	24	(46)	-	(22)
Tax loss carry-forwards	29	(3)	1	27
Others	(16)	12	-	(4)
Total	(458)	(23)	1	(480)

USD million	1 January 2016	Recognised in profit or loss	Foreign currency translation	31 December 2016
Property, plant and equipment	(519)	(14)	-	(533)
Inventories	28	11	-	39
Trade and other receivables	10	(2)	-	8
Derivative financial liabilities	(22)	11	-	(11)
Tax loss carry-forwards	27	(17)	(1)	9
Others	(4)	(42)	-	(46)
Total	(480)	(53)	(1)	(534)

Recognised tax losses expire in the following years:

	31 December 2016	31 December 2015
Year of expiry	USD million	USD million
Without expiry	9	-
From 6 to 10 years	-	24
From 2 to 5 years	-	2
Up to 1 year	-	1
	9	27

(d) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2016	31 December 2015
	USD million	USD million
Deductible temporary differences	565	658
Tax loss carry-forwards	421	551
	986	1,209

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

	31 December	31 December
	2016	2015
Year of expiry	USD million	USD million
Without expiry	413	492
From 6 to 10 years	-	40
From 2 to 5 years	3	18
Up to 1 year	5	1
	421	551

(e) Unrecognised deferred tax liabilities

Retained earnings of the Group's subsidiaries where dividend distributions are subject to taxation included USD1,192 million and USD1,160 million as at 31 December 2016 and 31 December 2015, respectively, for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested. It was not practicable to determine the amount of temporary differences relating to investments in subsidiaries where the Group is able to control the timing of reversal of the difference. Reversal is not expected in the foreseeable future. For other subsidiaries in the Group, including the significant trading companies, the distribution of dividends does not give rise to taxes.

(f) Current taxation in the consolidated statement of financial position represents:

	31 December	31 December
	2016	2015
	USD million	USD million
Net income tax receivable/(payable) at the beginning of the year	54	(26)
Income tax for the year	(122)	(173)
Income tax paid	55	199
Dividend withholding tax	23	51
Translation difference	9	3
	19	54
Represented by:		
Income tax payable (note 17)	(13)	(10)
Prepaid income tax (note 17)	32	64
Net income tax recoverable	19	54

9 Directors' remuneration

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulations are as follows:

Year ended 31 December 2016				
	Directors' fees	Salaries, allowances, benefits in kind	Discretionary bonuses	Total
	USD thousand	USD thousand	USD thousand	USD thousand
Executive Directors				
Oleg Deripaska	-	1,793	4,179	5,972
Vladislav Soloviev	-	3,797	3,518	7,315
Siegfried Wolf (a)	-	862	-	862
Stalbek Mishakov (b)	-	326	-	326
Non-executive Directors				
Maksim Goldman	202	-	-	202
Dmitry Afanasiev	184	-	-	184
Len Blavatnik (c)	141	-	-	141
Ivan Glasenberg	202	-	-	202
Gulzhan Moldazhanova	182	-	-	182
Ekaterina Nikitina	188	-	-	188
Olga Mashkovskaya	175	-	-	175
Daniel Lesin Wolfe	202	-	-	202
Maksim Sokov	181	-	-	181
Marco Musetti (d)	6	-	-	6
Independent Non-executive Directors				
Matthias Warnig (Chairman)	461	-	-	461
Nigel Kenny (e)	112	-	-	112
Bernard Zonneveld (f)	110	-	-	110
Philip Lader	292	-	-	292
Elsie Leung Oi-Sie	209	-	-	209
Mark Garber	222	-	-	222
Dmitry Vasiliev	188	-	-	188
	3,257	6,778	7,697	17,732

- a. Siegfried Wolf was appointed as an Executive Director in June 2016.
- b. Stalbek Mishakov resigned from his position as a member of the Board of Directors in June 2016.
- c. Len Blavatnik resigned from his position as a member of the Board of Directors in November 2016.
- d. Marco Musetti was appointed as Non-executive Director in December 2016.
- e. Nigel Kenny resigned from his position as a member of the Board of Directors in June 2016.
- f. Bernard Zonneveld was appointed as Independent Non-executive Director in June 2016.

Year ended 31 December 2015

	Directors' fees	Salaries, allowances, benefits in kind	Discretionary bonuses	Total
	USD thousand	USD thousand	USD thousand	USD thousand
Executive Directors (i)				
Oleg Deripaska	-	1,852	4,150	6,002
Vladislav Soloviev	-	3,956	3,317	7,273
Vera Kurochkina (g)	-	260	132	392
Stalbek Mishakov	-	1,633	4,085	5,718
Non-executive Directors				
Maksim Goldman	229	-	-	229
Dmitry Afanasiev	202	-	-	202
Len Blavatnik	183	-	-	183
Ivan Glasenberg	229	-	-	229
Gulzhan Moldazhanova	206	-	-	206
Ekaterina Nikitina	214	-	-	214
Olga Mashkovskaya	198	-	-	198
Daniel Lesin Wolfe	229	-	-	229
Maksim Sokov	198	-	-	198
Independent Non-executive Directors				
Matthias Warnig (Chairman)	469	-	-	469
Nigel Kenny	252	-	-	252
Philip Lader	305	-	-	305
Elsie Leung Oi-Sie	237	-	-	237
Mark Garber	245	-	-	245
Dmitry Vasiliev (h)	98	-	-	98
	3,494	7,701	11,684	22,879

- g. Vera Kurochkina resigned from her position as a member of the Board of Directors in June 2015.
- h. Dmitry Vasiliev was appointed as an Independent Non-executive Director in June 2015.
- i. Compensation of Executive Directors in the form of shares of the Company relates to a share-based long-term incentive plan (hereinafter "LTIP") (refer to note 18(b)). The fair value of the share-based compensation was recognised as an employee expense during the vesting period. On 21 November 2015 one-fifth of LTIP in relation to the eligible employees vested as follows:

	Number of shares awarded	Number of shares vested on 21 November 2015	Value of share- based compensation vested USD thousand
Vladislav Soloviev	1,311,629	262,326	109

The remuneration of the executive directors disclosed above includes compensation received starting from the date of the appointment and/or for the period until their termination as a member of the Board of Directors.

Retirement scheme contributions for the directors, who are members of management, are not disclosed as the amount is considered not significant for either year presented. There are no retirement scheme contributions for non-executive directors.

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two were directors in the years ended 31 December 2016 and 2015, respectively, whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other individuals are as follows:

	Year ended 31 December	
	2016	2015
	USD thousand	USD thousand
Salaries	9,718	9,351
Discretionary bonuses	14,774	12,500
Share-based payments (*)	-	91
	24,492	21,942

(*) The remuneration in the form of shares of the Company for the year ended 31 December 2015 in relation to a share-based long-term incentive plan (refer to note 18(b)).

The emoluments of the other individuals with the highest emoluments are within the following bands:

	Year ended 31 December	
	2016	2015
	Number of individuals	Number of individuals
HK\$38,000,001-HK\$38,500,000 (US\$4,900,001 – US\$5,000,000)	1	-
HK\$46,000,001-HK\$46,500,000 (US\$5,900,001 – US\$6,000,000)	-	1
HK\$56,000,001-HK\$56,500,000 (US\$7,200,001 – US\$7,300,000)	-	1
HK\$67,000,001-HK\$67,500,000 (US\$8,600,001 – US\$8,700,000)	-	1
HK\$71,500,001-HK\$72,000,000 (US\$9,200,001 – US\$9,350,000)	1	-
HK\$80,500,001-HK\$81,000,000 (US\$10,350,001 – US\$10,450,000)	1	-

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years presented.

Retirement scheme contributions to individuals with highest emoluments are not disclosed as the amount is considered not significant for either year presented.

11 Dividends

In September 2016 the Board of Directors of the Company approved an interim dividend in the aggregate amount of USD250 million (USD0.01645 per ordinary share) for the financial year ended 31 December 2016. Payment of the interim dividend was subject to the Company obtaining prior consents from certain lenders of the Company. On 25 October 2016, the required consents have been obtained by the Company. The interim dividend was paid on 31 October 2016 in cash.

On 12 October 2015 the Board of Directors of the Company approved an interim dividend in the aggregate amount of USD250 million (USD0.01645493026 per ordinary share) for the financial year ending 31 December 2015. The interim dividend was paid in cash on 6 November 2015.

The Company is subject to external capital requirements (refer to note 22(f)).

12 Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of shares in issue during the years ended 31 December 2016 and 31 December 2015. Weighted average number of shares:

	Year ended 31 December	
	2016	2015
Issued ordinary shares at beginning of the period	15,193,014,862	15,193,014,862
Effect of treasury shares	(3,430)	(1,824,099)
Weighted average number of shares at end of the period	15,193,011,432	15,191,190,763
 Profit for the period, USD million	 1,179	 558
Basic and diluted earnings per share, USD	0.078	0.037

There were no outstanding dilutive instruments during the years ended 31 December 2016 and 2015.

13 Property, plant and equipment

Accounting policies

(i) Recognition and measurement

Items of property, plant and equipment, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of periodic relining of electrolyzers is capitalised and depreciated over the expected production period.

Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within gain/(loss) on disposal of property, plant and equipment in the statement of income.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of income as incurred.

(iii) Exploration and evaluation assets

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activities include:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the statement of income.

License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as exploration and evaluation assets when it is expected that expenditure related to an area of interest will be recouped by future exploitation, sale, or, at the reporting date, the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves. Capitalised exploration and evaluation expenditure is recorded as a component of property, plant and equipment at cost less impairment losses. As the asset is not available for use, it is not depreciated. All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where there are indicators of potential impairment, an assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit) to which the exploration is attributed. Exploration areas at which reserves have been discovered but which require major capital expenditure before production can begin are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway or planned. To the extent that capitalised expenditure is not expected to be recovered it is charged to the statement of income.

Exploration and evaluation assets are transferred to mining property, plant and equipment or intangible assets when development is sanctioned.

(iv) Stripping costs

Expenditure relating to the stripping of overburden layers of ore, including estimated site restoration costs, is included in the cost of production in the period in which it is incurred.

(v) Mining assets

Mining assets are recorded as construction in progress and transferred to mining property, plant and equipment when a new mine reaches commercial production.

Mining assets include expenditure incurred for:

- Acquiring mineral and development rights;
- Developing new mining operations.

Mining assets include interest capitalised during the construction period, when financed by borrowings.

(vi) Depreciation

The carrying amounts of property, plant and equipment (including initial and any subsequent capital expenditure) are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The property, plant and equipment is depreciated on a straight-line or units of production basis over the respective estimated useful lives as follows:

- | | |
|--|--|
| • Buildings | 30 to 50 years; |
| • Plant, machinery and equipment | 5 to 40 years; |
| • Electrolysers | 4 to 15 years; |
| • Mining assets | units of production on proven and probable reserves; |
| • Other (except for exploration and evaluation assets) | 1 to 20 years. |

Disclosures

USD million	Land and buildings	Machinery and equipment	Electro- lyzers	Other	Mining assets	Constructi on in progress	Total
Cost/Deemed cost							
Balance at 1 January 2015	3,472	5,932	2,080	161	457	1,459	13,561
Additions	1	3	106	10	40	380	540
Disposals	(12)	(49)	(17)	(2)	-	(27)	(107)
Transfers	42	220	13	3	80	(358)	-
Foreign currency translation	(120)	(107)	(34)	(4)	(85)	(57)	(407)
Balance at 31 December 2015	3,383	5,999	2,148	168	492	1,397	13,587
Balance at 1 January 2016	3,383	5,999	2,148	168	492	1,397	13,587
Additions	-	1	89	8	33	452	583
Disposals	(98)	(435)	(15)	(2)	(90)	(10)	(650)
Transfers	71	263	14	1	15	(364)	-
Foreign currency translation	38	24	(19)	(6)	60	36	133
Balance at 31 December 2016	3,394	5,852	2,217	169	510	1,511	13,653
Accumulated depreciation and impairment losses							
Balance at 1 January 2015	1,898	4,416	1,648	147	434	1,065	9,608
Depreciation charge	75	218	162	3	1	-	459
Impairment loss	15	60	(1)	1	98	(58)	115
Disposals	(3)	(44)	(14)	(1)	-	(11)	(73)
Foreign currency translation	(108)	(101)	(32)	(5)	(83)	(47)	(376)
Balance at 31 December 2015	1,877	4,549	1,763	145	450	949	9,733
Balance at 1 January 2016	1,877	4,549	1,763	145	450	949	9,733
Depreciation charge	75	231	152	6	1	-	465
Impairment loss	(66)	(85)	(4)	-	22	20	(113)
Disposals	(93)	(426)	(13)	(2)	(77)	-	(611)
Foreign currency translation	31	21	(19)	(6)	59	28	114
Balance at 31 December 2016	1,824	4,290	1,879	143	455	997	9,588
Net book value							
At 31 December 2015	1,506	1,450	385	23	42	448	3,854
At 31 December 2016	1,570	1,562	338	26	55	514	4,065

Included in disposals of property, plant and equipment are disposals related to deconsolidation of Alpart (note 1(b)) of USD564 million both at cost and accumulated depreciation.

Depreciation expense of USD426 million (2015: USD421 million) has been charged to cost of goods sold, USD3 million (2015: USD5 million) to distribution expenses and USD16 million (2015: USD17 million) to administrative expenses.

During the years ended 31 December 2016 and 2015, no interest cost was capitalised due to postponement of construction projects as a result of the economic environment.

Included into construction in progress at 31 December 2016 and 2015 are advances to suppliers of property, plant and equipment of USD89 million and USD41 million, respectively.

The carrying value of property, plant and equipment subject to lien under loan agreements was USD225 million as at 31 December 2016 (31 December 2015: USD612 million), refer to note 19.

(e) Impairment

In accordance with the Group's accounting policies, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal.

Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flow estimates are based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), bauxite reserve estimate, operating costs, restoration and rehabilitation costs and future capital expenditure.

Bauxite reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. The Group determines ore reserves under the Australasian Code for Reporting of Mineral Resources and Ore Reserves September 1999, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

Management identified several factors that indicated that a number of the Group's cash-generating units may be impaired or see reversal of previously recognised impairment loss. These include significant fluctuations in the exchange rate of Russian Rouble throughout the year, significant decrease of aluminium and alumina prices in the beginning of 2016 and their recovery by the end of the same period. In aluminium and silicon production, the Group faced significant decrease in cash cost due to depreciation of national currencies and application of cash cost control measures. For alumina cash generating units, major influence was on the part of recovery in alumina prices and decrease in prices of energy resources being a significant part of cash cost. In foil production, the price of primary thick foils was low compared to that of more thinner and sophisticated positions. Bauxite cash generating units faced decrease in the sale price of bauxite.

For the purposes of impairment testing the recoverable amount of each cash generating unit was determined by discounting expected future net cash flows of the cash generating unit.

Based on results of impairment testing as at 31 December 2016, management has concluded that an impairment loss relating to property, plant and equipment should be recognised in these financial statements in respect of the Bauxite Company of Guyana Inc., Armenal and Ural Foil cash generating units in the amounts of USD58 million, USD48 million and USD13 million, respectively, as the determined recoverable amount was negative. Management has also concluded that a reversal of previously recognised impairment loss relating to property, plant and equipment should be recognised in these financial statements in respect of the Kubikenborg Aluminium, Kremniy, Windalco, Aughinish Alumina, Kandalaksha smelter and Irkutsk smelter cash generating units in the amounts of USD124 million, USD52 million, USD48 million, USD38 million, USD30 million and USD7 million, respectively.

Based on results of impairment testing for the year 2015, management has concluded that no impairment loss or reversal of previously recognised impairment loss relating to property, plant and equipment should be recognised in these financial statements.

For the purposes of impairment testing the recoverable amount of each cash generating unit was determined by discounting expected future net cash flows of the cash generating unit. The pre-tax discount rates applied to the above mentioned cash generating units, estimated in nominal terms based on an industry weighted average cost of capital, are presented in the table below.

	Year ended 31 December	
	2016	2015
Bauxite Company of Guyana Inc.	16.7%	20.5%
Armenal	20.0%	20.0%
Ural Foil	15.3%	-
Kubikenborg Aluminium	13.2%	13.2%
Kremniy	19.0%	19.0%
Windalco	31.5%	-
Aughinish Alumina	13.5%	13.2%
Kandalaksha smelter	18.5%	-
Irkutsk smelter	16.4%	16.4%

The recoverable amount of a number of the cash generating units tested for impairment are particularly sensitive to changes in forecast aluminium and alumina prices, foreign exchange rates and applicable discount rates.

Additionally, management identified specific items of property, plant and equipment that are no longer in use and therefore are not considered to be recoverable amounting to USD67 million at 31 December 2016 (2015: USD115 million). These assets have been impaired in full. No further impairment of property, plant and equipment or reversal of previously recorded impairment was identified by management.

(f) Leased assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The corresponding finance lease obligation is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Assets held under other leases (operating leases) are not recognised in the statement of financial position. Payments made under the lease are charged to the statement of income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the statement of income as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the statement of income in the accounting period in which they are incurred.

	31 December 2016	31 December 2015
	USD million	USD million
Owned and leased properties		
In the Russian Federation		
Freehold	1,404	1,343
short-term leases	22	22
medium-term leases	7	7
Outside the Russian Federation		
Freehold	137	134
	1,570	1,506
Representing		
Land and buildings	1,570	1,506

Included in the above mentioned amounts is the land held on long lease in the Russian Federation that comprised USD29 million and USD29 million at 31 December 2016 and 31 December 2015, respectively. The Group does not hold land in Hong Kong.

14 Intangible assets

Accounting policies

(i) Goodwill

On the acquisition of a subsidiary, an interest in a joint venture or an associate or an interest in a joint arrangement that comprises a business, the identifiable assets, liabilities and contingent liabilities of the acquired business (or interest in a business) are recognised at their fair values unless the fair values cannot be measured reliably. Where the fair values of assumed contingent liabilities cannot be measured reliably, no liability is recognised but the contingent liability is disclosed in the same manner as for other contingent liabilities.

Goodwill arises when the cost of acquisition exceeds the fair value of the Group's interest in the net fair value of identifiable net assets acquired. Goodwill is not amortised but is tested for impairment annually. For this purpose, goodwill arising on a business combination is allocated to the cash-generating units expected to benefit from the acquisition and any impairment loss recognised is not reversed even where circumstances indicate a recovery in value.

When the fair value of the Group's share of identifiable net assets acquired exceeds the cost of acquisition, the difference is recognised immediately in the statement of income.

In respect of associates or joint ventures, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment. Any impairment loss is allocated to the carrying amount of the interest in the associate and joint venture.

(ii) *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of income when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the statement of income when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) *Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the statement of income when incurred.

(v) *Amortisation*

Amortisation is recognised in the statement of income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

- software 5 years;
- contracts, acquired in business combinations 2-8 years.

The amortisation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Disclosures

	Goodwill	Other intangible assets	Total
	USD million	USD million	USD million
Cost			
Balance at 1 January 2015	2,930	528	3,458
Additions	-	12	12
Disposals	-	(1)	(1)
Foreign currency translation	(291)	(4)	(295)
Balance at 31 December 2015	2,639	535	3,174
Balance at 1 January 2016	2,639	535	3,174
Additions	-	17	17
Disposals	-	(13)	(13)
Transfers to other non-current assets	-	(2)	(2)
Foreign currency translation	198	4	202
Balance at 31 December 2016	2,837	541	3,378
Amortisation and impairment losses			
Balance at 1 January 2015	(449)	(437)	(886)
Amortisation charge	-	(14)	(14)
Balance at 31 December 2015	(449)	(451)	(900)
Balance at 1 January 2016	(449)	(451)	(900)
Amortisation charge	-	(8)	(8)
Balance at 31 December 2016	(449)	(459)	(908)
Net book value			
At 31 December 2015	2,190	84	2,274
At 31 December 2016	2,388	82	2,470

The amortisation charge is included in cost of sales in the consolidated statement of income.

Goodwill recognised in these consolidated financial statements initially arose on the formation of the Group in 2000 and the acquisition of a 25% additional interest in the Group by its controlling shareholder in 2003. The amount of goodwill was principally increased in 2007 as a result of the acquisition of certain businesses of SUAL Partners and Glencore.

(a) Impairment testing of goodwill and other intangible assets

For the purposes of impairment testing, the entire amount of goodwill is allocated to the aluminium segment of the Group's operations. The aluminium segment represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The recoverable

amount represents value in use as determined by discounting the future cash flows generated from the continuing use of the plants within the Group's aluminium segment.

Similar considerations to those described above in respect of assessing the recoverable amount of property, plant and equipment apply to goodwill.

At 31 December 2016, management analysed changes in the economic environment and developments in the aluminium industry and the Group's operations since 31 December 2015 and performed an impairment test for goodwill at 31 December 2016 using the following assumptions to determine the recoverable amount of the segment:

- Total production was estimated based on average sustainable production levels of 3.7 million metric tonnes of primary aluminium, of 7.8 million metric tonnes of alumina and of 12.0 million metric tonnes of bauxite. Bauxite and alumina will be used primarily internally for production of primary aluminium;
- Sales prices were based on the long-term aluminium price outlook derived from available industry and market sources at USD1,673 per tonne for primary aluminium in 2017, USD1,703 in 2018, USD1,726 in 2019, USD1,789 in 2020, USD1,911 in 2021. Operating costs were projected based on the historical performance adjusted for inflation;
- Nominal foreign currency exchange rates applied to convert operating costs of the Group denominated in RUB into USD were RUB62.4 for one USD in 2017, RUB67.7 in 2018, RUB69.7 in 2019, RUB71.0 in 2020, RUB69.0 in 2021. Inflation of 4.4% – 5.4% in RUB and 1.3% - 2.2% in USD was assumed in determining recoverable amounts;
- The pre-tax discount rate was estimated in nominal terms based on the weighted average cost of capital basis and was 13.7%;
- A terminal value was derived following the forecast period assuming a 1.8% annual growth rate.

Values assigned to key assumptions and estimates used to measure the units' recoverable amount was based on external sources of information and historic data. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results were particularly sensitive to the following key assumptions:

- A 5% reduction in the projected aluminium price level would have resulted in a decrease in the recoverable amount by 23% and would not lead to an impairment;
- A 5% increase in the projected level of electricity and alumina costs in the aluminium production would have resulted in a 15% decrease in the recoverable amount and would not lead to an impairment;
- A 1% increase in the discount rate would have resulted in a 8% decrease in the recoverable amount and would not lead to an impairment.

Based on results of impairment testing of goodwill, management concluded that no impairment should be recorded in the consolidated financial statements as at 31 December 2016.

At 31 December 2015, management analysed changes in the economic environment and developments in the aluminium industry and the Group's operations since 31 December 2014 and performed an impairment test for goodwill at 31 December 2015 using the following assumptions to determine the recoverable amount of the segment:

- Total production was estimated based on average sustainable production levels of 3.7 million metric tonnes of primary aluminium, of 7.5 million metric tonnes of alumina and of 12.0 million metric tonnes of bauxite. Bauxite and alumina will be used primarily internally for production of primary aluminium;

- Sales prices were based on the long-term aluminium price outlook derived from available industry and market sources at USD1,561 per tonne for primary aluminium in 2016, USD1,710 in 2017, USD1,787 in 2018, USD1,853 in 2019, USD1,984 in 2020. Operating costs were projected based on the historical performance adjusted for inflation;
- Nominal foreign currency exchange rates applied to convert operating costs of the Group denominated in RUB into USD were RUB63.3 for one USD in 2016, RUB63.1 in 2017, RUB62.5 in 2018, RUB64.8 in 2019, RUB67.5 in 2020. Inflation of 5.3% – 7.4% in RUB and 1.6% - 2.4% in USD was assumed in determining recoverable amounts;
- The pre-tax discount rate was estimated in nominal terms based on the weighted average cost of capital basis and was 15.9%;
- A terminal value was derived following the forecast period assuming a 2.0% annual growth rate.

Values assigned to key assumptions and estimates used to measure the units' recoverable amount was based on external sources of information and historic data. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results were particularly sensitive to the following key assumptions:

- A 5% reduction in the projected aluminium price level would have resulted in a decrease in the recoverable amount by 29% and would not lead to an impairment;
- A 5% increase in the projected level of electricity and alumina costs in the aluminium production would have resulted in a 25% decrease in the recoverable amount and would not lead to an impairment;
- A 1% increase in the discount rate would have resulted in a 13% decrease in the recoverable amount and would not lead to an impairment.

Based on results of impairment testing of goodwill, management concluded that no impairment should be recorded in the consolidated financial statements as at 31 December 2015.

15 Interests in associates and joint ventures

Accounting policies

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In accordance with the Group's accounting policies, each investment in an associate or joint venture is evaluated every reporting period to determine whether there are any indications of impairment after application of the equity method of accounting. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an investment in an associate or joint venture is measured at the higher of fair value less costs to sell and value in use.

Similar considerations to those described above in respect of assessing the recoverable amount of property, plant and equipment apply to investments in associates or joint venture. In addition to the considerations described above the Group may also assess the estimated future cash flows expected to arise from dividends to be received from the investment, if such information is available and considered reliable.

Disclosures

	31 December	
	2016	2015
	USD million	USD million
Balance at the beginning of the year	3,214	4,879
Group's share of profits, impairment and reversal of impairment	848	368
Reversal of provision for a guarantee included in the share of profits	(100)	-
Dividends	(490)	(1,062)
Group's share of other comprehensive income of associates	-	4
Foreign currency translation	675	(975)
Balance at the end of the year	4,147	3,214
Goodwill included in interests in associates	2,477	2,062

The following list contains only the particulars of associates and joint ventures, all of which are corporate entities, which principally affected the results or assets of the Group.

Name of associate/ joint venture	Place of incorporation and operation	Particulars of issued and paid up capital	Ownership interest		Principal activity
			Group's effective interest	Group's nominal interest	
PJSC MMC Norilsk Nickel	Russian Federation	158,245,476 shares, RUB1 par value	27.82%	27.82%	Nickel and other metals production
Queensland Alumina Limited	Australia	2,212,000 shares, AUD2 par value	20%	20%	Production of alumina under a tolling agreement
BEMO project	Cyprus, Russian Federation	BOGES Limited, BALP Limited – 10,000 shares	50%	50%	Energy / Aluminium

EUR1.71 each

production

The summary of the consolidated financial statements of associates and joint ventures for the year ended 31 December 2016 is presented below:

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Non-current assets	4,994	8,881	136	587	1,275	2,818	158	311
Current assets	1,577	5,668	22	115	77	153	146	412
Non-current liabilities	(2,281)	(8,115)	(89)	(242)	(880)	(1,817)	(34)	(70)
Current liabilities	(698)	(2,508)	(69)	(345)	(36)	(73)	(151)	(412)
Net assets	3,592	3,926	-	115	436	1,081	119	241

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Revenue	2,289	8,165	125	625	282	563	893	2,539
Profit/(loss) from continuing operations	688	2,198	-	(24)	40	16	20	3
Other comprehensive income	602	381	-	(1)	67	139	6	4
Total comprehensive income	1,290	2,579	-	(25)	107	155	26	7

The summary of the consolidated financial statements of associates and joint ventures for the year ended 31 December 2015 is presented below:

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Non-current assets	4,058	6,746	139	595	1,108	2,540	156	312
Current assets	1,858	6,625	29	151	67	135	163	504
Non-current liabilities	(2,192)	(7,734)	(97)	(245)	(810)	(1,620)	(38)	(76)
Current liabilities	(948)	(3,376)	(71)	(361)	(36)	(72)	(172)	(464)
Net assets	2,776	2,261	-	140	329	983	109	276

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Revenue	2,396	8,542	142	712	204	407	966	2,694
Profit/(loss) from continuing operations	486	1,734	(293)	13	176	64	(1)	41
Other comprehensive income	(817)	(561)	(35)	(15)	(45)	(184)	(74)	(144)

Total comprehensive income	<u>(331)</u>	<u>1,173</u>	<u>(328)</u>	<u>(2)</u>	<u>131</u>	<u>(120)</u>	<u>(75)</u>	<u>(103)</u>
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(a) PJSC MMC Norilsk Nickel

The Group's investment in Norilsk Nickel is accounted for using equity method and the carrying value as at 31 December 2016 and 31 December 2015 amounted USD3,592 million and USD2,776 million, respectively. The market value amounted USD7,348 million and USD5,542 million as at 31 December 2016 and 31 December 2015, respectively, and is determined by multiplying the quoted bid price per share on the Moscow Exchange on the year-end date by the number of shares held by the Group.

(b) Queensland Alumina Limited ("QAL")

The carrying value of the Group's investment in Queensland Alumina Limited as at both 31 December 2016 and 31 December 2015 amounted to USD nil million.

The recoverable amount of investment in Queensland Alumina Limited as at 31 December 2015 was determined by discounting the expected future net cash flows of the cash generating unit and applying the share of Group's ownership to the resulting figure. The pre-tax discount rate applied to discount the cash flows was 11.0%, estimated in nominal terms based on an industry weighted average cost of capital. The recoverable amount of the cash generating unit was particularly sensitive to changes in forecast alumina prices, foreign exchange rates, applicable discount rate.

The Group recognised its share of impairment losses in Queensland Alumina Limited for the year ended 31 December 2015 to the extent of its investment in the entity in the amount of USD283 million and made the necessary adjustment to the carrying value of the investment which was written down to USD nil million.

(c) BEMO project

The carrying value of the Group's investment in BEMO project as at 31 December 2016 and 31 December 2015 amounted USD436 million and USD329 million, respectively.

For the purposes of impairment testing, the BEMO project was separated into two cash generating units – the Boguchansky Aluminium Smelter ("BoAZ") and the Boguchansky Hydro Power Plant ("BoGES"). The recoverable amount was determined by discounting the expected future net cash flows of each cash generating unit.

At 31 December 2016 management has not identified any impairment indicators relating to the Group's investment in BoGES and as a result no detailed impairment testing was performed in relation to this investment. Results of impairment testing of BoAZ investment for the year ended 31 December 2016 showed that investment in BoAZ is fully impaired and no reversal of previously recorded impairment was identified by management.

At 31 December 2016, accumulated losses of USD550 million (2015: USD357 million) related to impairment charges at BoAZ have not been recognised because the Group's investment has already been fully written down to USD nil million.

At 31 December 2015, management has performed impairment testing for its investments in BoGES and BoAZ as the market conditions remained challenging and volatile.

The pre-tax discount rates applied to discount the cash flows for BoAZ and BoGES were 16.5% and 18.9%, respectively, estimated in nominal terms based on an industry weighted average cost of capital.

The recoverable amounts of the two cash generating units are particularly sensitive to changes in forecast aluminium and electricity prices, foreign exchange rates, applicable discount rates and, in respect to BoAZ, the forecast period to reach full production capacity.

The Group recognised its share of reversal of impairment losses in BoGES and made the necessary adjustment to the carrying value of investment for the year ended 31 December 2015. The Group's share of gains related to BoGES was recognized in the amount of USD143 million.

Summary of the additional financial information of the Group's effective interest in BEMO project for the year ended 31 December 2016 and 31 December 2015 is presented below (all in USD million):

	31 December 2016	31 December 2015
Cash and cash equivalents	18	16
Current financial liabilities	(7)	(778)
Non-current financial liabilities	(844)	(3)
Depreciation and amortisation	(16)	(18)
Interest income	1	2
Interest expense	(28)	(23)
Income tax expense or income	(11)	(10)

16 Inventories

Accounting policies

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined under the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

The production costs include mining and concentrating costs, smelting, treatment and refining costs, other cash costs and depreciation and amortisation of operating assets.

The Group recognises write-downs of inventories based on an assessment of the net realisable value of the inventories. A write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact the carrying value of the inventories and the write-down of inventories charged to the statement of income in the periods in which such estimate has been changed.

Disclosures

	31 December 2016 USD million	31 December 2015 USD million
Raw materials and consumables	819	881
Work in progress	578	549
Finished goods and goods held for resale	714	649
	2,111	2,079
Provision for inventory obsolescence	(185)	(242)

31 December	31 December
2016	2015
USD million	USD million
1,926	1,837

Inventories at 31 December 2016 and 31 December 2015 are stated at cost.

Inventory with a carrying value of USD392 million and USD nil million was pledged under existing secured bank loans and loans from related parties, respectively, at 31 December 2016 (31 December 2015: USD114 million and USD76 million, respectively), refer to note 19.

Inventory with a carrying value of USD78 million was pledged under existing trading contracts at 31 December 2016 (31 December 2015: USD81 million).

The analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December	
	2016	2015
	USD million	USD million
Carrying amount of inventories sold	5,759	5,892
Reversal/(write-down) of inventories	11	(20)
	5,770	5,872

17 Non-derivative financial instruments

Accounting policies

Non-derivative financial instruments comprise investments in securities, trade and other receivables (excluding prepayments and tax assets), cash and cash equivalents, loans and borrowings and trade and other payables (excluding advances received and tax liabilities).

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash balances and call deposits with maturities at initial recognition of three months or less that are subject to insignificant risk of changes in their fair values, and are used by the Group in the management of its short-term commitments.

Subsequent to initial recognition non-derivative financial instruments are measured as follows:

- Trade and other receivables and other non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment losses.
- Trade and other payables and other non-derivative financial liabilities subsequent to initial recognition, are measured at amortised cost using the effective interest method.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset occurred after the initial recognition of that asset and the impact can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of income.

Impairment losses for trade receivables included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the statement of income.

Disclosures

(a) Trade and other receivables

	31 December	31 December
	2016	2015
	USD million	USD million
Trade receivables from third parties	252	161
Impairment loss on trade receivables	(14)	(18)
Net trade receivables from third parties	238	143
Trade receivables from related parties, including:	73	79
<i>Related parties – companies capable of exerting significant influence</i>	56	76
<i>Impairment loss</i>	-	(7)
<i>Related parties – net trade receivables from companies capable of exerting significant influence</i>	56	69
<i>Related parties – companies under common control</i>	8	4
<i>Related parties – associates and joint ventures</i>	9	6
VAT recoverable	243	214
Impairment loss on VAT recoverable	(26)	(26)
Net VAT recoverable	217	188
Advances paid to third parties	85	86

Impairment loss on advances paid	(3)	(4)
Net advances paid to third parties	82	82
Advances paid to related parties, including:	51	47
<i>Related parties – companies under common control</i>	7	5
<i>Related parties – associates and joint ventures</i>	44	42
Prepaid expenses	4	15
Prepaid income tax	32	64
Prepaid other taxes	16	15
Other receivables from third parties	107	74
Impairment loss on other receivables	(7)	(1)
Net other receivables from third parties	100	73
Other receivables from related parties, including:	6	4
<i>Related parties – companies under common control</i>	4	4
<i>Related parties – associates and joint ventures</i>	2	-
	819	710

All of the trade and other receivables are expected to be settled or recognised as an expense within one year or are repayable on demand.

The specific allowance for doubtful trade and other receivables and the impairment loss reversal of trade and other receivables during the year ended 31 December 2016 amounted USD6 million and USD11 million, respectively (the specific allowance for doubtful trade and other receivables and the uncollectible amount of trade and other receivables written off during the year ended 31 December 2015 amounted USD8 million and USD13 million, respectively).

There are no pledged trade receivables under existing secure loans from related parties at 31 December 2016 (31 December 2015: USD68 million).

(i) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the reporting dates:

	31 December	31 December
	2016	2015
	USD million	USD million
Current	273	152
Past due 0-90 days	32	54
Past due 91-365 days	4	12
Past due over 365 days	2	4
Amounts past due	38	70
	311	222

Aging analysis is performed based on number of days receivable is overdue. Trade receivables are on average due within 60 days from the date of billing. The receivables that are neither past due nor impaired (i.e. current) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. Further details of the Group's credit policy are set out in note 22(e).

(ii) *Impairment of trade receivables*

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Year ended 31 December	
	2016	2015
	USD million	USD million
Balance at the beginning of the year	(25)	(18)
Reversal of/(impairment) loss recognised	11	(8)
Uncollectible amounts written off	-	1
Balance at the end of the year	(14)	(25)

As at 31 December 2016 and 31 December 2015, the Group's trade receivables of USD14 million and USD25 million, respectively, were individually determined to be impaired. Management assessed that the receivables were not expected to be recovered. Consequently, specific allowances for doubtful debts were recognised.

The Group does not hold any collateral over these balances.

(b) Trade and other payables

	31 December	31 December
	2016	2015
	USD million	USD million
Accounts payable to third parties	423	326
Accounts payable to related parties, including:	69	66
<i>Related parties – companies capable of exerting significant influence</i>	18	20
<i>Related parties – companies under common control</i>	26	13
<i>Related parties – associates and joint ventures</i>	25	33
Advances received	141	164
Advances received from related parties, including:	165	165
<i>Related parties – companies capable of exerting significant influence</i>	165	165
Other payables and accrued liabilities	139	116
Other payable and accrued liabilities related parties, including:	8	7
<i>Related parties – associates and joint ventures</i>	8	7
Current tax liabilities	13	10
Other taxes payable	96	97
	1,054	951

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables with the following ageing analysis as at the reporting date. Analysis is based on due date of payment as per contractual terms with counterparties.

	31 December	31 December
	2016	2015
	USD million	USD million
Due within twelve months or on demand	492	392

(c) Cash and cash equivalents

	31 December	31 December
	2016	2015
	USD million	USD million
Bank balances, USD	374	375
Bank balances, RUB	43	69
Bank balances, other currencies	92	43
Cash in transit	7	2
Short-term bank deposits	15	5
Cash and cash equivalents in the consolidated statement of cash flows	531	494
Restricted cash	13	14
	544	508

As at 31 December 2016 and 31 December 2015 included in cash and cash equivalents was restricted cash of USD13 million and USD14 million, respectively, pledged under a Swiss Law Pledged Agreement with BNP Paribas (Suisse) SA and Banca Nazionale Del Lavoro S.p.A.

18 Equity

(a) Share capital

	31 December 2016		31 December 2015	
	USD	Number of shares	USD	Number of shares
Ordinary shares at the end of the year, authorised	200 million	20 billion	200 million	20 billion
Ordinary shares at 1 January	151,930,148	15,193,014,862	151,930,148	15,193,014,862
Ordinary shares at the end of the year of USD0.01 each, issued and paid	151,930,148	15,193,014,862	151,930,148	15,193,014,862

(b) Share-based compensation

As at 31 December 2016 and 31 December 2015 the Group held none and 4,773 of its own shares, respectively, which were acquired on the open market for the share-based incentive plans ("Shares held for vesting"). During the year ended 31 December 2015 the trustees acquired on the open market 698,297 shares and vested to eligible employees 2,055,740 shares in July and 1,338,734 shares in November. For the years ended 31 December 2016 and 31 December 2015, the Group recognised no additional employee expense in relation to the share based plans.

(c) Other reserves

The acquisition of RUSAL Limited by the Company has been accounted for as a non-substantive acquisition. The consolidated share capital and share premium represent only the share capital and share premium of the Company and the share capital and other paid in capital of RUSAL Limited prior to the acquisition has been included in other reserves.

In addition, other reserves include the cumulative unrealised actuarial gains and losses on the Group's defined post retirement benefit plans, the effective portion of the accumulative net change in fair value of cash flow hedges and the Group's share of other comprehensive income of associates.

(d) Distributions

In accordance with the Companies (Jersey) Law 1991 (the "Law"), the Company may make distributions at any time in such amounts as are determined by the Company out of the assets of the Company other than the capital redemption reserves and nominal capital accounts, provided that the directors of the Company make a solvency statement in accordance with that Law of Jersey at the time the distributions are proposed. Dividend pay-outs are restricted in accordance with the credit facilities.

(e) Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations and equity accounted investees. The reserve is dealt with in accordance with the accounting policies set out in note 3(b).

(f) Movement in components of equity within the Company

USD million	Share capital	Reserves	Total
Balance at 1 January 2015	152	10,165	10,317
Loss for the year	-	(2,275)	(2,275)
Dividends	-	(250)	(250)
Balance at 31 December 2015	152	7,640	7,792
 Balance at 1 January 2016	 152	 7,640	 7,792
Profit for the year	-	2,139	2,139
Dividends	-	(250)	(250)
Balance at 31 December 2016	152	9,529	9,681

19 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk refer to notes 22(c)(ii) and 22(c)(iii), respectively.

	31 December 2016	31 December 2015
	USD million	USD million
<i>Non-current liabilities</i>		
Secured bank loans	6,991	7,418
Unsecured bank loans	346	107
Bonds	195	-
	7,532	7,525
<i>Current liabilities</i>		
Secured bank loans	1,365	1,023
Unsecured bank loans	-	100

	31 December 2016	31 December 2015
	USD million	USD million
Secured loans from related parties	-	186
Bonds	1	21
Accrued interest	67	25
	1,433	1,355

(a) Loans and borrowings

Terms and debt repayment schedule as at 31 December 2016

	TOTAL	2017	2018	2019	2020	2021	Later years
	USD million	USD million	USD million	USD million	USD million	USD million	USD million
Secured bank loans							
Variable							
USD – 3M Libor + 3.6%	1,188	395	793	-	-	-	-
USD – 3M Libor + 3.75%	403	-	163	162	78	-	-
USD – 3M Libor + 5.65%	852	61	96	347	348	-	-
EUR – 3M Euribor + 3.6%	83	28	55	-	-	-	-
USD – 3M Libor + 5.75%*	4,132	-	-	197	2,194	1,741	-
USD – 3M Libor + 5.05%	189	94	95	-	-	-	-
USD – 3M Libor + 4.5%	475	163	161	98	53	-	-
USD – 3M Libor + 3.15%	19	19	-	-	-	-	-
EUR – 3M Libor + 4.5%	71	28	34	9	-	-	-
USD – 3M Libor + 2.5%	45	45	-	-	-	-	-
USD – 2.5% + cost of funds	95	95	-	-	-	-	-
EUR - 2.5% + cost of funds	15	15	-	-	-	-	-
USD – 1M Libor + 2%	23	23	-	-	-	-	-
USD – 1M Libor + 2.5%	100	100	-	-	-	-	-
Fixed							
RUB – 10.9%**	321	-	-	15	169	137	-
RUB – 5%	8	-	4	4	-	-	-
USD – 4.54%	20	20	-	-	-	-	-
USD – 4.75%	100	100	-	-	-	-	-
USD – 4.3%	16	16	-	-	-	-	-
EUR – 3.55%	64	26	38	-	-	-	-
USD – 2.5%	137	137	-	-	-	-	-
	8,356	1,365	1,439	832	2,842	1,878	-
Unsecured bank loans							
Variable							
USD – 3M Libor + 4.15%	200	-	-	200	-	-	-
USD – 3M Libor + 4.8%	100	-	100	-	-	-	-
Fixed							
RUB 11%	41	-	3	13	13	12	-
RUB 5%	5	-	-	1	2	2	-
Total	8,702	1,365	1,542	1,046	2,857	1,892	-
Accrued interest	67	67	-	-	-	-	-

Total	8,769	1,432	1,542	1,046	2,857	1,892	-
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* including payment in kind (“PIK”) margin. Following the approval from Sberbank UC RUSAL Board approved decrease of interest rate margin to 4.75% (subject to min 3M Libor at the level of 1%). The change will become effective from 29 December 2016 following execution of the relevant amendment documentation.

** including payment in kind (“PIK”) margin. Following the approval from Sberbank UC RUSAL Board approved the conversion of the outstanding RUB exposure into USD or EUR with rate margin of 4.75%, 4% respectively (subject to min 3M Libor at the level of 1%). The change will become effective upon execution of the relevant amendment documentation.

The secured bank loans are secured by pledges of shares of the following Group companies as at 31 December 2016:

- 40% + 1 share of RUSAL Novokuznetsk
- 36% + 1 share of SUAL
- 50% - 1 shares of RUSAL Sayanogorsk
- 50% - 1 shares of RUSAL Bratsk
- 50% - 1 shares of RUSAL Krasnoyarsk
- 100% of Gershvin Investments Corp. Limited
- 100% Seledar Holding Corp Limited
- 100% Aktivium Holding B.V.

The secured bank loans are also secured by pledges of shares of associate both as at 31 December 2016 and 31 December 2015:

- 27.8% share of Norilsk Nickel

The secured bank loans are also secured by the following:

- property, plant and equipment, receivables with a carrying amount of USD248 million (31 December 2015: USD756 million);
- inventory with a carrying value of USD392 million (31 December 2015: USD114 million).

As at 31 December 2016 and 31 December 2015 rights, including all monies and claims, arising out of certain sales contracts between the Group’s trading subsidiaries and its ultimate customers, were assigned to secure the Combined PXF Facility dated 18 August 2014.

The nominal value of the Group’s loans and borrowings was USD8,852 million at 31 December 2016 (31 December 2015: USD9,011 million).

On 26 April 2016 the Group entered into an amendment and restatement agreement with the lenders under the Combined PXF Facility dated 18 August 2014 to introduce new refinancing tranches under the Combined PXF Facility dated 18 August 2014. On 29 April 2016 the Group prepaid three scheduled repayment instalments falling due in 2016 under the Combined PXF Facility dated 18 August 2014 and amended 26 April 2016 in the total amount of USD524 million, utilizing USD415 million of available commitments under the new refinancing tranches as well as USD109 million of the Company’s own funds.

In September 2016 the Group entered into a new credit facility of USD200 million with JSC Credit Bank of Moscow with a maturity 3 years and an interest rate of 3M Libor + 4.15% p.a.

In October 2016 the Company entered into new credit facilities with Gazprombank for the total amount of USD178 million with maturity 4 years and interest rate 3M Libor + 4.5%.

During 2016 the Group made a principal repayment in total amounts of USD1,139 million and EUR84 million (USD93 million) under the Combined PXF Facility, credit facilities with Gazprombank, VTB Capital and Credit Bank of Moscow.

On 23 January 2017 the Group made a principal prepayment in total amounts of USD292 million and EUR17 million (USD18 million) under the Combined PXF Facility of amounts due in 2017.

Terms and debt repayment schedule as at 31 December 2015

	TOTAL	2016	2017	2018	2019	2020	Later years
	USD million	USD million	USD million	USD million	USD million	USD million	USD million
Secured bank loans							
Variable							
USD – 3M Libor + 2.8%	1,892	468	632	792	-	-	-
USD – 3M Libor + 5.65%	884	-	97	97	347	343	-
EUR – 3M Euribor + 2.8%	138	34	46	58	-	-	-
USD – 1Y Libor + 5.45%*	4,068	-	-	-	198	2,194	1,676
USD – 3M Libor + 5.05%	283	95	94	94	-	-	-
USD – 3M Libor + 6.5%	471	174	163	107	27	-	-
USD – 3M Libor + 3.15%	19	-	19	-	-	-	-
EUR – 3M Libor + 6.5%	110	37	29	36	8	-	-
USD – 2.5% + cost of funds	19	19	-	-	-	-	-
EUR – 2.5% + cost of funds	1	1	-	-	-	-	-
Fixed							
RUB – 10.9%*	261	-	-	-	12	140	109
USD – 4.95%	19	19	-	-	-	-	-
USD – 5%	51	51	-	-	-	-	-
USD – 4.75%	119	19	100	-	-	-	-
USD – 2.5%	106	106	-	-	-	-	-
	8,441	1,023	1,180	1,184	592	2,677	1,785
Secured company loans							
Variable							
USD – 3M Libor + 4.95%	186	186	-	-	-	-	-
Total	8,627	1,209	1,180	1,184	592	2,677	1,785
Unsecured bank loans							
Variable							
USD – 3M Libor + 5.5%	100	-	-	100	-	-	-
Fixed							
USD – 4.30%	100	100	-	-	-	-	-
RUB – 5%	7	-	-	3	4	-	-
Total	8,834	1,309	1,180	1,287	596	2,677	1,785
Accrued interest	25	25	-	-	-	-	-
Total	8,859	1,334	1,180	1,287	596	2,677	1,785

* including payment in kind (“PIK”) margin

The secured bank loans are secured by pledges of shares of the following Group companies as at 31 December 2015:

- 40% + 1 share of RUSAL Novokuznetsk
- 36% + 1 share of SUAL
- 50% + 2 shares of RUSAL Sayanogorsk
- 50% + 2 shares of RUSAL Bratsk
- 50% + 2 shares of RUSAL Krasnoyarsk
- 100% of Gershvin Investments Corp. Limited
- 100% Seledar Holding Corp Limited
- 100% Aktivium Holding B.V.

The agreement with Glencore AG was secured by pledges of shares of the following Group companies as at 31 December 2015

- 100% shares of Limerick Alumina Refining Limited
- 75% shares of Aughunish Alumina Limited.

In October 2015 the Group entered into a new credit facility of USD100 million with OJSC Credit Bank of Moscow with a maturity up to 1 year and an interest rate of 4.30% p.a.

In December 2015 the Group entered into a new credit facility of USD100 million with PJSC SovcomBank with a maturity of 3 year and an interest rate of 3MLibor + 5.5% p.a.

In December 2015 the Group through its subsidiaries entered into the REPO transaction backed by bonds issued by RUSAL Bratsk – in number of 6,500,000 series 08 bonds and 2,865,475 series 07 bonds. As result of the transactions the Group raised funding in the amount of USD100 million with fifteen months maturity at a rate of 4.75% p.a.

During 2015 the Group made a principal repayment in total amounts of USD590 million, RUB777 million (USD14 million) and EUR25 million (USD29 million) under the USD4.75 billion syndicated facility and USD400 million multicurrency credit facility, credit facilities with Sberbank, Gazprombank and VTB Capital, including prepayments via cash sweep in total amount of USD309 million, RUB777 million (USD14 million) and EUR10 million (USD12 million).

(b) Bonds

On 19 April 2016, placement of the exchange-traded rouble bonds of OJSC RUSAL Bratsk series BO-01 (in the amount of RUB10 billion) has been completed and the exchange-traded rouble bonds have commenced trading on the Moscow Exchange. Maturity of the bonds is ten years subject to a put option exercisable in three years.

As at 31 December 2016 3,433,414 series 07 bonds, 53,680 series 08 bonds and 8,396,000 series BO-01 bonds were outstanding (traded in the market).

The closing market price at 31 December 2016 was RUB1,022, RUB1,007, RUB1,027 per bond for the first, second and the third tranches, respectively.

20 Provisions

Accounting policies

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

Disclosures

USD million	Pension liabilities	Site restoration	Provisions for legal claims	Tax provisions	Provision for guarantee	Total
Balance at 1 January 2015	63	377	15	65	100	620
Provisions made during the year	4	37	15	-	-	56
Provisions reversed during the year	-	-	(9)	-	-	(9)
Actuarial loss	3	-	-	-	-	3
Provisions utilised during the year	(5)	(1)	(8)	(11)	-	(25)
Foreign currency translation	(13)	(48)	-	(12)	-	(73)
Balance at 31 December 2015	52	365	13	42	100	572
Non-current	47	350	-	35	55	487
Current	5	15	13	7	45	85
Balance at 1 January 2016	52	365	13	42	100	572
Provisions made during the year	7	28	-	-	-	35
Provisions reversed during the year	-	-	(1)	-	(100)	(101)
Actuarial gain	(1)	-	-	-	-	(1)
Provisions utilised during the year	(4)	(2)	(12)	(17)	-	(35)
Disposal of subsidiary (note 1(b))	-	(22)	-	-	-	(22)
Foreign currency translation	3	12	-	-	-	15
Balance at 31 December 2016	57	381	-	25	-	463
Non-current	53	364	-	6	-	423
Current	4	17	-	19	-	40

(a) Pension liabilities

Group subsidiaries in the Russian Federation

The Group voluntarily provides long-term and post-employment benefits to its former and existing employees including death-in-service, jubilee, lump sum upon retirement, material support for pensioners and death-in-pension benefits. Furthermore, the Group provides regular social support payments to some of its veterans of World War II.

The above employee benefit programs are of a defined benefit nature. The Group finances these programs on a pay-as-you-go basis, so plan assets are equal to zero.

Group subsidiaries in Ukraine

Due to legal requirements, the Ukrainian subsidiaries are responsible for partial financing of the state hardship pensions for those of its employees who worked, or still work, under severe and hazardous labour conditions (hardship early retirement pensions). These pensions are paid until the recipient reaches the age of entitlement to the State old age pension (55-60 years for female (dependent on year of birth) and 60 years for male employees). In Ukraine, the Group also voluntarily provides long-term and post-employment benefits to its employees including death-in-service, lump sum benefits upon retirement and death-in-pension benefits.

The above employee benefit programs are of a defined benefit nature. The Group finances these programs on a pay-as-you-go basis, so plan assets are equal to zero.

Group subsidiaries outside the Russian Federation and Ukraine

At its Guinean and Nigerian entities the Group provides a death-in-service benefit and lump-sum benefits upon disability and old-age retirement.

At its Guyana subsidiary, the Group provides a death-in-service benefit.

At its Italian subsidiary (Eurallumina) the Group only provides lump sum benefits upon retirement, which relate to service up to 1 January 2007.

In Sweden (Kubikenborg Aluminium AB), the Group provides defined benefit lifelong and temporary pension benefits. The lifelong benefits are dependent on the past service and average salary level of the employee, with an accrual rate that depends on the salary bracket the employee is in. The liability relates only to benefits accrued before 1 January 2004.

The number of employees in all jurisdictions eligible for the plans as at 31 December 2016 and 2015 was 56,611 and 57,501, respectively. The number of pensioners in all jurisdictions as at 31 December 2016 and 2015 was 45,915 and 46,626, respectively.

The Group expects to pay under the defined benefit retirement plans an amount of USD5 million during the 12 month period beginning on 1 January 2017.

Actuarial valuation of pension liabilities

The actuarial valuation of the Group and the portion of the Group funds specifically designated for the Group's employees were completed by a qualified actuary, Robert van Leeuwen AAG, as at 31 December 2016, using the projected unit credit method as stipulated by IAS 19.

The key actuarial assumptions (weighted average, weighted by DBO) are as follows:

	31 December 2016	31 December 2015
	% per annum	% per annum
Discount rate	8.0	8.9
Expected return on plan assets	N/A	N/A
Future salary increases	7.7	7.9
Future pension increases	4.3	3.3
Staff turnover	4.0	4.0
Mortality	USSR population table for 1985, Ukrainian population table for 2000	USSR population table for 1985, Ukrainian population table for 2000
Disability	70% Munich Re for Russia; 40% of death probability for Ukraine	70% Munich Re for Russia; 40% of death probability for Ukraine

As at 31 December 2016 and 31 December 2015 the Group's obligations were fully uncovered as the Group has only wholly unfunded plans.

(b) Site restoration

The mining, refining and smelting activities of the Group can give rise to obligations for site restoration and rehabilitation. Restoration and rehabilitation works can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration. The extent of work required and the associated costs are dependent on the requirements of law and the interpretations of the relevant authorities.

The Group provides for site restoration obligations when there is a specific legal or constructive obligation for mine reclamation, landfill closure (primarily comprising red mud basin disposal sites) or specific lease restoration requirements. The Group does not record any obligations with respect to decommissioning of its refining or smelting facilities and restoration and rehabilitation of the surrounding areas unless there is a specific plan to discontinue operations at a facility. This is because any significant costs in connection with decommissioning of refining or smelting facilities and restoration and rehabilitation of the surrounding areas would be incurred no earlier than when the facility is closed and the facilities are currently expected to operate over a term in excess of 50-100 years due to the perpetual nature of the refineries and smelters and continuous maintenance and upgrade programs resulting in the fair values of any such liabilities being negligible.

Costs included in the provision encompass obligated and reasonably estimable restoration and rehabilitation activities expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate restoration and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

Restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates

of cash flows occurring for each operation. Discount rates used are specific to the country in which the operation is located. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of restoration and rehabilitation activities is amortised over the estimated economic life of the operation on a units of production or straight-line basis. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised as part of finance expenses.

Restoration and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the unamortised capitalised cost, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the statement of income. Changes to the capitalised cost result in an adjustment to future amortisation charges. Adjustments to the estimated amount and timing of future restoration and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include revisions to estimated reserves, resources and lives of operations; developments in technology; regulatory requirements and environmental management strategies; changes in the estimated costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates; and movements in general interest rates affecting the discount rate applied.

The site restoration provision recorded in these consolidated financial statements relates primarily to mine reclamation and red mud basin disposal sites at alumina refineries and is estimated by discounting the risk-adjusted expected expenditure to its present value based on the following key assumptions:

	31 December 2016	31 December 2015
Timing of inflated cash outflows	2017: USD17 million 2018-2022: USD251 million 2023-2032: USD100 million after 2032: USD132 million	2016: USD12 million 2017-2021: USD213 million 2022-2032: USD133 million after 2032: USD106 million
Risk free discount rate after adjusting for inflation ^(a)	2.01%	1.75%

(a) the risk free rate for the year 2015-2016 represents an effective rate, which comprises rates differentiated by years of obligation settlement and by currencies in which the provisions were calculated

At each reporting date the Directors have assessed the provisions for site restoration and environmental matters and concluded that the provisions and disclosures are adequate.

(c) Provisions for legal claims

In the normal course of business the Group may be involved in legal proceedings. Where management considers that it is more likely than not that proceedings will result in the Group compensating third parties a provision is recognised for the best estimate of the amount expected to be paid. Where management considers that it is more likely than not that proceedings will not result in the Group compensating third parties or where, in rare circumstances, it is not considered possible to provide a sufficiently reliable estimate of the amount expected to be paid, no provision is made for any potential liability under the litigation but the circumstances and uncertainties involved are

disclosed as contingent liabilities. The assessment of the likely outcome of legal proceedings and the amount of any potential liability involves significant judgement. As law and regulations in many of the countries in which the Group operates are continuing to evolve, particularly in the areas of taxation, sub-soil rights and protection of the environment, uncertainties regarding litigation and regulation are greater than those typically found in countries with more developed legal and regulatory frameworks.

As at 31 December 2016, there were several claims filed against the Group's subsidiaries contesting breaches of contract terms and non-payment of existing obligations. Management has reviewed the circumstances and estimated that there are no amounts with a probable outflow related to these claims (31 December 2015: USD13 million). The amount of claims, where management assesses outflow as possible approximates USD60 million (31 December 2015: USD37 million).

At each reporting date the Directors have assessed the provisions for litigation and claims and concluded that the provisions and disclosures are adequate.

(d) Tax provisions

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, including those arising from carried forward tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and is not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Assumptions are also required about the application of income tax legislation. These estimates and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of income.

The Group generally provides for current tax based on positions taken (or expected to be taken) in its tax returns. Where it is more likely than not that upon examination by the tax authorities of the positions taken by the Group additional tax will be payable, the Group provides for its best estimate of the amount expected to be paid (including any interest and/or penalties) as part of the tax charge.

At each reporting date the Directors have assessed the provisions for taxation and concluded that the provisions and disclosures are adequate.

(e) Provision for guarantees

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies, controlled by the beneficial shareholder of the Group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

In September 2013 the Group entered into an agreement with OJSC RusHydro to provide funds to BoAZ, if the latter is unable to fulfil its obligations under its credit facility with

GK Vnesheconombank (“VEB”). This agreement represents a surety for the increased credit limit obtained for the financing of BoAZ. The aggregate exposure under the agreement is limited to RUB16.8 billion (31 December 2016 and 2015 USD277 and USD231 million, respectively) and is split between the Group and OJSC RusHydro in equal proportion.

During 2016 USD100 million of provision previously recognised was reversed due to fact that maturity of the initial loan agreement between BoAZ and VEB was extended from 2027 to 2030 accordingly shifting the date principal repayments commence and the fact that BoGES will continue to support BoAZ in settling its liabilities under the credit facility including principal and interest repayments.

21 Derivative financial assets/liabilities

Accounting policies

The Group enters, from time to time, into various derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk and interest rate risk.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variation in cash flows that ultimately could affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the statement of income when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

The measurement of fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group’s views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Changes in the fair value therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in the statement of comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of a derivative is recognised in the statement of income.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to the statement of income in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold,

terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the statement of income.

Changes in the fair value of separated embedded derivatives and derivative financial instruments not designated for hedge accounting are recognised immediately in the statement of income.

Disclosures

	31 December 2016		31 December 2015	
	USD million		USD million	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Cross-currency swaps	-	-	-	370
Petroleum coke supply contracts and other raw materials	62	5	109	-
Interest rate swaps	-	-	-	40
Forward contracts for aluminium and other instruments	5	30	12	11
Total	67	35	121	421

Derivative financial instruments are recorded at their fair value at each reporting date. Fair value is estimated in accordance with Level 3 of the fair value hierarchy based on management estimates and consensus economic forecasts of relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the date of the event or change in circumstances that caused the transfer. The following significant assumptions were used in estimating derivative instruments:

	2017	2018	2019	2020	2021	2022	2023	2024	2025
LME Al Cash, USD per tonne	1,699	1,725	1,758	1,800	1,854	1,907	1,955	2,003	2,045
Platt's FOB Brent, USD per barrel	58	58	58	-	-	-	-	-	-

The movement in the balance of Level 3 fair value measurements of derivatives is as follows:

	31 December	
	2016	2015
	USD million	USD million
Balance at the beginning of the period	(300)	(606)
Unrealised changes in fair value recognised in other comprehensive income (cash flow hedge) during the period	36	144
Unrealised changes in fair value recognised in statement of income (finance expense) during the period	(157)	(352)
Realised portion during the period	453	514
Balance at the end of the period	32	(300)

During the year 2016 there have been no changes in valuation techniques used to calculate the derivative financial instruments compared to prior year.

Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results for the derivative instruments are not particularly sensitive to any factors other than the assumptions disclosed above.

Cross-currency and interest rate swaps

Interest rate and cross-currency swaps in relation to the floating rate and rouble credit facilities matured in September and November 2016, respectively, and were settled in full.

Petroleum coke supply contracts and other raw materials

In May and September 2011, the Group entered into long-term petroleum coke supply contracts where the price of coke is determined with reference to the LME aluminium price and the Brent oil price. The strike price for aluminium is set at USD2,403.45 per tonne and USD2,497.72 per tonne, respectively, while the strike price for oil is set at USD61.10 per barrel and USD111.89 per barrel, respectively.

In May 2014, the Group entered into long-term petroleum coke supply contract where the price of coke is determined with reference to the LME aluminium price and average monthly aluminium quotations, namely of Aluminum MW US Transaction premium, MB Aluminium Premium Rotterdam Low - High» and Aluminum CIF Japan premium. The strike price for aluminium is set at USD1,809.65 per tonne while the strike aluminium premium quotations for US, Europe and Japan are set at USD403.96 per tonne, USD313.30 per tonne and USD366.00 per tonne, respectively.

In November 2015, the Group entered into long-term pitch supply contract where the price of pitch is determined with reference to the LME aluminium price. The strike price for aluminium is set at USD1,508 per tonne.

22 Financial risk management and fair values

(a) Fair values

Management believes that the fair values of short-term financial assets and liabilities approximate their carrying amounts.

The methods used to estimate the fair values of the financial instruments are as follows:

Trade and other receivables, cash and cash equivalents, current loans and borrowings and trade and other payables: the carrying amounts approximate fair value because of the short maturity period of the instruments.

Long-term loans and borrowings, other non-current liabilities: the fair values of other non-current liabilities are based on the present value of the anticipated cash flows and approximate carrying value, other than bonds issued.

Derivatives: the fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Option-based derivatives are valued using Black-Scholes models and Monte-Carlo simulations. The derivative financial instruments are recorded at their fair value at each reporting date.

The following table presents the fair value of Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined by IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group as at 31 December 2016

Note	Carrying amount					Fair value			
	Designated at fair value	Fair value - hedging instrument	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	USD million	USD million	USD million	USD million	USD million	USD million	USD million	USD million	USD million
Financial assets measured at fair value									
Petroleum coke supply contracts and other raw materials	21	62	-	-	-	62	-	-	62
Forward contracts for aluminium and other instruments	21	5	-	-	-	5	-	-	5
		67	-	-	-	67	-	-	67
Financial assets not measured at fair value*									
Trade and other receivables	17	-	-	634	-	634	-	-	634
Cash and cash equivalents	17	-	-	544	-	544	-	-	544
		-	-	1,178	-	1,178	-	-	1,178
Financial liabilities measured at fair value									
Petroleum coke supply contracts and other raw materials	21	(5)	-	-	-	(5)	-	-	(5)
Forward contracts for aluminium and other instruments	21	(30)	-	-	-	(30)	-	-	(30)
		(35)	-	-	-	(35)	-	-	(35)
Financial liabilities not measured at fair value*									
Secured bank loans and company loans	19	-	-	-	(8,423)	(8,423)	-	(8,724)	-
Unsecured bank loans	19	-	-	-	(346)	(346)	-	(346)	-
Unsecured bond issue	19	-	-	-	(196)	(196)	(208)	-	-
Trade and other payables	17	-	-	-	(735)	(735)	-	(735)	-
		-	-	-	(9,700)	(9,700)	(208)	(9,805)	-
									(10,013)

* The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The Group as at 31 December 2015

		Carrying amount				Fair value				
	Note	Designated at fair value	Fair value - hedging instrument	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		USD million	USD million	USD million	USD million	USD million	USD million	USD million	USD million	USD million
Financial assets measured at fair value										
Petroleum coke supply contracts and other raw materials	21	109	-	-	-	109	-	-	109	109
Forward contracts for aluminium and other instruments	21	12	-	-	-	12	-	-	12	12
		121	-	-	-	121	-	-	121	121
Financial assets not measured at fair value*										
Trade and other receivables	17	-	-	676	-	676	-	676	-	676
Cash and cash equivalents	17	-	-	508	-	508	-	508	-	508
		-	-	1,184	-	1,184	-	1,184	-	1,184
Financial liabilities measured at fair value										
Cross-currency swaps	21	(370)	-	-	-	(370)	-	-	(370)	(370)
Interest rate swaps	21	(40)	-	-	-	(40)	-	-	(40)	(40)
Forward contracts for aluminium and other instruments	21	(11)	-	-	-	(11)	-	-	(11)	(11)
		(421)	-	-	-	(421)	-	-	(421)	(421)
Financial liabilities not measured at fair value*										
Secured bank loans and company loans	19	-	-	-	(8,652)	(8,652)	-	(8,645)	-	(8,645)
Unsecured bank loans	19	-	-	-	(207)	(207)	-	(205)	-	(205)
Unsecured bond issue	19	-	-	-	(21)	(21)	(21)	-	-	(21)
Trade and other payables	17	-	-	-	(612)	(612)	-	(612)	-	(612)
		-	-	-	(9,492)	(9,492)	(21)	(9,462)	-	(9,483)

* The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

(b) Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management group within its Department of Internal Control, which is responsible for developing and monitoring the Group's risk management policies. The Department reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by the Group's Internal Audit function which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

(i) Commodity price risk

During the years ended 31 December 2016 and 2015, the Group has entered into certain long term electricity contracts and other commodity derivatives contracts in order to manage its exposure of commodity price risks. Details of the contracts are disclosed in note 21.

(ii) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (refer to note 19). The Group's policy is to manage its interest costs by monitoring changes in interest rates with respect to its borrowings.

The following table details the interest rate profile of the Group's borrowings at the reporting date.

	31 December 2016		31 December 2015	
	Effective interest rate %	USD million	Effective interest rate %	USD million
Fixed rate loans and borrowings				
Loans and borrowings	2.50%-12.85%	908	2.50%-12.00%	682
		908		682
Variable rate loans and borrowings				
Loans and borrowings	2.15%-7.08%	7,990	2.36%-7.63%	8,173
		7,990		8,173
		8,898		8,855

The following table demonstrates the sensitivity to cash flows from interest rate risk arising from floating rate non-derivative instruments held by the Group at the reporting date in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on the Group's profit before taxation and equity and retained profits/accumulated losses is estimated as an annualised input on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for all years presented.

	Increase/decrease in basis points	Effect on profit before taxation for the year	Effect on equity for the year
		USD million	USD million
As at 31 December 2016			
Basis percentage points	+100	(80)	77
Basis percentage points	-100	80	(77)
As at 31 December 2015			
Basis percentage points	+100	(82)	79
Basis percentage points	-100	82	(79)

(iii) Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of group entities, primarily USD but also the Russian Rouble, Ukrainian Hryvna and Euros. The currencies in which these transactions primarily are denominated are RUB, USD and EUR.

Borrowings are primarily denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD but also RUB and EUR. This provides an economic hedge.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances or entering into currency swap arrangements.

The Group's exposure at the reporting date to foreign currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate is set out in the table below. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are ignored.

	USD-denominated vs. RUB functional currency		RUB- denominated vs. USD functional currency		EUR- denominated vs. USD functional currency		Denominated in other currencies vs. USD functional currency	
As at 31 December	2016	2015	2016	2015	2016	2015	2016	2015
	USD	USD	USD	USD	USD	USD	USD	USD
	million	million	million	million	million	million	million	million
Non-current assets	-	-	3	4	3	-	1	1
Trade and other receivables	-	-	324	297	44	30	18	15
Cash and cash equivalents	1	-	49	64	86	37	18	16
Derivative financial assets	-	-	59	73	-	-	-	-
Loans and borrowings	(137)	(153)	(329)	(267)	(232)	(250)	-	-
Provisions	-	-	(71)	(70)	(33)	(33)	(15)	(19)
Derivative financial liabilities	-	-	(5)	-	-	-	-	-
Non-current liabilities	-	-	(9)	-	(8)	-	-	-
Income taxation	-	-	(60)	(1)	-	(1)	-	(7)
Trade and other payables	(2)	(5)	(440)	(254)	(41)	(23)	(57)	(63)
Net exposure arising from recognised assets and liabilities	(138)	(158)	(479)	(154)	(181)	(240)	(35)	(57)

Foreign currency sensitivity analysis

The following tables indicate the instantaneous change in the Group's profit before taxation (and accumulated losses) and other comprehensive income that could arise if foreign exchange rates to which the Group has significant exposure at the reporting date had changed at that date, assuming all other risk variables remained constant.

	Year ended 31 December 2016		
	Change in exchange rates	USD million Effect on profit before taxation for the year	USD million Effect on equity for the year
Depreciation of USD vs. RUB	15%	(51)	(51)
Depreciation of USD vs. EUR	5%	(9)	(9)
Depreciation of USD vs. other currencies	5%	(2)	(2)

	Year ended 31 December 2015		
	Change in exchange rates	USD million Effect on profit before taxation for the year	USD million Effect on equity for the year
Depreciation of USD vs. RUB	15%	1	1
Depreciation of USD vs. EUR	5%	(12)	(12)
Depreciation of USD vs. other currencies	5%	(3)	(3)

Results of the analysis as presented in the above tables represent an aggregation of the instantaneous effects on the Group entities' profit before taxation and other comprehensive income measured in the respective functional currencies, translated into USD at the exchange rates ruling at the reporting date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the reporting date. The analysis excludes differences that would result from the translation of other financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for all years presented.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments.

The following tables show the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates, or if floating, based on rates current at the reporting date) and the earliest the Group can be required to pay.

31 December 2016						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	TOTAL	Carrying amount
	USD million	USD million	USD million	USD million	USD million	USD million
Trade and other payables to third parties	658	-	-	-	658	658
Trade and other payables to related parties	77	-	-	-	77	77
Bonds, including interest payable	26	225	-	-	251	196
Loans and borrowings, incl. interest payable	1,842	1,983	6,718	-	10,543	8,769
Guarantees	71	67	-	-	138	-
	2,674	2,275	6,718	-	11,667	9,700
31 December 2015						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	TOTAL	Carrying amount
	USD million	USD million	USD million	USD million	USD million	USD million
Trade and other payables to third parties	539	-	-	-	539	539
Trade and other payables to related parties	73	-	-	-	73	73
Bonds, including interest payable	21	-	-	-	21	21
Loans and borrowings, including interest payable	1,746	1,571	5,540	2,147	11,004	8,859
Guarantees	52	63	-	-	115	100
	2,431	1,634	5,540	2,147	11,752	9,592

At 31 December 2016 the Group's guarantee in respect of credit arrangement between BoAZ and VEB (note 20(e)) is presented as contingent liability and included at maximum exposure for the Group in the liquidity risk disclosure above.

(e) Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The majority of the Group's third party trade receivables represent balances with the world's leading international corporations operating in the metals industry. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not

significant. Goods are normally sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables. The details of impairment of trade and other receivables are disclosed in note 17. The extent of the Group's credit exposure is represented by the aggregate balance of financial assets and financial guarantees given.

At 31 December 2016 and 2015, the Group has certain concentrations of credit risk as 7.5% and 7.5% of the total trade receivables were due from the Group's largest customer and 19.5% and 8.9% of the total trade receivables were due from the Group's five largest customers, respectively (refer to note 5 for the disclosure on revenue from largest customer).

With respect to credit risk arising from guarantees, the Group's policy is to provide financial guarantees only to wholly-owned subsidiaries, associates and joint ventures. Management have derecognised a provision of USD100 million against the Group's exposure to guarantees (refer to note 20(e)).

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries were subject to externally imposed capital requirements in the both years presented in these consolidated financial statements.

(g) Master netting or similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events.

There are no financial instruments that meet the offsetting criteria in the statement of financial position for the year ended 31 December 2016. There are no recognised financial instruments that do not meet some or all of the offsetting criteria that are included within financial assets and liabilities of the Group as at 31 December 2016 (31 December 2015: USD13 million).

23 Commitments

(a) Capital commitments

The Group has entered into contracts that result in contractual obligations primarily relating to various construction and capital repair works. The commitments at 31 December 2016 and 31 December 2015 approximated USD157 million and USD169 million, respectively. These commitments are due over a number of years.

(b) Purchase commitments

Commitments with third parties for purchases of alumina, bauxite, other raw materials and other purchases in 2017-2034 under supply agreements are estimated from USD3,156 million to USD4,089 million at 31 December 2016 (31 December 2015: USD3,793 million to USD4,912 million) depending on the actual purchase volumes and applicable prices.

Commitments with related parties – companies under common control for purchases of alumina in 2017 under supply agreements are estimated at USD nil million at 31 December 2016 (31 December 2015: USD110 million). Commitments with a related party - joint venture for purchases of primary aluminium and alloys in 2017-2030 under supply agreements are estimated from USD5,748 million to USD7,127 million (31 December 2015: USD5,512 million to USD 6,836 million) depending on the actual purchase volumes and applicable prices.

(c) Sale commitments

Commitments with third parties for sales of alumina and other raw materials in 2017-2034 are estimated from USD806 million to USD1,445 million at 31 December 2016 (31 December 2015: from USD793 million to USD1,349 million) and will be settled at market prices at the date of delivery. Commitments with related parties for sales of alumina in 2017-2019 approximated from USD546 million to USD680 million at 31 December 2016 (31 December 2015: from USD504 million to USD1,046 million).

Commitments with related parties for sales of primary aluminium and alloys in 2017-2030 are estimated from USD4,450 million to USD4,618 million at 31 December 2016 (31 December 2015: from USD4,441 million to USD5,016 million). Commitments with third parties for sales of primary aluminium and alloys at 31 December 2016 are estimated to range from USD941 million to USD1,252 million (31 December 2015: from USD307 million to USD654 million).

(d) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	31 December	31 December
	2016	2015
	USD million	USD million
Less than one year	12	9
Between one and five years	41	7
	53	16

(e) Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs of the regions of the Russian Federation where the Group's production entities are located. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

24 Contingencies

(a) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant local, regional and federal authorities. Notably recent developments in the Russian environment suggest that the authorities in this country are becoming more active in seeking to enforce, through the Russian court system, interpretations of the tax legislation, in particular in relation to the use of certain commercial trading structures, which may be selective for particular tax payers and different to the authorities' previous interpretations or practices. Different and selective interpretations of tax regulations by various government authorities and inconsistent enforcement create further uncertainties in the taxation environment in the Russian Federation.

In addition to the amounts of income tax the Group has provided, there are certain tax positions taken by the Group where it is reasonably possible (though less than 50% likely) that additional tax may be payable upon examination by the tax authorities or in connection with ongoing disputes with tax authorities. The Group's best estimate of the aggregate maximum of additional amounts that it is reasonably possible may become payable if these tax positions were not sustained at 31 December 2016 is USD225 million (31 December 2015: USD237 million).

(b) Environmental contingencies

The Group and its predecessor entities have operated in the Russian Federation, Ukraine, Jamaica, Guyana, the Republic of Guinea and the European Union for many years and certain environmental problems have developed. Governmental authorities are continually considering environmental regulations and their enforcement and the Group periodically evaluates its obligations related thereto. As obligations are determined, they are recognised immediately. The outcome of environmental liabilities under proposed or any future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated. Under current levels of enforcement of existing legislation, management believes there are no possible liabilities, which will have a material adverse effect on the financial position or the operating results of the Group. However, the Group anticipates undertaking significant capital projects to improve its future environmental performance and to bring it into full compliance with current legislation.

(c) Legal contingencies

The Group's business activities expose it to a variety of lawsuits and claims which are monitored, assessed and contested on the ongoing basis. Where management believes that a lawsuit or another claim would result in the outflow of the economic benefits for the Group, a best estimate of such outflow is included in provisions in the consolidated financial statements (refer to note [20](#)). As at 31 December 2016 the amount of claims, where management assesses outflow as possible approximates USD60 million (31 December 2015: USD37 million).

In January 2013, the Company received a writ of summons and statement of claim filed in the High Court of Justice of the Federal Capital Territory of Nigeria (Abuja) by plaintiff BFIG Group Divino Corporation (“BFIG”) against certain subsidiaries of the Company. It is a claim for damages arising out of the defendants’ alleged tortious interference in the bid process for the sale of the Nigerian government’s majority stake in the Aluminium Smelter Company of Nigeria (“ALSCON”) and alleged loss of BFIG’s earnings resulting from its failed bid for the said stake in ALSCON. BFIG seeks compensatory damages in the amount of USD2.8 billion. In January 2014 the court granted the Company’s motion to join the Federal Republic of Nigeria and Attorney General of Nigeria to the case as co-defendants. The next hearing is currently scheduled for 28 March 2017. Based on a preliminary assessment of the claim, the Company does not expect the case to have any material adverse effect on the Group’s financial position or its operation as a whole.

(d) Risks and concentrations

A description of the Group’s major products and its principal markets, as well as exposure to foreign currency risks are provided in note 1 “Background” and note 22 “Financial risk management and fair values”. The price at which the Group can sell its products is one of the primary drivers of the Group’s revenue. The Group’s prices are largely determined by prices set in the international market. The Group’s future profitability and overall performance is strongly affected by the price of primary aluminium that is set in the international market.

(e) Insurance

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies, controlled by the beneficial shareholder of the Group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

25 Related party transactions

(a) Transactions with management and close family members

Management remuneration

Key management received the following remuneration, which is included in personnel costs (refer to note 6(c)):

	Year ended 31 December	
	2016	2015
	USD million	USD million
Salaries and bonuses	66	65
	66	65

(b) Transactions with associates and joint ventures

Sales to associates and joint ventures are disclosed in note 5, purchases from associates and joint ventures are disclosed in note 6, accounts receivable from associates and joint ventures as well as accounts payable to associates and joint ventures are disclosed in note 17.

(c) Transactions with other related parties

The Group transacts with other related parties, the majority of which are entities under common control with the Group or under the control of SUAL Partners Limited or its controlling shareholders or Glencore International Plc or entities under its control or Onexim Holdings Limited or its controlling shareholders.

Sales to related parties for the year are disclosed in note 5, purchases from related parties are disclosed in note 6, accounts receivable from related parties as well as accounts payable to related parties are disclosed in note 17, commitments with related parties are disclosed in note 23, directors remuneration in notes 9 and 10 and other transactions with shareholders are disclosed in note 11.

Electricity contracts

On November 2016, the Group entered into the new long-term electricity contracts to supply several Group's smelters from En+ subsidiaries over the years 2016-2025. Purchases will be made under a price formula close to market prices. The volumes committed under the long-term electricity contracts are as follows:

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Mln kWh	37,598	37,598	37,598	37,700	37,598	37,598	37,598	37,700	37,598	37,598
Mln USD	562	562	562	564	562	562	562	564	562	562

(d) Related parties balances

At 31 December 2016, included in non-current assets and non-current liabilities are balances of related parties – companies under common control of USD41 million and balances of related parties – associates and joint ventures of USD nil million (31 December 2015: USD38 million and USD55 million, respectively).

(e) Pricing policies

Prices for transactions with related parties are determined on a case by case basis but are not necessarily at arm's length.

The Group has entered into three categories of related-party transactions: (i) those entered into on an arm's length basis, (ii) those entered into on non-arm's length terms but as part of a wider deal resulting from arms' length negotiations with unrelated third parties, and (iii) transactions unique to the Group and the counterparty.

(f) Connected transactions

Not all the related party transactions and balances disclosed above meet the definition of connected transactions as per Chapter 14 of the Listing Rules of Hong Kong Stock Exchange. For particulars of the continuing connected transactions please refer to the Director's Report section of the Annual Report of the Company for the year ended 31 December 2016.

26 Particulars of subsidiaries

As at 31 December 2016 and 2015, the Company has direct and indirect interests in the following subsidiaries, which principally affected the results, assets and liabilities of the Group:

Name	Place of incorporation and operation	Date of incorporation	Particulars of issued and paid up capital	Attributable equity interest	Principal activities
Compagnie Des Bauxites De Kindia S.A.	Guinea	29 November 2000	2,000 shares of GNF 25,000 each	100.0%	Bauxite mining
Friguia	Guinea	9 February 1957	388 649 shares of GNF 35,000 each	100.0%	Alumina
JSC RUSAL Achinsk	Russian Federation	20 April 1994	4,188,531 shares of RUB1 each	100.0%	Alumina
RUSAL Mykolaev Ltd	Ukraine	16 September 2004	1,524,126,720 UAH	100.0%	Alumina
JSC RUSAL Boxitogorsk Alumina	Russian Federation	27 October 1992	1,012,350 shares of RUB1 each	100.0%	Alumina
Eurallumina SpA	Italy	21 March 2002	10,000,000 shares of EUR1.55 each	100.0%	Alumina
OJSC RUSAL Bratsk	Russian Federation	26 November 1992	5,505,305 shares of RUB0.2 each	100.0%	Smelting
JSC RUSAL Krasnoyarsk	Russian Federation	16 November 1992	85,478,536 shares of RUB20 each	100.0%	Smelting
JSC RUSAL Novokuznetsk	Russian Federation	26 June 1996	53,997,170 shares of RUB0.1 each	100.0%	Smelting
JSC RUSAL Sayanogorsk	Russian Federation	29 July 1999	208,102,580,438 shares of RUB0.068 each	100.0%	Smelting
RUSAL Resal Ltd	Russian Federation	15 November 1994	charter fund of RUB27,951,217.29	100.0%	Processing
JSC RUSAL SAYANAL	Russian Federation	29 December 2001	59,902,661,099 shares of RUB0.006 each	100.0%	Foil
CJSC RUSAL ARMENAL	Armenia	17 May 2000	36,699,295 shares of AMD 1,000 each	100.0%	Foil
RUS-Engineering Ltd	Russian Federation	18 August 2005	charter fund of RUB 1,751,832,184	100.0%	Repairs and maintenance
JSC Russian Aluminium	Russian Federation	25 December 2000	23,124,000,000 shares of RUB1 each	100.0%	Holding company
Rusal Global Management B.V.	Netherlands	8 March 2001	charter fund of EUR25,000	100.0%	Management company
JSC United Company RUSAL Trading House	Russian Federation	15 March 2000	163,660 shares of RUB100 each	100.0%	Trading
Rusal America Corp.	USA	29 March 1999	1,000 shares of USD 0.01 each	100.0%	Trading
RS International GmbH	Switzerland	22 May 2007	1 share with nominal value of CHF 20,000	100.0%	Trading

Name	Place of incorporation and operation	Date of incorporation	Particulars of issued and paid up capital	Attributable equity interest	Principal activities
Rusal Marketing GmbH	Switzerland	22 May 2007	Capital quota of CHF2,000,000	100.0%	Trading
RTI Limited	Jersey	27 October 2006	21,600 shares of USD1 each	100.0%	Trading
Alumina & Bauxite Company Limited	British Virgin Islands	3 March 2004	231,179,727 shares of USD1 each	100.0%	Trading
JSC Komi Aluminii	Russian Federation	13 February 2003	4,303,000,000 shares of RUB1 each	100.0%	Alumina
JSC Bauxite-Timana	Russian Federation	29 December 1992	44,500,000 shares of RUB10 each	100.0%	Bauxite mining
JSC Severo-Uralsky Bauxite Mine	Russian Federation	24 October 1996	10,506,609 shares of RUB275.85 each	100.0%	Bauxite mining
JSC SUAL	Russian Federation	26 September 1996	2,542,941,932 shares of RUB1 each	100.0%	Primary aluminum and alumina production
SUAL-PM LLC	Russian Federation	20 October 1998	charter fund of RUB56,300,959	100.0%	Aluminum powders production
CJSC Kremniy	Russian Federation	3 August 1998	320,644 shares of RUB1,000 each	100.0%	Silicon production
SUAL-Kremniy-Ural LLC	Russian Federation	1 March 1999	charter fund of RUB8,763,098	100.0%	Silicon production
UC RUSAL Alumina Jamaica Limited	Jamaica	26 April 2001	1,000,000 shares of USD1 each	100.0%	Alumina
UC RUSAL Alumina Jamaica II Limited ^(a)	Jamaica	16 May 2004	200 shares of USD1 each	100.0%	Alumina
Kubikenborg Aluminium AB	Sweden	26 January 1934	25,000 shares of SEK 1,000 each	100.0%	Smelting
RFCL Sarl	Luxembourg	13 March 2013	90,000,000 RUB	100.0%	Finance services
Aktivium B.V.	Netherlands	28 December 2010	215,458,134,321 shares of RUB1 each	100.0%	Holding and investment company
Aughinish Alumina Ltd	Ireland	22 September 1977	1,000 shares of EUR2 each	100.0%	Alumina
LLC RUSAL Energo	Russian Federation	26 December 2005	715,000,000 RUB	100.0%	Electric power

(a) Entity was disposed of in November 2016 for a consideration of USD 299 million, please see note 1(b) for details.

Trading entities are engaged in the sale of products to and from the production entities.

27 Statement of Financial Position of the Company as at 31 December 2016

	<u>31 December</u>	<u>31 December</u>
	<u>2016</u>	<u>2015</u>
	<u>USD million</u>	<u>USD million</u>
ASSETS		
Non-current assets		
Investments in subsidiaries	17,308	15,841
Loans to related parties	1,616	1,779
Total non-current assets	18,924	17,620
Current assets		
Other receivables	121	187
Cash and cash equivalents	11	11
Total current assets	132	198
Total assets	19,056	17,818
EQUITY AND LIABILITIES		
Equity		
Share capital	152	152
Reserves	9,529	7,640
Total equity	9,681	7,792
Non-current liabilities		
Loans and borrowings	6,497	6,745
Total non-current liabilities	6,497	6,745
Current liabilities		
Loans and borrowings	1,921	1,686
Trade and other payables	760	813
Other current liabilities	197	782
Total current liabilities	2,878	3,281
Total liabilities	9,375	10,026
Total equity and liabilities	19,056	17,818
Net current liabilities	(2,746)	(3,083)
Total assets less current liabilities	16,178	14,537

28 Events subsequent to the reporting date

Eurobonds issue

In February 2017 the Company completed the debut offering of Eurobonds with the following key terms: principal amount of USD600 million, tenor 5 years, coupon rate 5.125% per annum. The bonds proceeds, excluding related expenses, in the amount of USD 597 million were applied for partial refinancing of RUSAL's existing pre-export finance facility.

Purchase, sale or redemption of UC RUSAL's listed securities

There has been no purchase, sale or redemption of UC RUSAL's listed securities during 2016 by UC RUSAL or any of its subsidiaries.

Code of Corporate Governance Practices

UC RUSAL adopted a corporate code of ethics on 7 February 2005. Based on the recommendations of the European Bank for Reconstruction and Development and the International Finance Corporation, UC RUSAL further amended the corporate code of ethics in July 2007. The corporate code of ethics sets out UC RUSAL's values and principles for many of its areas of operations.

The Directors adopted a corporate governance code which is based on the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules") then in force on 11 November 2010. The Directors consider that save for code provisions A.1.7 (physical board meetings at which Directors have material interests), A.4.1 (specific term of non-executive directors) and A.4.2 (specific term of directors) for reasons set out below and also on pages 97-98 of UC RUSAL's interim report for the six months ended 30 June 2016, UC RUSAL has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January 2016 to 31 December 2016.

The Board generally endeavored throughout the twelve-month period ended 31 December 2016 to ensure that it did not deal with business by way of written resolution where a substantial shareholder of UC RUSAL or a Director had disclosed an interest in a matter to be considered by the Board which the Board determined to be material. As a result, there was only 3 occurrences (out of the 27 written resolutions the Board passed during the period) when urgent business was dealt with by the Board by way of written resolution where a material interest of a Director was stated to have been disclosed. In that instance, the interest of the Director was a potential conflict of interest by virtue of the fact that:

- (1) a Director was also a member of the supervisory council for the parent company of the entity contracting with UC RUSAL;
- (2) a Director was also a member of the supervisory council for the parent company of the entity contracting with the UC RUSAL. Additionally, another Director was the chairman of the supervisory board of the parent company of the entity contracting with the UC RUSAL; and

- (3) a Director was also a member of the supervisory council for the parent company of the entity contracting with the UC RUSAL.

On those occurrences, the written resolutions were passed by the requisite majority excluding the materially interested Director.

Of the 9 Board meetings held in the twelve-month period ended 31 December 2016 where one or more Director(s) had disclosed a material interest, all the independent non-executive Directors were present at 9 of the Board meetings held.

Of the 9 board meetings held, there were 5 occasions where an independent non-executive Director had a material interest in the transaction. On such occurrences, the independent non-executive Director abstained from voting and the resolutions approving entry into such transactions were passed by the requisite majority excluding the materially interested independent non-executive Director.

Audit Committee

The Board established an audit committee (the “**Audit Committee**”) to assist it in providing an independent view of the effectiveness of the Company’s financial reporting process, risk management and internal control systems, and internal audit function, to oversee the audit process and to perform other duties and responsibilities as are assigned to the Audit Committee by the Board. The Audit Committee is assisted by the Company’s internal audit function which undertakes both regular and ad hoc reviews of risk management, internal controls and procedures, the results of which are reported to the Audit Committee. The Audit Committee consists of a majority of independent non-executive Directors. The members are as follows: Mr. Bernard Zonneveld (chairman of the committee, independent non-executive Director, with relevant professional qualifications and knowledge related to accounting and financial management) (with effect from 24 June 2016) Mr. Philip Lader (independent non-executive Director); Ms. Elsie Leung Oi-sie (independent non-executive Director); Mr. Daniel Lesin Wolfe (non-executive Director), Ms. Olga Mashkovskaya (non-executive Director) and Mr. Dmitry Vasiliev (independent non-executive Director).

Declaration of Dividend

In September 2016 the Board of Directors of the Company approved an interim dividend in the aggregate amount of USD250 million (USD0.01645 per ordinary share) for the financial year ending 31 December 2016. Payment of the interim dividend was subject to the Company obtaining prior consents from certain lenders of the Company. On 25 October 2016, the required consents have been obtained by the Company. The interim dividend was paid on 31 October 2016.

Material events since the end of the year

26 January 2017	RUSAL published inside information about potential offering of U.S. dollar-denominated fixed rate notes.
2 February 2017	RUSAL announced that the Company had completed the debut offering of Eurobonds with the following key terms: principal amount of USD600 million, tenor 5 years, coupon rate 5.125% per annum.
16 February 2017	RUSAL announced its operating results for the fourth quarter 2016 and full year 2016 .

Forward-looking statements

This announcement contains statements about future events, projections, forecasts and expectations that are forward-looking statements. Any statement in this announcement that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risk and uncertainties include those discussed or identified in the prospectus for UC RUSAL. In addition, past performance of UC RUSAL cannot be relied on as a guide to future performance. UC RUSAL makes no representation on the accuracy and completeness of any of the forward-looking statements, and, except as may be required by applicable law, assumes no obligations to supplement, amend, update or revise any such statements or any opinion expressed to reflect actual results, changes in assumptions or in UC RUSAL's expectations or changes in factors affecting these statements. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk.

By Order of the board of directors of
United Company RUSAL Plc
Vladislav Soloviev
Director

17 March 2017

As at the date of this announcement, the executive Directors are Mr. Oleg Deripaska, Mr. Vladislav Soloviev and Mr. Siegfried Wolf, the non-executive Directors are Mr. Maxim Sokov, Mr. Dmitry Afanasiev, Mr. Ivan Glasenberg, Mr. Maksim Goldman, Ms. Gulzhan Moldazhanova, Mr. Daniel Lesin Wolfe, Ms. Olga Mashkovskaya, Ms. Ekaterina Nikitina and Mr. Marco Musetti, and the independent non-executive Directors are Mr. Matthias Warnig (Chairman), Mr. Philip Lader, Dr. Elsie Leung Oi-sie, Mr. Mark Garber, Mr. Bernard Zonneveld and Mr. Dmitry Vasiliev.

All announcements and press releases published by the Company are available on its website under the links <http://www.rusal.ru/en/investors/info.aspx>, <http://rusal.ru/investors/info/moex/> and <http://www.rusal.ru/en/press-center/press-releases.aspx>, respectively.