Mining and Metallurgical Company Norilsk Nickel

Interim condensed consolidated financial statements (unaudited)

for the six months ended 30 June 2016

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016

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MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

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

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly in all material aspects the consolidated financial position of the Group as at 30 June 2016 and consolidated statements of income, comprehensive income, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

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

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

Management, within its competencies, is also responsible for:

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

The interim condensed consolidated financial statements for the six months ended 30 June 2016 were approved by:

V.O. Potanin
President

S.G. Malyshev
Senior Vice President

Moscow, Russia
29 August 2016

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Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Board of Directors

PJSC "Mining and Metallurgical Company Norilsk Nickel"

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC "Mining and Metallurgical Company Norilsk Nickel" (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim condensed consolidated financial statements (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Entity: Public Joint-Stock Company "Mining and Metallurgical Company Norilsk Nickel".

Registered by Administration of Taimyr Autonomous District on 4 July 1997, Registration Number of the State Registration Certificate issued at the time of joint-stock company foundation No.07.

Registered in the Unified State Register of Legal Entities on 2 September 2002 by Inter-Regional Inspection No. 2 of the Ministry of Taxes and Charges of the Russian Federation in Taimyr (Dolgan-Nenets) Autonomous District, Registration No. 1028400000298. Certificate series 84 No. 000020058.

Dudinka, Krasnoyarsk Region, Russian Federation.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 June 2016 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG

Kim A.A.

Director, (power of attorney dated 16 March 2015 No. 11/15)

JSC "KPMG"

29 August 2016

Moscow, Russian Federation

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2016

US Dollars million

	Notes	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Revenue			
Metal sales	6	3,565	4,591
Other sales		278	316
Total revenue		**3,843**	**4,907**
Cost of metal sales	7	(1,645)	(1,765)
Cost of other sales		(250)	(317)
Gross profit		**1,948**	**2,825**
General and administrative expenses	8	(259)	(262)
Selling and distribution expenses	9	(67)	(42)
Impairment of property, plant and equipment		(3)	(2)
Other net operating expenses		(83)	(93)
Operating profit		**1,536**	**2,426**
Finance costs	10	(226)	(128)
Gain/(loss) from disposal of subsidiaries and assets classified as held for sale	16	6	(306)
Income from investments, net		51	99
Foreign exchange gain/(loss), net		310	(122)
Share of (losses)/profits of associates		(3)	10
Profit before tax		**1,674**	**1,979**
Income tax expense		(370)	(486)
Profit for the period		**1,304**	**1,493**
Attributable to:			
Shareholders of the parent company		1,309	1,498
Non-controlling interests		(5)	(5)
		1,304	**1,493**
EARNINGS PER SHARE			
Basic and diluted earnings per share attributable to shareholders of the parent company (US Dollars per share)		8.3	9.5

The accompanying notes on pages 10 – 24 form an integral part of the interim condensed consolidated financial statements

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2016

US Dollars million

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Profit for the period	**1,304**	**1,493**
Other comprehensive income/(loss)		
Items to be reclassified to profit or loss in subsequent periods:		
Increase in fair value of available-for-sale investments	–	99
Realised gain on disposal of available-for-sale investments	–	(6)
Reclassification of foreign currency translation reserve on disposed assets classified as held for sale to profit or loss	–	326
Effect of translation of foreign operations	8	(2)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net	**8**	**417**
Items not to be reclassified to profit or loss in subsequent periods:		
Effect of translation to presentation currency	322	227
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net	**322**	**227**
Other comprehensive income for the period, net of tax	**330**	**644**
Total comprehensive income for the period, net of tax	**1,634**	**2,137**
Attributable to:		
Shareholders of the parent company	1,638	2,142
Non-controlling interests	(4)	(5)
	1,634	**2,137**

The accompanying notes on pages 10 – 24 form an integral part of the interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) AS AT 30 JUNE 2016

US Dollars million

	Notes	At 30 June 2016	At 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	11	7,817	6,392
Intangible assets		64	50
Investment property	12	91	83
Other financial assets	13	254	62
Other taxes receivable		2	–
Deferred tax assets		42	42
Other non-current assets		157	117
		8,427	**6,746**
Current assets			
Inventories	14	1,921	1,698
Trade and other receivables		178	167
Advances paid and prepaid expenses		115	55
Other financial assets	13	58	1
Income tax receivable		228	234
Other taxes receivable		171	199
Cash and cash equivalents	15	3,414	4,054
		6,085	**6,408**
Assets classified as held for sale	16	218	217
		6,303	**6,625**
TOTAL ASSETS		**14,730**	**13,371**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	6	6
Share premium		1,254	1,254
Treasury shares	17	(196)	(196)
Translation reserve		(5,019)	(5,348)
Retained earnings		7,267	6,523
Equity attributable to shareholders of the parent company		**3,312**	**2,239**
Non-controlling interests		16	22
		3,328	**2,261**
Non-current liabilities			
Loans and borrowings	18	7,473	7,142
Provisions		405	357
Deferred tax liabilities		246	205
Other long-term liabilities		43	30
		8,167	**7,734**
Current liabilities			
Trade and other payables		1,313	1,008
Loans and borrowings	18	664	1,124
Dividends payable	17	568	698
Employee benefit obligations		279	215
Provisions		230	205
Derivative financial instruments		3	2
Income tax payable		18	5
Other taxes payable		133	95
		3,208	**3,352**
Liabilities associated with assets classified as held for sale	16	27	24
		3,235	**3,376**
TOTAL LIABILITIES		**11,402**	**11,110**
TOTAL EQUITY AND LIABILITIES		**14,730**	**13,371**

The accompanying notes on pages 10 – 24 form an integral part of the interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2016

US Dollars million

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
OPERATING ACTIVITIES		
Profit before tax	**1,674**	**1,979**
Adjustments for:		
Depreciation and amortisation	256	280
Impairment of property, plant and equipment	3	2
(Gain)/loss on disposal of property, plant and equipment	(1)	11
Share of losses/(profits) of associates	3	(10)
(Gain)/loss from disposal of subsidiaries and assets classified as held for sale	(6)	306
Finance costs and income from investments, net	181	29
Foreign exchange (gain)/loss, net	(310)	122
Other	28	39
	1,828	**2,758**
Movements in working capital:		
Inventories	(36)	(30)
Trade and other receivables	(20)	98
Advances paid and prepaid expenses	(43)	2
Other taxes receivable	60	(2)
Employee benefit obligations	39	1
Trade and other payables	(8)	152
Provisions	(10)	–
Other taxes payable	34	20
Cash generated from operations	**1,844**	**2,999**
Income tax paid	(320)	(439)
Net cash generated from operating activities	**1,524**	**2,560**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(693)	(563)
Purchase of intangible assets	(13)	(6)
Purchase of other non-current assets	(22)	(15)
Purchase of other financial assets	(150)	–
Loans issued	(12)	–
Net change in deposits placed	(50)	80
Interest received	27	65
Proceeds from sale of other financial assets	–	44
Proceeds from disposal of property, plant and equipment	1	–
Proceeds from disposal of subsidiaries and assets classified as held for sale	7	–
Dividends received	–	14
Net cash used in investing activities	**(905)**	**(381)**

The accompanying notes on pages 10 – 24 form an integral part of the interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (CONTINUED)

US Dollars million

	For the six months ended 30 June 2016	**For the six months ended 30 June 2015**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	651	400
Repayments of loans and borrowings	(1,013)	(332)
Financial lease payments	(4)	–
Dividends paid	(665)	(2,126)
Interest paid	(285)	(143)
Acquisition of own shares from shareholders	–	(2)
Advances received for sale of treasury shares	79	–
Buy-out of non-controlling interest	–	(31)
Net cash used in financing activities	**(1,237)**	**(2,234)**
Net decrease in cash and cash equivalents	**(618)**	**(55)**
Cash and cash equivalents at the beginning of the period	**4,054**	**2,793**
Cash and cash equivalents related to assets classified as held for sale at the beginning of the period	43	5
Less: cash and cash equivalents related to assets classified as held for sale at the end of the period	(42)	(55)
Effects of foreign exchange differences on balances of cash and cash equivalents	(23)	126
Cash and cash equivalents at the end of the period	**3,414**	**2,814**

The accompanying notes on pages 10 – 24 form an integral part of the interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016

US Dollars million

		Equity attributable to shareholders of the parent company							
	Notes	Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 1 January 2015		**6**	**1,254**	**–**	**(4,787)**	**8,295**	**4,768**	**25**	**4,793**
Profit/(loss) for the period		–	–	–	–	1,498	**1,498**	(5)	**1,493**
Other comprehensive income		–	–	–	644	–	**644**	–	**644**
Total comprehensive income/(loss) for the period		**–**	**–**	**–**	**644**	**1,498**	**2,142**	(5)	**2,137**
Dividends		–	–	–	–	(2,083)	**(2,083)**	–	**(2,083)**
Non-controlling interest on disposal of assets classified as held for sale		–	–	–	–	–	**–**	11	**11**
Acquisition of own shares from shareholders		–	–	(2)	–	–	**(2)**	–	**(2)**
Balance at 30 June 2015		**6**	**1,254**	**(2)**	**(4,143)**	**7,710**	**4,825**	**31**	**4,856**
Balance at 1 January 2016		**6**	**1,254**	**(196)**	**(5,348)**	**6,523**	**2,239**	**22**	**2,261**
Profit/(loss) for the period		–	–	–	–	1,309	**1,309**	(5)	**1,304**
Other comprehensive income		–	–	–	329	–	**329**	1	**330**
Total comprehensive income/(loss) for the period		**–**	**–**	**–**	**329**	**1,309**	**1,638**	**(4)**	**1,634**
Dividends	17	–	–	–	–	(567)	**(567)**	–	**(567)**
Decrease in non-controlling interest due to increase in ownership of subsidiary		–	–	–	–	2	**2**	(2)	**–**
Balance at 30 June 2016		**6**	**1,254**	**(196)**	**(5,019)**	**7,267**	**3,312**	**16**	**3,328**

The accompanying notes on pages 10 – 24 form an integral part of the interim condensed consolidated financial statements

US Dollars million

1. GENERAL INFORMATION

Organisation and principal business activities

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

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation, and in Finland. The registered office's location is Russian Federation, Krasnoyarsk region, Dudinka, postal address: 2, Gvardeyskaya square, Norilsk, Russian Federation.

Foreign currency exchange rates

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

	30 June 2016	30 June 2015	31 December 2015
Russian Rouble/US Dollar			
Period-end rates	64.26	55.52	72.88
Average for the reporting period ended	70.26	57.40	60.96
South African Rand/US Dollar			
Period-end rates	14.79	12.30	15.55
Average for the reporting period ended	15.41	11.92	12.69

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements as at and for the year ended 31 December 2015.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

For the six months ended 30 June 2016 management presented semi-products sales separately within metal sales in order to better align metal revenue structure with management accounts and reporting (refer to note 6). Information for the six months ended 30 June 2015 has been reclassified to conform with the current period presentation.

Certain other items presented in the interim condensed consolidated financial statements were also reclassified to conform with the current period presentation.

Adoption of new and revised standards and interpretations

Adoption of amendments to the following Standards did not have material impact on the accounting policies, financial position or performance of the Group:

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments, estimates and assumptions made by management of the Group and applied in these interim condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2015.

US Dollars million

5. SEGMENTAL INFORMATION

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

Management has determined the following operating segments:

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

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

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

- balances of intercompany loans and borrowings and interest accruals;
- intercompany investments;
- accrual of intercompany dividends;
- intercompany metal sales and unrealised profit on metal inventory balance.

Amounts are measured on the same basis as those in the interim condensed consolidated financial statements.

The following tables present revenue, measure of segment profit or loss (EBITDA) and other segmental information from continuing operations regarding the Group's reportable segments for the six months ended 30 June 2016 and 2015, respectively.

Six months ended 30 June 2016	**GMK Group**	**Group KGMK**	**NN Harja-valta**	**Other metallur-gical**	**Other non-metallur-gical**	**Elimi-nations**	**Total**
Revenue from external customers	2,806	217	283	3	534	–	**3,843**
Inter-segment revenue	25	67	–	–	279	(371)	–
Total revenue	**2,831**	**284**	**283**	**3**	**813**	**(371)**	**3,843**
Segment EBITDA	1,753	55	9	(8)	150	–	**1,959**
Unallocated							(164)
Consolidated EBITDA							**1,795**
Depreciation and amortisation							(256)
Impairment of property, plant and equipment							(3)
Finance costs							(226)
Foreign exchange gain, net							310
Other income and expenses, net							54
Profit before tax							**1,674**
Other segmental information							
Purchase of property, plant and equipment and intangible assets	498	38	3	159	8	–	**706**
Depreciation and amortisation	201	15	10	–	30	-	**256**
Impairment of property, plant and equipment	3	–	–	–	–	–	**3**

US Dollars million

5. SEGMENTAL INFORMATION (CONTINUED)

Six months ended 30 June 2015	**GMK Group**	**Group KGMK**	**NN Harja-valta**	**Other metallur-gical**	**Other non-metallur-gical**	**Elimi-nations**	**Total**
Revenue from external customers	3,770	332	432	14	359	–	**4,907**
Inter-segment revenue	30	78	–	13	277	(398)	–
Total revenue	**3,800**	**410**	**432**	**27**	**636**	**(398)**	**4,907**
Segment EBITDA	2,714	156	36	(12)	(22)	–	**2,872**
Unallocated							(164)
Consolidated EBITDA							**2,708**
Depreciation and amortisation							(280)
Impairment of property, plant and equipment							(2)
Finance costs							(128)
Foreign exchange loss, net							(122)
Other income and expenses, net							(197)
Profit before tax							**1,979**
Other segmental information							
Purchase of property, plant and equipment and intangible assets	455	79	4	40	7	(16)	**569**
Depreciation and amortisation	236	23	10	–	11	–	**280**
(Reversal of impairment)/impairment of property, plant and equipment	(7)	(1)	–	10	–	–	**2**

The following tables present assets and liabilities of the Group's reportable segments at 30 June 2016 and 31 December 2015, respectively.

At 30 June 2016	**GMK Group**	**Group KGMK**	**NN Harja-valta**	**Other metallur-gical**	**Other non-metallurgical**	**Elimi-nations**	**Total**
Inter-segment assets	404	35	108	21	70	(638)	–
Segment assets	8,130	866	380	532	798	–	**10,706**
Total segment assets	**8,534**	**901**	**488**	**553**	**868**	**(638)**	**10,706**
Unallocated							4,024
Total assets							**14,730**
Inter-segment liabilities	73	233	25	33	274	(638)	–
Segment liabilities	1,296	90	108	191	950	–	**2,635**
Total segment liabilities	**1,369**	**323**	**133**	**224**	**1,224**	**(638)**	**2,635**
Unallocated							8,767
Total liabilities							**11,402**

US Dollars million

5. SEGMENTAL INFORMATION (CONTINUED)

At 31 December 2015	GMK Group	Group KGMK	NN Harjavalta	Other metallurgical	Other non-metallurgical	Eliminations	Total
Inter-segment assets	344	90	128	23	137	(722)	–
Segment assets	6,949	510	346	317	814	–	**8,936**
Total segment assets	**7,293**	**600**	**474**	**340**	**951**	**(722)**	**8,936**
Unallocated							4,435
Total assets							**13,371**
Inter-segment liabilities	178	17	1	4	522	(722)	–
Segment liabilities	1,020	78	69	157	740	–	**2,064**
Total segment liabilities	**1,198**	**95**	**70**	**161**	**1,262**	**(722)**	**2,064**
Unallocated							9,046
Total liabilities							**11,110**

6. METAL SALES

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Nickel	1,278	1,816
Copper	862	1,059
Palladium	810	1,035
Platinum	347	372
Semi-products	88	103
Other metals	180	206
Total	**3,565**	**4,591**

7. COST OF METAL SALES

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Cash operating costs		
Labour	543	584
Purchases of metals for resale, raw materials and semi-products	294	289
Materials and supplies	203	198
Third party services	72	119
Mineral extraction tax and other levies	67	59
Electricity and heat energy	47	58
Transportation expenses	40	39
Fuel	25	35
Sundry costs	65	59
Total cash operating costs	**1,356**	**1,440**
Depreciation and amortisation	214	242
Decrease in metal inventories	75	83
Total	**1,645**	**1,765**

US Dollars million

8. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Staff costs	171	168
Taxes other than mineral extraction tax and income tax	26	27
Third party services	20	25
Rent expenses	10	10
Depreciation and amortisation	10	9
Transportation expenses	3	3
Other	19	20
Total	**259**	**262**

9. SELLING AND DISTRIBUTION EXPENSES

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Export duties	54	16
Staff costs	5	5
Transportation expenses	3	2
Marketing expenses	2	12
Other	3	7
Total	**67**	**42**

10. FINANCE COSTS

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Interest expense on borrowings net of amounts capitalised	203	109
Unwinding of discount on provisions	23	19
Total	**226**	**128**

US Dollars million

11. PROPERTY, PLANT AND EQUIPMENT

	Mining assets and mine development cost	Non-mining assets	Non-mining capital construction in progress	Total
Cost				
Balance at 1 January 2016	**4,875**	**4,304**	**1,308**	**10,487**
Additions	557	–	255	**812**
Transfers	–	244	(244)	**–**
Change in decommissioning obligations	–	2	–	**2**
Reclassified between groups	(8)	(4)	12	**–**
Disposals	(31)	(63)	(20)	**(114)**
Effect of translation to presentation currency	696	545	173	**1,414**
Balance at 30 June 2016	**6,089**	**5,028**	**1,484**	**12,601**
Accumulated depreciation and impairment				
Balance at 1 January 2016	**(1,518)**	**(2,333)**	**(244)**	**(4,095)**
Charge for the period	(97)	(147)	–	**(244)**
Reclassified between groups	(9)	9	–	**–**
Disposals	27	50	14	**91**
(Impairment)/reversal of impairment loss	2	(7)	2	**(3)**
Effect of translation to presentation currency	(204)	(303)	(26)	**(533)**
Balance at 30 June 2016	**(1,799)**	**(2,731)**	**(254)**	**(4,784)**
Carrying value				
At 1 January 2016	**3,357**	**1,971**	**1,064**	**6,392**
At 30 June 2016	**4,290**	**2,297**	**1,230**	**7,817**

At 30 June 2016 capital construction-in-progress included USD 59 million of irrevocable letters of credit opened for fixed assets purchases (31 December 2015: USD 107 million), representing security deposits placed in banks at the end of the period.

Capitalised borrowing costs for the six months ended 30 June 2016 amounted to USD 88 million (for the six months ended 30 June 2015 amounted to USD 69 million). Capitalisation rate used to determine the amount of borrowing costs equals to 6.51% per annum (30 June 2015: 5.08%).

At 30 June 2016 mining assets and mine development cost included USD 2,683 million of mining assets under development (31 December 2015: USD 2,026 million).

12. INVESTMENT PROPERTY

Investment property in the amount of USD 91 million is recognised in the interim condensed consolidated statement of financial position at historical cost less accumulated depreciation (31 December 2015: USD 83 million). Carrying value of investment property approximates its fair value.

US Dollars million

13. OTHER FINANCIAL ASSETS

	At 30 June 2016	At 31 December 2015
Non-current		
Available-for-sale investments (note 19)	160	–
Loans issued and other receivables	90	57
Bank deposits	4	5
Total non-current	**254**	**62**
Current		
Bank deposits	54	–
Loans issued and other receivables	3	1
Derivative financial instruments	1	–
Total current	**58**	**1**

Bank deposits

At 30 June 2016 the Group had short-term EUR-denominated deposits in the amount of USD 42 million. Interest rate on short-term EUR-denominated deposits held in banks was 1.65% per annum. At 31 December 2015 the Group did not have short-term EUR-denominated deposits held in banks.

At 30 June 2016 the Group had short-term deposits denominated in other currencies in the amount of USD 12 million. Interest rate on short-term deposits denominated in other currencies held in banks varied from 1.10% to 3.00% per annum. At 31 December 2015 the Group did not have short-term deposits denominated in other currencies held in banks.

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

14. INVENTORIES

	At 30 June 2016	At 31 December 2015
Refined metals	488	541
Work-in-process	779	663
Total metal inventories	**1,267**	**1,204**
Materials and supplies	682	520
Less: Allowance for obsolete and slow-moving items	(28)	(26)
Net materials and supplies	**654**	**494**
Inventories	**1,921**	**1,698**

15. CASH AND CASH EQUIVALENTS

	At 30 June 2016	At 31 December 2015
Current accounts		
- foreign currencies	545	525
- RUB	62	43
Bank deposits		
- foreign currencies	2,198	2,598
- RUB	587	879
Other cash and cash equivalents	22	9
Total	**3,414**	**4,054**

US Dollars million

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

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

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

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

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

During the year ended 31 December 2015, management of the Group made a decision to reclassify certain other non-core assets located in the Russian Federation from assets classified as held for sale to investment property (refer to note 12) or to the assets classified as held for use. Reclassification did not have significant effect on current and previous period operations of the Group.

Management of the Group is actively searching for buyers for all of the assets classified as held for sale and expects that disposals will be completed during the next twelve months. Disposal of these assets is consistent with the Group's long-term strategy.

All of the above assets have been measured at the lower of their fair values less costs to sell and their carrying values. The Group has assessed fair value of assets classified as held for sale at 30 June 2016 and 31 December 2015 based on price offers available.

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

At 30 June 2016 and 31 December 2015 aggregate net assets included:

	At 30 June 2016	At 31 December 2015
Property, plant and equipment	8	7
Investments in associates	156	154
Deferred tax assets	10	10
Trade and other receivables	1	3
Other financial assets	–	1
Cash and cash equivalents	43	42
Total assets	**218**	**217**
Provisions	(1)	–
Deferred tax liabilities	–	(1)
Employee benefit obligations	(3)	(1)
Loans and borrowings	(22)	(21)
Trade and other payables	(1)	(1)
Total liabilities	**(27)**	**(24)**
Net assets	**191**	**193**

Disposal of Nordavia during the six months ended 30 June 2016

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

Disposal of Western Australian assets during the six months ended 30 June 2016

In 2014 the Group sold goldfields assets North Eastern Goldfields Operations ("NEGO"), nickel assets Black Swan, Silver Swan, Lake Johnston Nickel Project, Avalon and Cawse, located in Western Australia. During the six months ended 30 June 2016, the Group received deferred consideration in the amount of USD 2 million related to NEGO. During the six months ended 30 June 2016, the Group sold certain royalty rights related to previously disposed assets in Western Australia, for USD 7 million.

US Dollars million

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

Disposal of Tati Nickel Mining Company during the six months ended 30 June 2015

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

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

17. SHARE CAPITAL

Authorised and issued ordinary shares

	2016	2015
At 1 January	**156,995,401**	**158,245,476**
Acquisition of own shares from shareholders	–	(10,443)
At 30 June	**156,995,401**	**158,235,033**

During the period from 1 July to 31 December 2015, the Group additionally acquired 1,239,632 ordinary shares for a cash consideration of USD 194 million. At 31 December 2015 the Group had 1,250,075 treasury shares amounting to USD 196 million.

During the six months ended 30 June 2016, the Group entered into agreement to sell 1,250,075 treasury shares to the non-controlling shareholder, Crispian Investments Limited, for a cash consideration in the amount of USD 158 million, which was partly prepaid as at 30 June 2016 as presented in the interim condensed consolidated cash flow statement. The sale is expected to be closed by the end of the year.

Weighted average number of shares in issue

Weighted average number of shares used in the calculation of basic and diluted earnings per share for the six months ended 30 June 2016 was 156,995,401 shares (for the six months ended 30 June 2015: 158,245,418).

Dividends declared and paid

On 10 June 2016 the Annual General shareholders’ meeting declared dividends for the year ended 31 December 2015 in the amount of RUB 230.14 (USD 3.61) per share for the total amount of USD 571 million (including USD 4 million in respect of treasury shares) which were paid to the shareholders in July 2016.

On 19 December 2015, the Extraordinary General shareholders’ meeting declared interim dividends in respect of the 9 months ended 30 September 2015 in the amount of RUB 321.95 (USD 4.51) per share for the total amount of USD 714 million (including USD 6 million in respect of treasury shares).

Dividends in respect of 9 months ended 30 September 2015 were paid to the shareholders in January 2016 in the amount of USD 665 million recognised in the interim condensed consolidated cash flow statement using prevailing RUB/USD rates on the payment dates.

US Dollars million

17. SHARE CAPITAL (CONTINUED)

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

18. LOANS AND BORROWINGS

	Currency	Fixed or floating interest rate	Average nominal rate during the six months ended 30 June 2016, %	Maturity	At 30 June 2016	At 31 December 2015
Unsecured loans	USD	floating	**3.08%**	**2018-2025**	3,268	3,404
	RUB	fixed	**12.52%**	**2019-2021**	1,877	1,655
Secured loans	USD	floating	**7.05%**	**2024**	20	-
Total loans					**5,165**	**5,059**
Corporate Bonds	USD	fixed	**5.62%**	**2018-2022**	2,715	2,717
	RUB	fixed	**11.60%**	**2026**	233	480
					2,948	**3,197**
Finance leasing	EUR	floating	**10.50%**	**2025**	15	-
	USD	fixed	**4.20%**	**2019**	9	10
					24	**10**
Total					**8,137**	**8,266**
Less: current portion due within twelve months and presented as short-term loans and borrowings					(664)	(1,124)
Long-term loans and borrowings					**7,473**	**7,142**

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

19. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties are considered to include major shareholders, associates and entities under ownership and control of the Group's major shareholders and key management personnel. The Group defines major shareholders as shareholders, which have significant influence over the Group activities. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Details of transactions between the Group and related parties are disclosed below.

	Sale of goods and services		Purchase of goods and services	
Transactions with related parties	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Entities under ownership and control of the Group's major shareholders	6	1	15	9
Associates of the Group	1	1	91	163
Total	**7**	**2**	**106**	**172**

US Dollars million

19. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES (CONTINUED)

Outstanding balances with related parties	Accounts receivable and cash		Accounts payable, loans and borrowings received	
	At 30 June 2016	At 31 December 2015	At 30 June 2016	At 31 December 2015
Entities under ownership and control of the Group's major shareholders	1	–	4	–
Associates of the Group	8	2	41	25
Total	**9**	**2**	**45**	**25**

During the six months ended 30 June 2016, the Group purchased from a related party an interest in a company which owns various real estate properties for a cash consideration of USD 150 million. At 30 June 2016 these investments have been classified as available-for-sale investments in the amount of USD 150 million (refer to note 13).

20. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 June 2016, contractual capital commitments amounted to USD 1,385 million (31 December 2015: USD 798 million).

Operating leases

The land plots in the Russian Federation where the Group's production facilities are located are owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2064. According to the terms of lease agreements the rent rate is revised annually subject to the decision of the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities.

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

	At 30 June 2016	At 31 December 2015
Due within one year	30	31
From one to five years	114	128
Thereafter	82	79
Total	**226**	**238**

At 30 June 2016, twelve aircraft lease agreements (31 December 2015: nine) were in effect. The lease agreements have an average life of five (31 December 2015: eight) years with a renewal option at the end of the term and place no restrictions upon lessees by entering into these agreements.

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

	At 30 June 2016	At 31 December 2015
Due within one year	41	37
From one to five years	88	89
Thereafter	–	–
Total	**129**	**126**

20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

At 30 June 2016 the Group has unresolved legal disputes with the state authorities due to non-approval of the reduction of the negative environmental impact charge in relation to the environmental protection expenditure incurred by the Group. Management believes that the Group complied with all relevant regulations to be eligible for the reduction and that no provision for these disputes is required. Additionally, the Group is involved in other legal disputes in the ordinary course of its operations, with the probability of their unfavorable resolution being assessed as possible. At 30 June 2016, total sum of respective unresolved legal claims amounted to approximately USD 52 million (31 December 2015: USD 53 million).

Taxation contingencies in the Russian Federation

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

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

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

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

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

Environmental matters

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

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

20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Russian Federation risk

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

The recent 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 has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign investment inflows and a significant tightening in the availability of credit. Management assesses the recent changes in the Russian business environment did not significantly affect the operations, financial results and the financial position of the Group.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that the carrying value of financial instruments such as cash and cash equivalents (refer to note 15), short-term accounts receivable and payable, approximate their fair value.

Certain financial instruments such as long-term accounts receivable, long-term available–for-sale investments, finance leases obligations were excluded from fair value analysis either due to their insignificance or due to the fact that assets were acquired or liabilities assumed close to the reporting dates and management believes that their carrying value either approximates their fair value or may not significantly differ from each other.

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

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

At 30 June 2016, the Group had derivative financial instruments amounting to USD 3 million (31 December 2015: USD 2 million) recognised within Level 2.

US Dollars million

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	At 30 June 2016		At 31 December 2015	
	Carrying value	Fair value Level 1	Carrying value	Fair value Level 1
Fixed-rate corporate bonds	2,948	3,143	3,197	3,210
Total	**2,948**	**3,143**	**3,197**	**3,210**

	At 30 June 2016		At 31 December 2015	
	Carrying value	Fair value Level 2	Carrying value	Fair value Level 2
Loans and borrowings, including:				
Variable-rate loans and borrowings	3,288	3,300	3,404	3,339
Fixed-rate loans and borrowings	1,877	1,942	1,655	1,722
Total	**5,165**	**5,242**	**5,059**	**5,061**

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

- the fair value of corporate bonds was determined based on market quotations existing at the reporting dates;
- the fair value of variable-rate and fixed-rate loans and borrowings at 30 June 2016 was calculated based on the present value of future cash flows (principal and interest), discounted at the best management estimation of market rates, taking into consideration currency of the loan, expected maturity and risks attributable to the Group existing at the reporting date. The weighted average discount rate was 2.95% for USD-denominated loans and borrowings (31 December 2015: 4.28%) and 11.60% for RUB-denominated loans (31 December 2015: 11.60%).

22. EVENTS SUBSEQUENT TO THE REPORTING DATE

In July and August 2016 the Group has entered into amendment agreements to the outstanding credit lines with JSC ING BANK (EURASIA), JSC Nordea Bank and UniCredit Bank Austria AG in the total amount of USD 570 million. According to the terms of executed amendment agreements, interest rates were decreased and maturities were extended till 2021 with bullet repayment.

In December 2015 the Group has entered into binding agreements with Highland Fund ("Investor") to sell 13.33% share in Bystrinskoye project for USD 100 million. The payment was received in July 2016 after necessary regulatory approvals had been granted.