

# Financial Overview



## FY2015 Highlights



**The world's best portfolio of Tier 1 mining assets, management focus on stringent investment governance discipline, cost controls and efficiency improvements provided a solid base for robust financial performance amidst weak commodity markets.**

Consolidated revenue decreased 28% y-o-y to USD 8.5 billion, impacted by lower metal prices, divestiture of international assets and one-off logistical and operational preparations for the shutdown of the nickel plant in Norilsk planned for 2016.

EBITDA was down 24% y-o-y to USD 4.3 billion, driven mainly by lower revenue.

EBITDA margin expanded from 48% to an industry-leading 50% on the back of a 26% decrease in cash operating costs, a 40% decline in SG&A expenses and the Company's exit from international mining assets.

Net profit decreased 14% y-o-y to USD 1.7 billion, while net profit adjusted for non-cash items reached USD 3.2 billion.

CAPEX increased 27% y-o-y to USD 1.7 billion driven by the execution of the downstream reconfiguration programme, accelerated development of the Skalisty underground mine, and the Bystrinsky (Chita) project having entered into an active construction phase. All major investment projects were on time and on budget.

Net working capital was down 6% y-o-y to USD 1 billion despite a material increase in saleable metals inventories and other one-off factors.

Free cash flow decreased 49% y-o-y to USD 2.4 billion, owing to lower EBITDA, slower rate of working capital release and increased CAPEX.

A strong balance sheet was maintained with Net Debt / EBITDA ratio at 1.0x as at December 31, 2015. Solid financial standing of Norilsk Nickel is confirmed by investment grade credit ratings from Standard & Poor's and Fitch credit rating agencies.

Dividends distributed to shareholders in 2015 amounted to USD 18 per share, delivering an industry-leading dividend yield.

Exit from non-core assets is on track. In 2015, the Company closed the sale of its minority stake in Inter RAO for USD 204 million and completed the sale of Tati Nickel, with the sale of the Nkomati mine expected to close by the end of 2016.

In line with the strategy of de-risking the greenfield Bystrinsky project, the Group has entered into a binding agreement to sell a 13% stake to a consortium of Chinese investors for USD 100 million. The sale is subject to regulatory approvals, and its completion is expected in Q2 2016.



## RECENT DEVELOPMENTS

In January 2016, the Group opened a 5-year fully unsecured syndicated USD 730 million revolving credit line with a consortium of Chinese banks and received a USD 100 million loan from ING Bank.

In February 2016, the Group redeemed its rouble bonds in the amount of around USD 499 million and completed placement of a new 10-year rouble bond issue in the amount of USD 199 million.



## Key Corporate Highlights

### USD M (UNLESS STATED OTHERWISE)

	2015	2014	CHANGE, %
Revenue	8,542	11,869	-28
EBITDA <sup>1</sup>	4,296	5,681	-24
EBITDA margin, %	50	48	2 p. p.
Net profit before impairment charges and foreign exchange losses <sup>1</sup>	3,167	3,968	-20
Net profit	1,716	2,000	-14
Capital expenditures	1,654	1,298	27
Free cash flow <sup>2</sup>	2,405	4,725	-49
Net working capital <sup>1,3</sup>	1,030	1,087 <sup>3</sup>	-5
Net debt <sup>2,3</sup>	4,212	3,537 <sup>3</sup>	19
Net debt /12M EBITDA	1.0x	0.6x	
Dividend per share (USD)	18.10	20.74	-13
ROIC <sup>2</sup>	35 %	29 %	6 p. p.

<sup>1</sup> A non-IFRS figure, for the calculation see the notes below.

<sup>2</sup> A non-IFRS figure, for the calculation see an analytical review document ("Data book") together with Consolidated IFRS Financial Results available on the Company's web site.

<sup>3</sup> Reported as of December 31, 2015 and December 31, 2014, respectively.

## Financial Overview

## Key Segmental Highlights

USD M

	2015	2014	CHANGE, %
<b>REVENUE</b>	<b>8,542</b>	<b>11,869</b>	<b>-28</b>
Polar Division	6,590	8,937	-26
Kola MMC	773	1,100	-30
NN Harjavalta	757	986	-23
Other metallurgical assets	30	154	-81
Other non- metallurgical assets	1,182	1,997	-41
Inter-company eliminations	-790	-1,305	-39
<b>EBITDA</b>	<b>4,296</b>	<b>5,681</b>	<b>-24</b>
Polar Division	4,429	5,625	-21
Kola MMC	257	346	-26
NN Harjavalta	72	70	3
Other metallurgical assets	-12	-61	-80
Other non- metallurgical assets	-64	78	-182
Corporate expenses	-386	-377	2
<b>EBITDA MARGIN, %</b>	<b>50</b>	<b>48</b>	<b>2 p. p.</b>
Polar Division	67	63	4 p. p.
Kola MMC	33	31	2 p. p.
NN Harjavalta	10	7	3 p. p.
Other metallurgical assets	-40	-40	-
Other non- metallurgical assets	-5	4	-9 p. p.

- In 2015, EBITDA of Polar Division decreased by 21% y-o-y and EBITDA of Kola MMC was down 26% y-o-y, to USD 4,429 million and USD 257 million, respectively. The decline was primarily driven by lower metal prices, partly offset by the decrease in cash costs and selling expenses driven by the depreciation of Russian rouble and cancellation of export duties on nickel and copper.
- EBITDA of NN Harjavalta remained stable y-o-y and demonstrated a slight increase by 3% to USD 72 million.
- Negative EBITDA of the other metallurgical assets reduced by 80% in 2015 following the sale of Tati Nickel in April 2015.
- EBITDA of the other non-metallurgical assets decreased by USD 142 million in 2015 primarily due to the lower profits of the Company's sales and distribution arms on the back of decline in metal prices as well as reduced revenue in USD terms from Russian non-core operations due to weakening of Russian rouble.

EBITDA margin expanded to

50%

EBITDA margin expanded to

245<sub>kt</sub>

# Metal Sales Volume by Origin, Consolidated Revenue and Realized Prices

PRODUCT GROUP	2015	2014	CHANGE, %
<b>FINISHED PRODUCTS</b>	<b>8,542</b>	<b>11,869</b>	<b>-28</b>
<b>Russian operations</b>			
Nickel, '000 t	197	228	-14
Copper, '000 t	343	356	-4
Palladium, '000 oz t	2,464	2,667	-8
Platinum, '000 oz t	590	629	-6
<b>Finland</b>			
Nickel, '000 t	43	42	2
<b>SEMI-PRODUCTS</b>			
<b>Finland</b>			
Copper cake, copper, '000 t <sup>1</sup>	13	11	18
<b>Botswana</b>			
Nickel concentrate, nickel, '000 t <sup>1</sup>	1	3	-67
Nickel concentrate, copper, '000 t <sup>1</sup>	1	2	-50
<b>South Africa</b>			
Nickel concentrate, nickel, '000 t <sup>1</sup>	4	-	100
Nickel concentrate, copper, '000 t <sup>1</sup>	2	-	100
<b>METAL SALES, PHYSICAL VOLUMES</b>			
<b>Group, excluding South Africa<sup>2,3</sup></b>			
Nickel, '000 t	240	270	-11
Copper, '000 t	343	356	-4
Palladium, '000 oz t	2,464	2,667	-8
Platinum, '000 oz t	590	629	-6
Gold, '000 oz t	93	136	-32
Rhodium, '000 oz t	84	91	-8
Cobalt, '000 t	5	6	-17
Silver, '000 oz t	1,915	2,281	-16
Semi-products, nickel, '000 t <sup>1</sup>	5	3	67
Semi-products, copper, '000 t <sup>1</sup>	16	13	23
Semi-products, palladium, '000 oz t <sup>1</sup>	100	78	28
Semi-products, platinum, '000 oz t <sup>1</sup>	39	31	26
Semi-products, gold, '000 oz t <sup>1</sup>	9	7	29
Semi-products, silver, '000 oz t <sup>1</sup>	142	116	22

<sup>1</sup>Volumes are stated in respect of metal content in semi-product.

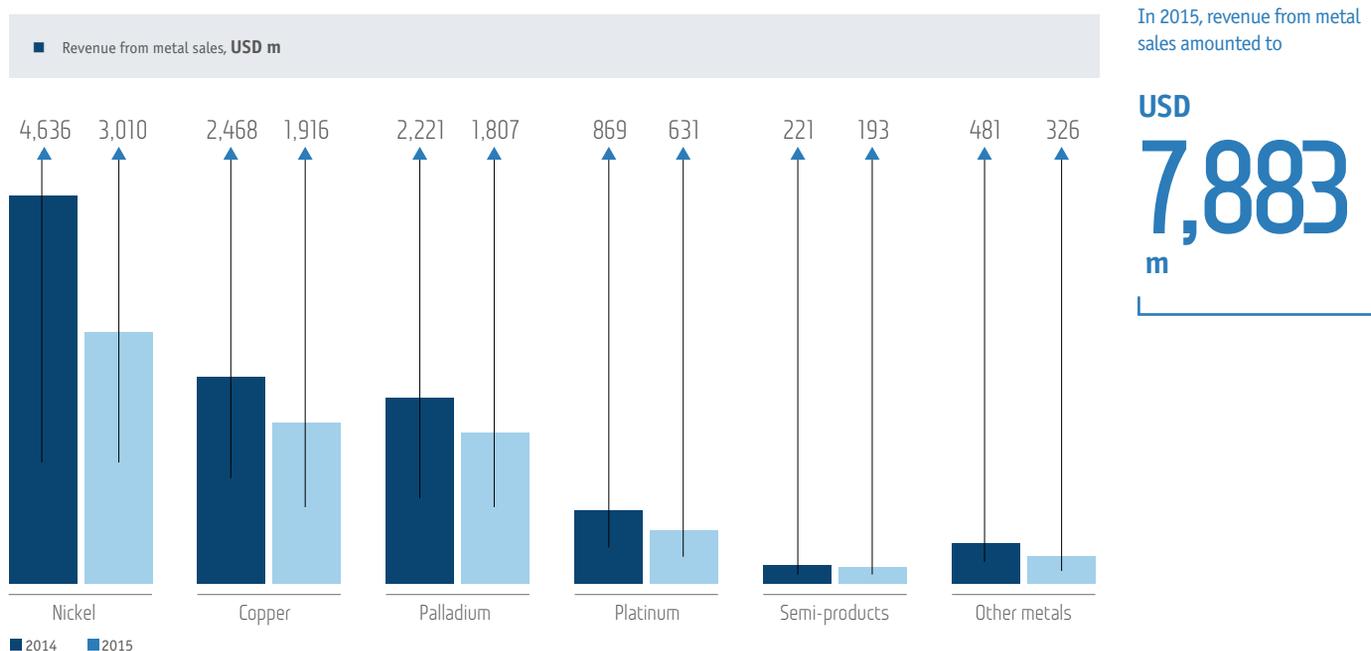
<sup>2</sup>The operating results of Nkomati Nickel Mine (South Africa) are shown in the financial statements based on Group's 50% ownership and are reported as operating results of associates.

<sup>3</sup>All information is reported on the basis of 100% ownership of subsidiaries, excluding sales of metals purchased from third parties.

## Financial Overview

## Revenue from sales

	2015	2014	CHANGE, %
<b>Average realised prices of metals produced by Norilsk Nickel in Russia from its own feed</b>			
Nickel, USD/t	11,962	17,072	-30
Copper, USD/t	5,585	6,931	-19
Palladium, USD/oz t	695	804	-14
Platinum, USD/oz t	1,057	1,388	-24
Cobalt, USD/t	26,291	30,040	-12
Gold, USD/oz t	1,162	1,266	-8
Rhodium, USD/oz t	884	1,139	-22
<b>Consolidated Revenue (USD m)</b>			
Nickel	3,010	4,636	-35
Copper	1,916	2,468	-22
Palladium	1,807	2,221	-19
Platinum	631	869	-27
Semi-products	193	221	-13
Other metals	326	481	-32
<b>Revenue from metal sales, USD m</b>	<b>7,883</b>	<b>10,896</b>	<b>-28</b>
Revenue from other sales	659	973	-32
<b>TOTAL REVENUE, USD MILLION</b>	<b>8,542</b>	<b>11,869</b>	<b>-28</b>





## NICKEL

Nickel remained the largest contributor to the Company's revenue comprising a 38% of total metal sales in 2015 down from 43% in 2014 as nickel price fell the most within the Company's commodity basket and so did the sales of the physical metal owing to the one-off allocation of saleable metal into metal reserves.

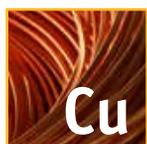
In 2015, the nickel revenue decreased by 35% y-o-y (or USD 1,626 million) to USD 3,010 million primarily due to lower nickel price (-USD 1,325 million) and decrease in nickel sales volumes (-USD 372 million). Additional revenue of USD 71 million came from the sale of nickel purchased from third parties to meet contractual obligations with strategic customers.

The average realized nickel price of metal produced in Russia from own feed decreased by 30% y-o-y from USD 17,072 per tonne to USD 11,962 per tonne.

Sales volume of nickel produced by Norilsk Nickel in Russia from own feed decreased 12% y-o-y (or 27 thousand tons) from 222 thousand tons to 195 thousand tons. The decrease in sales volumes was driven by lower production (-3 thousand tons) and accumulation of temporary metal stock to smooth out the transition to the new configuration of smelting and refining capacities (shutdown of Nickel Plant, increased shipments of nickel matte for processing to Kola MMC and to Harjavalta in Finland) scheduled in 2016, which is expected to result in a one-off increase in work-in-progress in transit and lower output of saleable metals.

The amount of nickel sales from purchased semi-products was down by 4 thousand tons following the reduction of low-margin tolling operations at Kola MMC.

Sales volume of nickel produced by Norilsk Nickel Harjavalta increased by 2% y-o-y to 43 thousand tons in 2015 driven by a marginal increase of third party nickel concentrate processing under tolling arrangements and processing of Russian feed.



## COPPER

In 2015, copper sales accounted for 24% of the Company's total metal sales, down 22% y-o-y (or USD 552 million) from USD 2,468 million to USD 1,916 million primarily due to the lower average realized copper price (-USD 477 million) and decrease in sales volumes (-USD 75 million).

The average realized copper price was down 19% y-o-y from USD 6,931 to USD 5,585 per tonne.

Physical volume of copper sales from Russian feed decreased by 7 thousand tons to 340 thousand tons in 2015, while the copper production was up 2% that year. The decrease in sales volumes was driven primarily by the one-off allocation of saleable metal into metal reserves, created to smooth out the transition to the new configuration of smelting and refining capacities (shutdown of Nickel Plant, increased shipments of nickel matte for processing to Kola MMC and to Harjavalta in Finland) scheduled in 2016, which is expected to result in a one-off increase in work-in-progress in transit and lower output of saleable metals.

Sales of copper produced from third party materials declined by 6 thousand tons from 9 thousand to 3 thousand tons in 2015. This was primarily driven by reduction of low-margin tolling operations at Kola MMC.

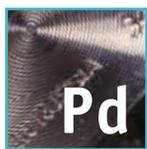
In 2015, physical volume of copper sales from Russian feed amounted to

**340** kt

In 2015, physical volume of nickel sales from Russian feed amounted to

**195** kt

## Financial Overview



### PALLADIUM

In 2015, palladium sales accounted for 23% of the Group's total metal revenue. The Group's palladium revenue decreased by 19% (or by USD 414 million) from USD 2,221 million to USD 1,807 million in 2015. This was driven by both the decrease in palladium sales volumes (-USD 141 million) and lower realized palladium price (-USD 289 million). Additional USD 95 million of palladium revenue in 2015 came from the re-sale of metal purchased in the open market to fulfil the Company's contractual obligations comparing to USD 79 million in 2014.

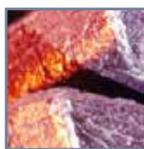
Sales of palladium produced in Russia from own feedstock decreased by 19% y-o-y from USD 2,084 m to USD 1,691 m. The decline was driven by both lower realised palladium price (down 14% y-o-y) from USD 804 per troy ounce in 2014 to USD 695 per troy ounce in 2015 and reduced sales volumes of palladium (down 6% y-o-y) in 2015 primarily by the one-off allocation of saleable metal into metal reserves.



### PLATINUM

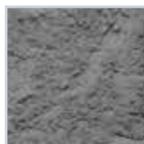
In 2015, platinum sales accounted for 8% of the Group's total metal sales. The platinum revenue reduced by 27% y-o-y (USD 238 million) from USD 869 million in 2014 to USD 631 million in 2015 primarily due to the reduction of platinum sales volume (by USD 41 million) and the platinum price (by USD 205 million). In 2015, in order to fulfil contractual obligations, the Company realized platinum purchased from third parties for a consideration of USD 8 million.

The revenue from platinum produced in Russia from own feedstock decreased 26% y-o-y from USD 827 m to USD 609 m in 2015. The reduction was driven by a 24% y-o-y decline in the average realised platinum selling price (from USD 1,388 per troy ounce in 2014 to USD 1,057 per troy ounce in 2015) as well as the one-off allocation of saleable metal into metals reserve (for details see above).



### OTHER METALS

The revenue from other metals was down 32% y-o-y (or by USD 155 million) to USD 326 million due to the decline in revenue from sale of gold (-38%), cobalt (-28%), rhodium (-27%) and silver (-30%) driven lower physical volumes (USD 77 million) and realized price (USD 78 million).



### SEMI-PRODUCTS

In 2015, the revenue from the sales of semi-products (copper cake and nickel concentrate) decreased by 13% y-o-y (or USD 28 million) to USD 193 million, and accounted for 2% of the Group's total metal sales revenue. The decrease was mainly driven by lower realized prices and the divestiture of Tati Nickel.

### OTHER SALES

In 2015, the revenue from other sales decreased by 32% y-o-y to USD 659 million mainly due to Russian rouble depreciation against US dollar (a negative impact of USD 325 million) as major part of these operations are nominated in Russian roubles.

The decrease of other sales was additionally driven by lower sales in non-core operations, of which largest negative factor was a USD 36 million reduction in revenue from fuel and gas condensate sales on the back of lower market prices.

Europe's share in  
metal revenue

59%

Asia's share in  
metal revenue

27%

# Cost of Metal Sales

## COST OF METALS SALES

In 2015, the cost of metal sales decreased 34% y-o-y (or USD 1,626 million) to USD 3,179 million owing to:

- reduction of cash operating costs by USD 1,056 million (or 26% y-o-y);
- decrease in depreciation charges by USD 222 million (or 32% y-o-y);
- comparative effect of change in metal inventories by USD 348 million.

## CASH OPERATING COSTS

In 2015, total cash operating costs decreased 26% y-o-y (or USD 1,056 million) to USD 3,011 million owing to:

- the effect of Russian rouble depreciation against US dollar (cost reduction impact of USD 1,109 million);
- decrease in the costs of metals for resale, raw materials and semi-products (reduction by USD 111 million).

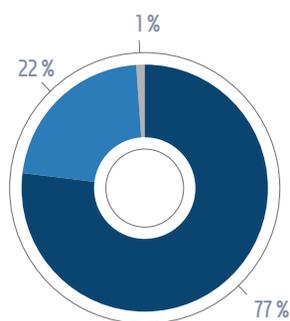
The cost reduction was negatively offset by:

- increase of cash operation costs in local currency due to inflation (USD 131 million);
- increase of other expenses (USD 33 million).

The allocation of cash operating cost between main productions units in 2015 was as follows:

- Russia - 77%;
- Finland (NN Harjavalta) - 22%;
- Norilsk Nickel International - 1%.

- The allocation of cash operating cost between main productions units in 2015 was as follows:



■ Russia  
■ Finland (NN Harjavalta)  
■ Norilsk Nickel International

USD million  
2,320  
827  
32

## COST OF METALS SALES

■ Cost of metals sales, USD million

	2015	2014	CHANGE, %
<b>Cash operating costs</b>	<b>3,011</b>	<b>4,067</b>	<b>-26</b>
Labour	1,131	1,536	-26
Metals for resale, raw materials and semi-products	718	829	-13
Materials and supplies	450	537	-16
Third-party services	186	403	-54
Mineral extraction tax and other levies	117	194	-40
Electricity and heat energy	131	191	-31
Fuel	66	128	-48
Transportation expenses	75	87	-14
Sundry costs	137	162	-15
<b>Amortisation and depreciation</b>	<b>476</b>	<b>698</b>	<b>-32</b>
<b>Decrease/(increase) in metal inventories</b>	<b>-308</b>	<b>40</b>	<b>-9x</b>
<b>Total cost of metal sales, including:</b>	<b>3,179</b>	<b>4,805</b>	<b>-34</b>
Russian operations	2,320	4,120	-44
NN Harjavalta	827	485	71
NN International	32	200	-84

## CASH OPERATING COSTS

### LABOUR

The share of labour costs remained unchanged at 38% of the Group's total cash operating costs. In 2015, labour costs amounted to of USD 1,131 million decreasing 26% y-o-y (USD 405 million) driven by a:

- USD 559 million reduction owing to the Russian rouble depreciation against US dollar; and partly offset by a:
- USD 154 million increase owing to indexation of RUB-denominated wages and salaries of production employees in Russia (USD 97 million) as well by the growth in the headcount by 2%.

## Financial Overview

### Purchases of metals for resale and semi-products

Expenses on the acquisition of metals for resale and semi-products for processing decreased by 13% y-o-y (USD 111 million) to USD 718 million in 2015 mainly due to:

- lower metal prices and changes in the structure of the purchased raw materials (reduction by USD 258 million);
- higher volume of raw materials purchased from third parties for refining at NN Harjavalta and BCL (increase by USD 59 million);
- USD 88 million increase in metals purchased for resale driven primarily by allocation of saleable metal into metal reserves to smooth out the transition to new downstream configuration in 2016.

### Materials and supplies

Materials and supplies expenses decreased 16% y-o-y (USD 87 million) to USD 450 million driven by the following:

- USD 196 million decrease due to Russian rouble depreciation against US Dollar;
- USD 109 million cash costs increase at Russian operations, mainly due to the price inflation (USD 32 million) and increase in expenses related to the modernization of Nadezhda metallurgical plant (purchases of spare parts for hydrometallurgy equipment) as well as purchase of spare parts for mining equipment.

### Outsourced third party services

In 2015, the cash costs of third party services decreased 54% y-o-y (USD 217 million) to USD 186 million driven by the following:

- USD 110 million decrease due to the Russian rouble depreciation against US Dollar;
- USD 79 million decrease due to the divestiture of Tati Nickel in April 2015;
- USD 37 million decrease of expenses related to tolling services following the termination of concentrate processing contract with Boliden on July 1, 2015;
- USD 9 million increase in expenses related to other services.

### Mineral extraction tax and other levies

Mineral extraction tax and environmental levies decreased by 40% y-o-y (USD 77 million) to USD 117 million in 2015 as a result of:

- USD 71 million decrease due to depreciation of Russian rouble against US Dollar;
- USD 6 million decrease due to changes in tax legislation on mineral extraction tax rate (for natural gas by 4.7 times and for gas condensate by 1.2 times).

### Electricity and heat energy

In 2015, energy costs decreased by 31% y-o-y (USD 60 million) to USD 131 million primarily due to depreciation of Russian rouble against US Dollar (USD 54 million).

### Fuel expenses

Fuel expenses decreased by 48% y-o-y (USD 62 million) to USD 66 million in 2015 primarily driven by the following:

- USD 46 million decrease owing to the Russian rouble depreciation against US Dollar;
- USD 16 million decrease in fuel expense at Russian production assets, mainly due to the reduction in oil price.

### Transportation expenses

In 2015, transportation costs decreased 14% y-o-y (USD 12 million) to USD 75 million mainly driven by the depreciation of Russian rouble against US dollar.

### Sundry costs

In 2015, sundry costs decreased by 15% y-o-y (USD 25 million) to USD 137 million mainly driven by the depreciation of Russian rouble against US dollar.

### Amortisation and depreciation

In 2015, amortisation and depreciation of production assets decreased by 32% y-o-y (USD 222 million) to USD 476 million owing to the following factors:

In 2015, cost of metals sales decreased to

USD  
**3,179**  
m

Metal inventories and work-in-progress increased by

USD  
**308**  
m

due to creating metal reserves and accumulating of matte in transit

- USD 253 million reduction attributable to Russian rouble devaluation against US Dollar;
- USD 29 million increase of depreciation charges mainly due to increased additions of mining assets in 2014–2015 (USD 34 million), which was partly offset by the sale of Tati Nickel Mining Company in April 2015.

#### Increase of metal inventories

In 2015, the Company's refined metals and work-in-progress increased by USD 308 million, primarily due to the following:

- USD 297 million increase in refined metals owing to the one-off allocation of saleable metal into metal reserves, created to smooth out the transition to the new configuration of smelting and refining capacities (shutdown of Nickel Plant, increased shipments of nickel matte for processing to Kola MMC and to Harjavalta in Finland) scheduled in 2016, which is expected to result in a one-off increase in work-in-progress in transit and lower output of saleable metals;
- USD 11 million increase of work-in-progress materials, primarily due to:
  - USD 106 million growth in work-in-progress at Russian production assets, related to accumulation of matte in transit, caused by the ongoing reconfiguration of smelting and refining facilities;
  - USD 95 million decrease in semi-products stock mainly owing to its processing at Harjavalta nickel refinery.

#### COST OF OTHER SALES

In 2015, cost of other sales decreased by 32% y-o-y (USD 277 million) to USD 592 million due to the following factors:

- USD 321 million decrease owing to the Russian rouble depreciation against US Dollar;
- USD 44 million increase in costs, primarily due to the indexation of wages and salaries in Russia.

Gross profit margin of other sales in 2015 was unchanged at 10% (versus 11% in 2014).

#### SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by 59% y-o-y (USD 196 million) to USD 139 million in 2015 due to the following factors:

- USD 18 million decrease owing to the depreciation of Russian rouble against US dollar;
- USD 137 million decrease of export duties primarily driven by the cancellation of nickel and copper export duties in Russia from August 21, 2014.
- USD 51 million decrease in marketing and advertising expenses due to cost reduction related to global marketing campaigns.

#### ■ Selling and Distribution Expenses, USD m

	2015	2014	CHANGE, %
Export customs duties	88	225	-61
Labour	19	23	-17
Marketing	15	66	-77
Transportation expenses	8	15	-47
Other	9	6	50
<b>Total</b>	<b>139</b>	<b>335</b>	<b>-59</b>

Export customs duties decreased by

# 61%

due to cancellation of nickel and copper export duties in Russia

## Financial Overview

### GENERAL AND ADMINISTRATIVE EXPENSES, USD M

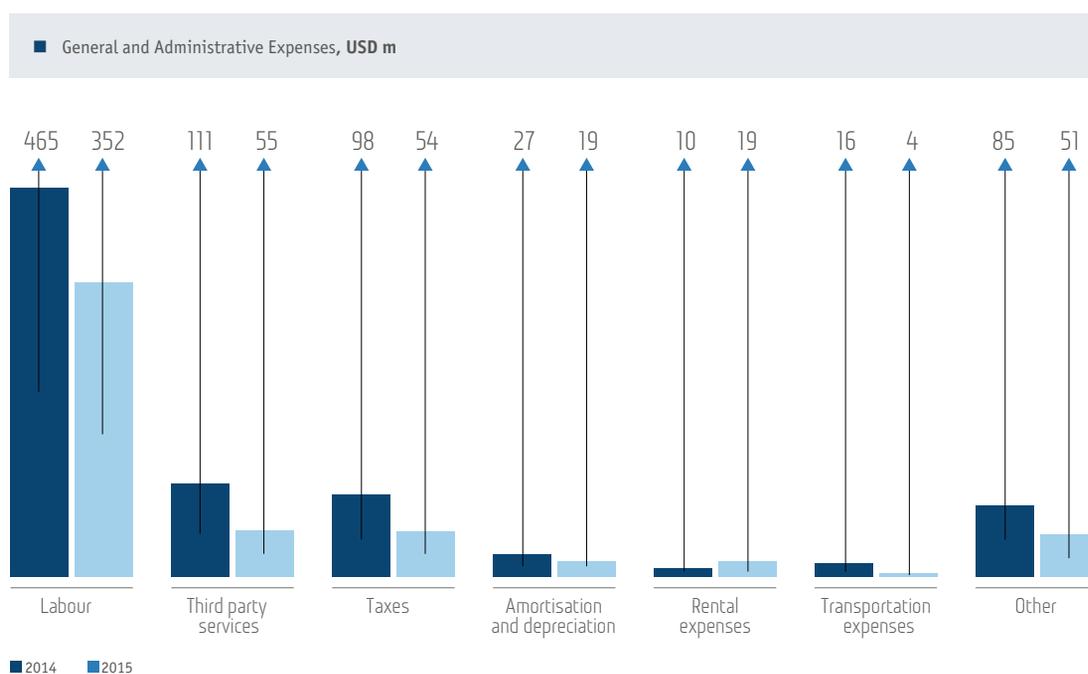
	2015	2014	CHANGE, %
Labour	352	465	-24
Third-party services	55	111	-50
Taxes other than mineral extraction tax and income tax	54	98	-45
Amortisation and depreciation	19	27	-30
Rental expenses	19	10	90
Transportation expenses	4	16	-75
Other	51	85	-40
<b>Total</b>	<b>554</b>	<b>812</b>	<b>-32</b>

In 2015, general and administrative expenses decreased 32% y-o-y (USD 258 million) to USD 554 million mostly driven by the Russian rouble depreciation effect of USD 266 million.

Labour costs decreased by 24% y-o-y (USD 113 million) to USD 352 million mainly as results of the Russian rouble depreciation against USD.

Rental expenses increased by USD 9 million in 2015 primarily due to the relocation of the Company's head office from its own premises to a leased building.

Taxes other than mineral extraction and income tax decreased by USD 44 million in 2015 owing to the Russian rouble depreciation against USD.



In 2015, general and administrative expenses decreased by

**32%** y-o-y

### FINANCE COSTS, USD M

	2015	2014	CHANGE, %
Interest expense on borrowings net of amounts capitalized	281	135	108
Unwinding of discount on environmental obligations	44	43	2
Other	1	1	-
<b>Total</b>	<b>326</b>	<b>179</b>	<b>82</b>

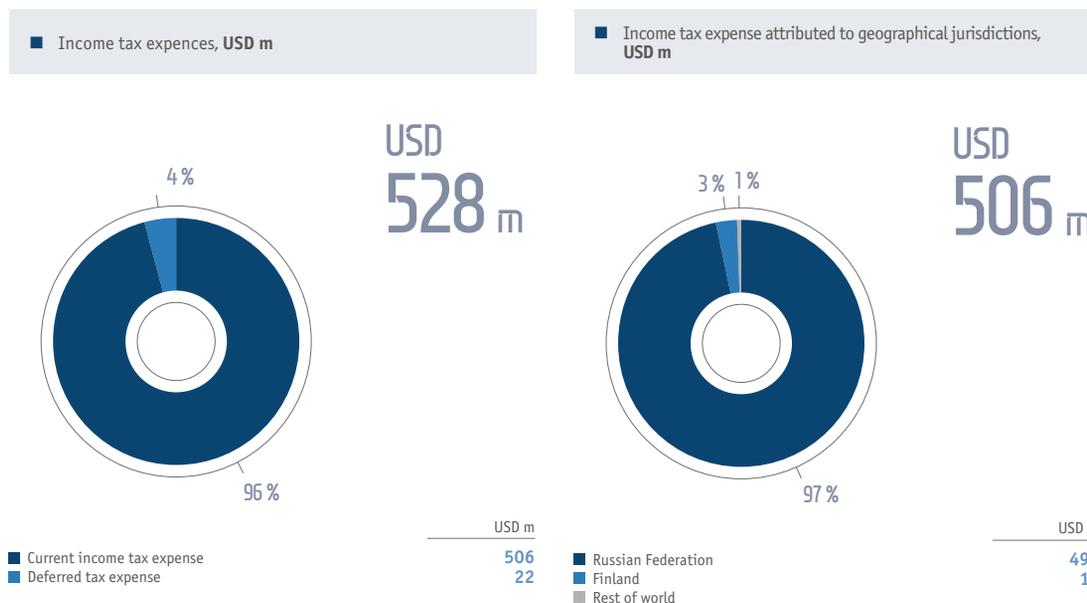
In 2015, increase in finance costs by 82% y-o-y to USD 326 million was mostly driven by higher interest expense on borrowings net of amounts capitalized due to new borrowings made by the Company in 2014–2015.

### INCOME TAX EXPENSE

In 2015, income tax expense decreased by 20% y-o-y to USD 528 million driven mostly by lower revenue, Russian rouble depreciation against US dollar and accumulated taxable loss on investments in shares of Inter RAO.

held-for-sale, allowance for deferred tax assets and effect of different tax rates of subsidiaries operating in other jurisdictions. These effects were partly offset by the utilization of previously unrecognized deferred tax asset.

The effective income tax rate in 2015 amounted to 24%, which was above the statutory tax rate of 20% in Russia. This was primarily driven by the cumulative effect of recognition of non-deductible loss from disposal of assets



## Financial Overview

## EBITDA

USD M

	2015	2014	CHANGE, %
<b>Operating profit</b>	<b>3,506</b>	<b>4,746</b>	<b>(26)</b>
Amortisation and depreciation	506	805	(37)
Impairment of PP&E	284	130	118
<b>EBITDA</b>	<b>4,296</b>	<b>5,681</b>	<b>(24)</b>
<b>EBITDA margin</b>	<b>50 %</b>	<b>48 %</b>	<b>2 p. p.</b>

In 2015, EBITDA decreased by 24% y-o-y (USD 1,385 million) to USD 4,296 million with EBITDA margin amounting to 50% (up from 48% in 2014). For a detailed analysis of EBITDA changes please see investor presentation (available on the Company's internet site).

## Net Profit before Impairment Charges and Foreign Exchange Losses Reconciliation

USD M

	2015	2014	CHANGE, %
<b>Net profit</b>	<b>1,716</b>	<b>2,000</b>	<b>-14</b>
Impairment of PP&E	284	130	118
Impairment of available for sale investments	–	244	-100
Foreign exchange loss	865	1,594	-46
Loss/(gain) from disposal of subsidiaries and assets classified as held for sale	302	213	42
<b>Net profit before impairment charges and foreign exchange losses</b>	<b>3,167</b>	<b>4,181</b>	<b>-24</b>

In 2015, EBITDA amounted to

USD  
**4.3** bn

In 2015, net profit adjusted for non-cash items reached

USD  
**3.2** bn

# Statement of Cash Flows

USD M

	2015	2014	CHANGE, %
<b>Cash generated from operations before changes in working capital and income tax</b>	<b>4,489</b>	<b>5,770</b>	<b>-22</b>
Movements in working capital	-112	1,002	-111
Income tax paid	-672	-825	-19
<b>Net cash generated from operating activities</b>	<b>3,705</b>	<b>5,947</b>	<b>-38</b>
Capital expenditure	-1,654	-1,298	27
Other investing activities	354	76	4x
<b>Net cash used in investing activities</b>	<b>-1,300</b>	<b>-1,222</b>	<b>-6</b>
<b>Net cash used in financing activities</b>	<b>-998</b>	<b>-2,979</b>	<b>-66</b>
Effects of foreign exchange differences on balances of cash and cash equivalents	-113	-578	-80
Other	-33	4	-9x
<b>Net increase in cash and cash equivalents</b>	<b>1,261</b>	<b>1,172</b>	<b>8</b>

In 2015, net cash generated from operating activities decreased 38% y-o-y to USD 3.7 billion owing to the following factors:

- USD 1,385 million EBITDA decrease driven primarily by lower realized metal prices;

- Accelerated reduction of working capital in 2014 by (USD 1 billion) as compared with a USD 112 million increase in working capital in 2015.

## Balance Sheet and Cash Flow Working Capital Reconciliation

USD M

	2015	2014
<b>Change of the net working capital in the balance sheet, less:</b>	<b>57</b>	<b>1,935</b>
Foreign exchange differences	-357	-859
Change in income tax payable	89	103
Changes of working capital within assets held for sale	12	-6
Non-cash changes, including reserves	87	171
<b>Change of working capital per cash flow</b>	<b>-112</b>	<b>1,002</b>

## Financial Overview

## CAPEX Breakdown by Project

USD M

	2015	2014	2013
Polar Division, including:	989	788	1,224
Skalisty mine	256	122	335
Taymirsky mine	72	68	59
Komsomolsky mine	45	73	56
Oktyabrsky mine	70	85	96
Talnakh enrichment plant	257	171	182
Nickel plant closure	61	25	26
Kola MMC	118	106	179
Chita copper project (Bystrinsky project)	131	89	140
Other production projects	384	288	425
Other non-production assets	4	6	2
Intangible assets	28	21	19
<b>Total</b>	<b>1,654</b>	<b>1,298</b>	<b>1,989</b>

CAPEX increased 27% y-o-y (USD 356 million) in 2015. The increase was driven mainly by the acceleration of Skalisty mine development schedule, ongoing reconstruction of Talnakh enrichment plant, the construction of the Bystrinsky project as well as the preparations for the shutdown of Nickel plant scheduled for 2016.

Total CAPEX amounted to

USD  
**1.7** bn

CAPEX for the main project of Polar division amounted to

USD  
**987** m

# Debt and Liquidity Management

USD M

	AS OF DECEMBER 31 2015	AS OF DECEMBER 31 2014	CHANGE, USD M	CHANGE, %
Long-term	7,142	5,678	1,464	26
Short-term	1,124	652	472	72
<b>Total debt</b>	<b>8,266</b>	<b>6,330</b>	<b>1,936</b>	<b>31</b>
Cash and cash equivalents	4,054	2,793	1,261	45
<b>Net debt</b>	<b>4,212</b>	<b>3,537</b>	<b>675</b>	<b>19</b>
Net debt/ 12M EBITDA	1.0x	0.6x	0.4x	

As of December 31, 2015, the Company's total debt increased 31% y-o-y (USD 1,936 million) to USD 8,266 million. Short-term debt increased by USD 472 million to USD 1,124 million, while long-term debt increased by USD 1,464 million to USD 7,142 million. As a result, the proportion of short-term debt in the total debt portfolio increased from 10% to 14% as of December 31, 2015.

Net debt increased 19% y-o-y (USD 675 million) to USD 4,212 million. Net debt/EBITDA ratio increased to 1.0x.

In 2015, the Company continued the debt portfolio optimization in line with the Group financial policy. In particular, the Company entered into a number of long-term financing agreements with local and international banks totaling approximately USD 1,650 million. New unsecured committed credit line agreements were concluded for the total of USD 1,350 million, resulting in increase of the total limit of available committed credit lines to USD 1,795 million. In October, 2015 the Company issued 7-year Eurobonds for the total amount of USD 1,000 million.

These initiatives increased the average maturity of the Company's debt portfolio, smoothed the repayment schedule, balanced the debt currency breakdown and diversified the sources of financing.

As of the end of the 2015 the Company' credit ratings, assigned by Standard & Poor's and Fitch rating agencies remained at an investment grade level (BBB-, BBB-). The Company's credit rating assigned by Moody's was at Ba1 level, below investment grade as a result of the lowering of Russia's "sovereign ceiling" to sub-investment grade by this agency.

Net debt / EBITDA ratio  
amounted to

**1.0x**

The Company successfully  
placed Eurobonds worth

**USD  
1.0<sub>bn</sub>**