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The information contained in the Document is directed solely at persons: (i) outside the United Kingdom; (ii) within the United Kingdom: (A) having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Market Act (Financial Promotion) Order 2005 (the “**Order**”); or (B) to persons of a kind described in Article 49(2) (a) to (d) of the Order; or (iii) in member states of the European Economic Area (“**EEA Member States**”) who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (all such persons together being referred to as “**Relevant Persons**”). Any investment activity to which the Document relates is only available to, and will only be engaged in with, Relevant Persons. The Document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Persons who are not Relevant Persons must not rely on or act upon the information contained in the Document.

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The Managers are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of the Document) as their client in relation to the offer and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

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# En+ Group plc

## Offering of up to 112,142,858 Global Depository Receipts

### Offer Price: U.S. \$14 per GDR

This is an offering (the “Offering”) by En+ Group plc (the “Company”) and by Basic Element Limited, a shareholder of the Company (the “Selling Shareholder”), companies organised and existing under the laws of Jersey of 112,142,858 global depository receipts (the “GDRs”) representing ordinary shares of the Company (the “Ordinary Shares”). Each GDR represents an interest in one Ordinary Share. The Selling Shareholder has granted to Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc, Merrill Lynch International, SIB (Cyprus) Limited and VTB Capital plc (together, the “Joint Global Coordinators and Joint Bookrunners”), Bank GPB International S.A., BMO Capital Markets Limited, Société Générale and UBS Limited (together, the “Joint Bookrunners”) and ATON LLC (the “MOEX Bookrunner”) and, together with the Joint Global Coordinators and Joint Bookrunners, the “Managers”) an option (the “Over-Allotment Option”) to acquire up to 5,000,000 additional GDRs representing Ordinary Shares at the offer price (the “Offer Price”) for the purposes of meeting over-allotments in connection with the Offering.

This document (the “Prospectus”) has been approved by the United Kingdom Financial Conduct Authority (the “FCA”) in accordance with the Prospectus Rules (the “Prospectus Rules”) of the FCA made under section 73A of the Financial Services and Markets Act 2000 (“FSMA”) in relation to the admission to listing and to trading of the GDRs. This document is a prospectus relating to the Company prepared in accordance with the Prospectus Rules. Applications have been made: (i) to the FCA, in its capacity as competent authority under the FSMA for a listing of up to 571,428,572 GDRs, consisting of: (A) 107,142,858 GDRs to be issued on or about 8 November 2017 (the “Closing Date”); (B) up to 5,000,000 additional GDRs to be sold in connection with the Over-Allotment Option; and (C) up to an additional 459,285,714 GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with Citibank Hong Kong as custodian (the “Custodian”) acting on behalf of Citibank N.A. as depository (the “Depository”), to be admitted to the official list of the FCA (the “Official List”); and (ii) to the London Stock Exchange plc (the “London Stock Exchange”) for such GDRs to be admitted to trading under the symbol ENPL (in the case of Regulation S GDRs (as defined below)) and the symbol ENPL (in the case of Rule 144A GDRs (as defined below)) on the London Stock Exchange’s regulated market for listed securities, which is regulated under the Markets in Financial Instruments Directive 2004/39/EC, through its international order book (the “IOB”). Conditional trading in the GDRs on the London Stock Exchange through its IOB is expected to commence on an if-and-when issued basis on or about 3 November 2017. Admission to the Official List and to trading on the regulated market (the “London Admission”) is expected to take place on or about 8 November 2017. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the London Admission does not take place and will be at the sole risk of the parties concerned.

A copy of this document has been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, which the registrar has given, and has not withdrawn, its consent to this document’s circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 and Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of securities in the Company. It must be distinctly understood that, in giving such consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed, with regard to it. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.

The Company is seeking the approval of Public Joint-Stock Company “Moscow Exchange MICEX-RTS” (“MOEX”), a part of the Moscow Exchange Group, in accordance with: Federal Law No. 39-FZ “On Securities Market” dated 22 April 1996, as amended (the “Russian Securities Market Law”); Regulation of the Central Bank of Russia (“CBR”) No. 437-P “On Conducting Organised Trading Activity” dated 17 October 2014, as amended; Regulation of the CBR No. 454-P “On the Disclosure of Information by Issuers of Issue Securities” dated 30 December 2014, as amended; Regulation of the CBR No. 534-P “On the Admission of Securities to Organised Trading” dated 24 February 2016, as amended; and the listing rules of MOEX dated 26 June 2017 in relation to: (i) the public circulation in the Russian Federation of the Regulation S GDRs to be issued from time to time; and (ii) the admission of the Regulation S GDRs to be issued from time to time to trading on MOEX under the symbol ENPL (together, the “MOEX Admission”). Rule 144A GDRs will not be admitted to trading on MOEX. The MOEX Admission may not take place earlier than the London Admission. Dealings in the GDRs on MOEX prior to the MOEX Admission are not permitted. Although the Company expects that the MOEX Admission may take place on or about 8 November 2017, no assurance can be given that MOEX will approve the MOEX Admission and that, if such approval takes place, thereafter the GDRs will continue to be admitted to trading on MOEX.

The Offering comprises an offering of GDRs: (i) within the United States to qualified institutional buyers (“QIBs”), as defined in, and in reliance on, Rule 144A (“Rule 144A”) under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or another exemption from, the registration requirements of the Securities Act; and (ii) outside the United States to institutional investors in “offshore transactions” as defined in, and in reliance on, Regulation S under the Securities Act (“Regulation S”). Prior to the Offering, there has been no public market for the Ordinary Shares or the GDRs. The Ordinary Shares will not be and are not expected to be listed on any exchange.

#### **INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD READ THE ENTIRE PROSPECTUS, PARTICULARLY, THE SECTION HEADED “RISK FACTORS”, WHEN CONSIDERING AN INVESTMENT IN THE COMPANY (SEE “RISK FACTORS”).**

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs and the Ordinary Shares represented by them (together, the “Securities”) have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs by certain U.S. selling agents of the Managers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The GDRs are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. For a discussion of these and certain further restrictions on transfers of the GDRs, see “Plan of Distribution”, “Selling and Transfer Restrictions” and “Settlement and Delivery”.

The GDRs are offered by the Managers when, as and if delivered to and accepted by them and subject to their right to reject orders in whole or in part. The GDRs being offered and sold within the United States (the “Rule 144A GDRs”) will be evidenced by a Rule 144A Master Global Depository Receipt (the “Rule 144A Master GDR”) registered in the name of Cede & Co., as nominee for The Depository Trust Company (the “U.S. Clearing Agent”) in New York. The GDRs being offered and sold outside the United States (the “Regulation S GDRs”) will be evidenced by a Regulation S Master Global Depository Receipt (the “Regulation S Master GDR”) registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as common depository for Euroclear S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). Except as described herein, beneficial interests in the Rule 144A Master GDR and the Regulation S Master GDR (together, the “Master GDRs”) will be shown on, and transfers thereof will be effected only through, records maintained by the U.S. Clearing Agent, Euroclear and Clearstream, Luxembourg and their direct and indirect participants, including the Russian National Settlement Depository (“NSD”). It is expected that delivery of the GDRs will be made against payment therefor in U.S. Dollars in same day funds through the facilities of the U.S. Clearing Agent with respect to the Rule 144A GDRs, through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs, in each case on or about the Closing Date, and through the facilities of NSD with respect to the Regulation S GDRs offered under the MOEX Admission following the Closing Date (see “Settlement and Delivery”).

#### **Joint Global Coordinators and Joint Bookrunners**

**BofA Merrill Lynch Citigroup Credit Suisse J.P. Morgan Sberbank CIB VTB Capital**

#### **Joint Bookrunners**

**BMO Capital Markets Gazprombank Société Générale UBS Limited**

#### **Corporate & Investment Banking**

#### **MOEX Bookrunner**

**ATON**

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## PROSPECTUS SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A-E (A.1-E.7). This summary contains all the Elements required to be included in a summary for this type of security and the Company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of security and the Company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable”.

### Section A—Introduction and Warnings

- A.1 Introduction and Warnings.** This summary should be read as an introduction to this Prospectus. Any decision to invest in the GDRs should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA Member States, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or if it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors in considering whether to invest in such securities.
- A.2 Consent by the issuer or person responsible for drawing up this Prospectus to the use of this Prospectus for subsequent resale or final placement of securities by financial intermediaries.** Not applicable. The Company has not consented to the use of this Prospectus for subsequent use or final placement of GDRs by financial intermediaries.

### Section B—Company

- B.31 Information about the issuer of the underlying Ordinary Shares**
- B.1 The legal and commercial name of the company.** En+ Group plc.
- B.2 The domicile and legal form of the company, the legislation under which the company operates and its country of incorporation.** The Company is a public company limited by shares incorporated under the laws of Jersey. The principal legislation under which the Company operates is the Companies (Jersey) Law 1991 (as amended) (the “Companies Law”). Following the Offering, the Company intends to redomicile from Jersey to Cyprus in 2018 (see “Business—Corporate Organisation—Redomiciliation”).

**B.3** *A description of, and key factors relating to, the nature of the company's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the company competes.*

The Company and its consolidated subsidiaries (together, the “**Group**”) is a leading international vertically integrated aluminium and power producer with core assets located in Russia. The Group is the world’s largest privately-held hydro power generator and the largest aluminium producer outside of China. Based on its long-term average hydro power production, the Group covers almost all needs of its Siberian aluminium smelters by its own hydro power.

The Group operates through two major business segments: En+ Power and RUSAL. For the purposes of IFRS, the Group reports on the basis of five operating segments: the Metals Segment, the Power Segment, the Coal Segment, the Logistics Segment and the Other Segment. RUSAL, which also includes an equity investment in Norilsk Nickel, is equivalent to the Metals Segment. En+ Power predominantly consists of the Power Segment, and also includes both the Coal Segment and the Logistics Segment, both of which support the operations of the Power Segment, and the Other Segment. The Other Segment comprises insignificant businesses in the context of the Group as a whole, and the Company may consider disposing of these non-core assets.

The Company operationally manages the assets in En+ Power, the operating activities of which primarily include: (i) power and heat generation; (ii) power trading and supply and engineering services; as well as (iii) power transmission and distribution. The Group also strategically controls RUSAL through a 48.13% shareholding and contractual rights contained in a shareholders’ agreement with the non-controlling shareholders of RUSAL (including the right to propose for nomination for appointment the CEO of RUSAL, at least 50% of the board of directors and two independent directors), while the Company does not exercise day-to-day management of RUSAL’s operations.

The Group is the largest private power producer in Russia in terms of installed capacity, according to SEEPX Energy Ltd (“**SEEPX**”). According to SEEPX, the Group is ranked as the largest private hydro power generation company globally, with 15.1 GW of total installed hydro power capacity in 2016. The Group operates generating assets with 19.7 GW of installed electricity capacity and with 17.0 kGcal/h of installed heat capacity (as of 2016). The Group held an 8.0% share of the total installed electricity capacity in Russia and a 37.6% share of the total installed electricity capacity of the Siberian Integrated Power System (“**Siberian IPS**”) as at 31 December 2016, according to SEEPX. In 2016, 76.6% of the Group’s installed electricity capacity was represented by hydro power plants (“**HPPs**”), with the remaining 23.4% represented by combined heat and power plants (“**CHPs**”) (which are predominantly coal-fired) and a solar plant. The Group operates five HPPs, including three of the five largest HPPs in Russia and of the twenty largest HPPs globally, in each case in terms of installed electricity capacity. In 2016, the Group produced 69.5 TWh of electricity, which represented 6.6% of Russia’s and 34.0% of the Siberian IPS’s total electricity production according to SEEPX, and 27.4 million Gcal/h of heat.

The Group’s power operations are predominantly located in Siberia, Russia, benefiting from the abundant water resources of the Angara and Yenisei river cascades. In addition, certain assets are situated in the European region of Russia, including the Nizhny Novgorod and Karelia Regions.

RUSAL is a low-cost, vertically integrated aluminium producer with core smelting operations located in Siberia, Russia. According to CRU International Limited (“CRU”), RUSAL is the world’s largest producer of primary aluminium outside China and the second largest aluminium group globally. In 2016, RUSAL produced 3,685 thousand tonnes of aluminium, accounting for approximately 6.2% of global aluminium output. RUSAL’s core aluminium smelters are major consumers of the power produced by En+ Power. Currently, RUSAL operates 10 aluminium smelters, 7 alumina refineries (including QAL), a strategic investment in Norilsk Nickel and a 50% interest in the Boguchansk Energy and Metals Complex (the “BEMO Project”).

**B.4a** *A description of the most significant recent trends affecting the company and the industries in which it operates.*

The Group’s operations have recently been influenced by the following significant recent trends, which are expected to affect its business and results of operations in the future:

- In October 2016, En+ Power entered into new long-term power supply agreements with RUSAL effective from 1 November 2016 and 1 January 2017, replacing previous arrangements that had been in place since November and December 2009. The parties renegotiated these long-term power supply contracts to reflect the price for electricity with reference to the wholesale market in Siberia. The renegotiated long-term contracts provide for the supply of electricity to RUSAL’s aluminium smelters located in Bratsk, Irkutsk and Krasnoyarsk, generally at a rate 3.5% below market price (on a day-ahead market basis). The agreements also contain certain provisions relating to the volumes of electricity to be supplied each year. For example, in 2017, the Company’s power subsidiaries are contracted to supply to RUSAL up to 37.6 TWh of electricity, which is equivalent to 54.4% of En+ Power’s power production and 66.8% of En+ Power’s hydro power production in Siberia in 2016.
- The prices of aluminium, which are set by the international markets as quoted on the London Metal Exchange (the “LME”), are one of the primary determiners of the Group’s revenue. As a result of the recent growing global demand, which has primarily been driven by demand from the U.S. and E.U., continued supply moderation in China and significant production cost inflation, the average LME aluminium price has increased by 21.8% from U.S.\$1,543 per tonne in the first half of 2016 to U.S.\$1,880 per tonne in the first half of 2017.

**B.4b** *A description of any known trends affecting the company and the industries in which it operates.*

The Group’s operations have historically been influenced by the following key factors, which the Company’s management believes will continue to affect business and results of operations in the future. General factors and trends affecting the Group’s business include: (i) interdependence of En+ Power and RUSAL; (ii) macroeconomic conditions; (iii) currency fluctuations; and (iv) cost of sales. Factors and trends affecting the business of En+ Power include: (i) demand for and prices of electricity, heat and capacity; (ii) tariffs; (iii) weather and environmental conditions; and (iv) regulatory environment. Factors and trends affecting the business of RUSAL include: (i) demand for and price of aluminium; and (ii) investment in Norilsk Nickel.

**B.5** *If the company is part of a group, a description of the group and the company’s position within the group.*

The Company is the parent company of the Group, which comprises the Company and its consolidated subsidiaries. The Group’s business is conducted solely through the Company and its subsidiaries.

**B.6** *In so far as is known to the company, the name of any person who, directly or indirectly, has an interest in the company's capital or voting rights which is notifiable under the company's national law, together with the amount of each such person's interest. Whether the company's major shareholders have different voting rights if any. To the extent known to the company, state whether the company is directly or indirectly owned or controlled and by whom and describe the nature of such control.*

Jersey law does not impose any notification obligations on shareholders, or the Jersey company itself, in respect of shareholdings in a Jersey company, and the concept of a “notifiable interest” is therefore not a feature of Jersey law.

No holder of Ordinary Shares has voting rights that differ from those of any other holder of Ordinary Shares.

Prior to the Offering, the holders of the Company's issued and outstanding Ordinary Shares are as follows: (i) 82.65% is held in total by B-Finance Limited and the Selling Shareholder, which are beneficially controlled by Mr. Oleg Deripaska (the “**Majority Shareholder**”); (ii) 4.35% is held by VTB Bank (PJSC) (“**VTB**”); and (iii) 13.0% is held by companies that are beneficially owned by the family of the Majority Shareholder or directly by members of his family (the “**Other Shareholders**”). Upon London Admission, assuming that the Over-Allotment Option is exercised in full, the holders of the Company's issued and outstanding Ordinary Shares are expected to be as follows: (i) 65.2% will be held in total by B-Finance Limited and the Selling Shareholder, which are beneficially controlled by the Majority Shareholder; (ii) 3.8% will be held by VTB; (iii) 11.4% will be held by the Other Shareholders; (iv) 6.2% will be held by the ANAN GROUP (SINGAPORE) PTE (the “**Cornerstone Investor**”); and (v) 13.4% will be held by the Depositary on behalf of the persons registered as the holder of any GDR on the books of the Depositary maintained for such purpose (“**Holders**”).



**B.7** *Selected historical key financial information regarding the Company, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information. This should be accompanied by a narrative description of significant change to the Company's financial condition and operating results during or subsequent to the period covered by the historical key financial information.*

**The Group's Consolidated Statement of Comprehensive Income**

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Revenues	5,841	4,748	9,776	10,529	11,917
Cost of sales	(3,909)	(3,463)	(6,850)	(7,184)	(8,718)
<b>Gross profit</b>	<b>1,932</b>	<b>1,285</b>	<b>2,926</b>	<b>3,345</b>	<b>3,199</b>
Distribution expenses	(318)	(239)	(523)	(442)	(571)
General and administrative expenses	(399)	(337)	(699)	(731)	(939)
(Impairment)/reversal of impairment of non-current assets	(85)	(59)	18	(143)	(368)
Other operating (expenses)/income, net	(66)	19	(49)	(59)	(222)
<b>Results from operating activities</b>	<b>1,064</b>	<b>669</b>	<b>1,673</b>	<b>1,970</b>	<b>1,099</b>
Share of profits of associates and joint ventures	297	439	847	368	521
Finance income	53	54	88	36	46
Finance costs	(773)	(724)	(1,241)	(1,629)	(2,170)
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	—	—	298	95	—
<b>Profit/(loss) before taxation</b>	<b>641</b>	<b>438</b>	<b>1,665</b>	<b>840</b>	<b>(504)</b>
Income tax expense	(93)	(121)	(304)	(260)	(120)
<b>Profit/(loss) for the period</b>	<b>548</b>	<b>317</b>	<b>1,361</b>	<b>580</b>	<b>(624)</b>
<b>Other comprehensive income</b>					
<i>Items that will never be reclassified subsequently to profit or loss:</i>					
Actuarial (loss)/gain on post retirement benefit plans	—	(2)	(2)	(9)	24
Revaluation of non-current assets	—	2,033	3,175	—	—
Taxation	—	(407)	(635)	—	—
	—	1,624	2,538	(9)	24
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences on foreign operations	4	359	284	(216)	(1,068)
Foreign currency translation differences for equity-accounted investees	122	476	675	(975)	(3,452)
Change in fair value of cash flow hedges	—	23	36	144	(81)
Items recycled from other comprehensive income on deconsolidation of subsidiaries	—	—	22	(95)	—
Share of other comprehensive income of associates	(28)	—	—	4	10
Unrealised gain/(loss) on available-for-sale assets	6	—	7	(4)	—
Taxation	—	—	—	(41)	(182)
	104	858	1,024	(1,183)	(4,773)
Other comprehensive income/(loss) for the period, net of tax	104	2,482	3,562	(1,192)	(4,749)
<b>Total comprehensive income/(loss) for the period</b>	<b>652</b>	<b>2,799</b>	<b>4,923</b>	<b>(612)</b>	<b>(5,373)</b>
Net profit/(loss) attributable to:					
Shareholders of the Company	279	137	689	166	(622)
Non-controlling interests	269	180	672	414	(2)
<b>Profit/(loss) for the period</b>	<b>548</b>	<b>317</b>	<b>1,361</b>	<b>580</b>	<b>(624)</b>
Total comprehensive income/(loss) for the period attributable to:					
Shareholders of the Company	332	1,731	3,170	(295)	(2,763)
Non-controlling interests	320	1,068	1,753	(317)	(2,610)
<b>Total comprehensive income/(loss) for the period</b>	<b>652</b>	<b>2,799</b>	<b>4,923</b>	<b>(612)</b>	<b>(5,373)</b>

## The Group's Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2017	2016	2015	2014
	(U.S.\$millions)			
<b>ASSETS</b>				
<b>Non-current assets:</b>				
Property, plant and equipment . . . . .	9,446	9,355	5,186	5,668
Goodwill and intangible assets . . . . .	2,353	2,300	2,053	2,424
Interests in associates and joint ventures . . . . .	4,192	4,156	3,222	4,885
Long-term investments . . . . .	30	25	28	42
Trade and other receivables . . . . .	32	149	4	31
Deferred tax assets . . . . .	97	108	96	90
Derivative financial assets . . . . .	67	51	71	30
Other non-current assets . . . . .	12	7	11	45
<b>Total non-current assets . . . . .</b>	<b>16,229</b>	<b>16,151</b>	<b>10,671</b>	<b>13,215</b>
<b>Current assets:</b>				
Short-term investments . . . . .	42	38	34	74
Inventories . . . . .	2,197	2,034	1,922	2,135
Trade and other receivables . . . . .	1,455	1,401	1,157	914
Prepaid expenses and other current assets . . . . .	17	14	22	37
Derivative financial assets . . . . .	29	16	50	32
Cash and cash equivalents . . . . .	722	669	591	710
Assets held for sale . . . . .	7	7	36	1
<b>Total current assets . . . . .</b>	<b>4,469</b>	<b>4,179</b>	<b>3,812</b>	<b>3,903</b>
<b>TOTAL ASSETS . . . . .</b>	<b>20,698</b>	<b>20,330</b>	<b>14,483</b>	<b>17,118</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital . . . . .	—	—	—	—
Additional paid-in capital . . . . .	9,193	9,193	9,193	9,192
Revaluation reserve . . . . .	2,540	2,456	—	—
Other reserves . . . . .	(70)	(63)	(96)	(157)
Foreign currency translation reserve . . . . .	(4,606)	(4,683)	(5,078)	(4,555)
Accumulated losses . . . . .	(6,311)	(6,503)	(5,889)	(5,731)
<b>Total equity attributable to shareholders of the Company . . . . .</b>	<b>746</b>	<b>400</b>	<b>(1,870)</b>	<b>(1,251)</b>
Non-controlling interests . . . . .	1,911	1,785	873	1,429
<b>Total equity . . . . .</b>	<b>2,657</b>	<b>2,185</b>	<b>(997)</b>	<b>178</b>
<b>Non-current liabilities:</b>				
Loans and borrowings . . . . .	12,444	12,095	9,604	9,626
Deferred income tax liabilities . . . . .	1,322	1,394	592	575
Provisions—non-current portion . . . . .	607	618	650	593
Derivative financial liabilities . . . . .	31	3	—	350
Other non-current liabilities . . . . .	113	177	88	66
<b>Total non-current liabilities . . . . .</b>	<b>14,517</b>	<b>14,287</b>	<b>10,934</b>	<b>11,210</b>
<b>Current liabilities:</b>				
Loans and borrowings . . . . .	1,767	2,110	2,724	3,484
Provisions—current portion . . . . .	79	64	97	137
Trade and other payables . . . . .	1,640	1,652	1,293	1,778
Derivative financial liabilities . . . . .	38	32	421	318
Liabilities held for sale . . . . .	—	—	11	13
<b>Total current liabilities . . . . .</b>	<b>3,524</b>	<b>3,858</b>	<b>4,546</b>	<b>5,730</b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>	<b>20,698</b>	<b>20,330</b>	<b>14,483</b>	<b>17,118</b>

### The Group's Selected Consolidated Statement of Cash Flow Data

	Six months ended		Year ended 31 December		
	30 June		2016	2015	2014
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Cash flows from operating activities . . . . .	1,001	916	1,950	2,163	2,026
Cash flows (used in)/generated from investing activities . . . . .	(35)	(92)	(180)	97	(116)
Cash flows used in financing activities . . . . .	(920)	(545)	(1,704)	(2,258)	(1,869)
Net change in cash and cash equivalents . . . . .	46	279	66	2	41
Cash and cash equivalents at the beginning of the period, excluding restricted cash . . . . .	656	577	577	697	811
Effect of exchange rate changes on cash and cash equivalents . . . . .	3	56	13	(122)	(155)
Cash and cash equivalents at the end of the period, excluding restricted cash . . . . .	705	912	656	577	697

On 25 July 2017, the Company declared interim dividends in the amount of U.S.\$35 million, which were paid in full in September 2017.

In August 2017, the board of directors of RUSAL approved the payment of interim dividends in the aggregate amount of U.S.\$299 million (of which U.S.\$144 million is attributable to the Company). The interim dividends were paid by RUSAL on 10 October 2017. In September 2017, the Company declared dividends in the amount of U.S.\$144 million, which were paid in full in October 2017.

In August 2017, RUSAL amended the terms of certain facility agreements with Sberbank of Russia (“Sberbank”) and Gazprombank. The lenders agreed to amend the existing facilities: (i) to extend the final maturity of loans secured by the shareholding in Norilsk Nickel by three years to December 2024 (with respect to Sberbank) and to extend the final maturity of loans by two years to August 2022 (with respect to Gazprombank); (ii) to decrease the interest rate from a three-month LIBOR plus 4.75% to a three-month LIBOR plus 3.75% (with respect to Sberbank) and to decrease the interest rate from a three-month LIBOR plus 4.5% to a three-month LIBOR plus 3.5% (with respect to Gazprombank); and (iii) to amend certain financial covenants, undertakings and non-financial covenants in the existing agreements generally in line with the 2017 PXF Facility Agreement (as defined in this Prospectus).

In September 2017, RUSAL issued the second tranche under its RMB-denominated bond programme in the principal amount of RMB500 million at a rate of 5.5% per annum due 2020 (subject to put option rights of bondholders in September 2019). The tranche is guaranteed by China United SME Guarantee Corporation. See—“*Operating and Financial Review—Indebtedness—Bonds—RMB-denominated bonds*”.

In October 2017, the Company declared interim dividends in the amount of U.S.\$125 million. The dividends are expected to be paid by the Company to holders of the Ordinary Shares and GDRs as at 30 November 2017 in December 2017.

Except as described above, from 1 January 2014 to 30 June 2017, as well as since 30 June 2017, the end of the last financial period for which financial information has been published, there has been no significant change in the Group's financial condition or operating results.

**B.8**      *Selected key pro-forma financial information.*      Not applicable; there is no pro-forma financial information in this Prospectus.

<b>B.9</b>	<i>Where a profit forecast or estimate is made, state the figure.</i>	Not applicable; there are no profit forecasts or estimates in this Prospectus.
<b>B.10</b>	<i>A description of the nature of any qualifications in the audit report on the historical financial information.</i>	Not applicable; there are no qualifications in the reports on the Financial Statements.
<b>B.32</b>	<i>Information about the issuer of the depositary receipts, including the name and registered office of the issuer of the depositary receipts and the legislation under which the issuer of the depositary receipts operates and legal form which it has adopted under the legislation.</i>	Citibank, N.A., with its registered office at 701 East 60th Street North, Sioux Falls, South Dakota, U.S.A. and its principal executive office at 388 Greenwich Street, New York, New York 10013, U.S.A., is a national banking association organised under the National Bank Act of 1864.
<b>Section C—Securities</b>		
<b>C.13</b>	<b>Information about the underlying Ordinary Shares</b>	
<b>C.1</b>	<i>A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.</i>	Not applicable. The Ordinary Shares are not being offered or admitted to trading. The Ordinary Shares are not listed, and are not expected to be listed, on any regulated market and do not have an identification number.
<b>C.2</b>	<i>Currency of the securities issued.</i>	The currency of the Ordinary Shares is the U.S. Dollar.
<b>C.3</b>	<i>The number of Ordinary Shares issued and fully paid and issued but not fully paid. The par value per Ordinary Share, or that the Ordinary Shares have not par value.</i>	The Company has 500,000,000 issued, fully paid and outstanding Ordinary Shares, with a par value of U.S.\$0.00007 each. The Company is authorised to issue 214,285,714.286 additional Ordinary Shares. Immediately following the Offering, the Company’s issued share capital will consist of 571,428,572 Ordinary Shares.
<b>C.4</b>	<i>A description of the rights attached to the securities.</i>	All holders of Ordinary Shares have the same rights, with the material rights set forth below: <ul style="list-style-type: none"> <li>• a pre-emption right to purchase new shares and/or other securities that are convertible into shares in the Company to be issued for cash consideration;</li> </ul>

- the right to vote and participate in the general meetings of the shareholders;
- the right to use a proxy in order to delegate voting privileges to a representative;
- the right to receive a portion of the Company's profits in the form of dividends;
- the right to freely transfer the Ordinary Shares to other parties; and
- other rights provided under the Company's articles of association.

**C.5** *A description of any restrictions on the free transferability of the securities.*

A holder of fully paid Ordinary Shares may freely transfer them without the consent of other shareholders and the Company. However, any transfer will be subject to selling restrictions under the relevant laws in certain jurisdictions.

The GDRs and the Ordinary Shares represented by them (together, the "**Securities**") have not been and will not be registered under the Securities Act or under the applicable securities laws of any state of the United States and may not be offered, sold or transferred, directly or indirectly, within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

**C.6** *An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.*

Not applicable. The Ordinary Shares are not being offered or admitted to trading.

**C.7** *A description of dividend policy.*

Pursuant to its memorandum and articles of association ("**M&A**") the Company may pay dividends out of any lawful source. To the extent the Company declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the deposit agreements to be entered into by the Company and the Depositary on or before the Closing Date (the "**Deposit Agreements**"). The Company expects to pay dividends, if at all, in dollars. If dividends are not paid in dollars, they will be converted into dollars by the Depositary and paid to Holders of GDRs net of currency conversion expenses.

The Company paid dividends in the amount of U.S.\$318 million in 2016, U.S.\$262 million in 2015 and U.S.\$203 million in 2014. The Company has adopted a dividend policy to pay on at least a semi-annual basis the dividends which will be equal to the sum of: (i) 100% of dividends received from RUSAL; and (ii) 75% of Free Cash Flow (as defined herein) of En+ Power, subject to a minimum of U.S.\$250 million per annum (with U.S.\$125 million in December 2017). Any future decision to declare and pay dividends will be subject to applicable law and commercial considerations (including, without limitation, applicable regulations, restrictions, the Group's results of operations, financial condition, cash requirements, contractual restrictions and the Group's future projects and plans).

**C.14** *Information about the depositary receipts.*

**C.1** *A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.*

This Prospectus relates to an admission to listing and to trading of GDRs. One GDR represents an interest in one Ordinary Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreements. The GDRs will be evidenced initially by Master GDRs, each to be issued by the Depositary pursuant to the Deposit Agreements. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to Holders in exchange for interests in the GDRs represented by the Master GDRs.

The security identification numbers of the GDRs offered hereby are as follows:

Regulation S GDRs:

ISIN: .....	US29355E2081
Common Code: .....	170465199
CUSIP Number: .....	29355E208

Rule 144A GDRs:

ISIN: .....	US29355E1091
Common Code: .....	171560667
CUSIP Number: .....	29355E109

London Stock Exchange Regulation S GDR trading  
symbol: ..... ENPL

London Stock Exchange Rule 144A GDR trading  
symbol: ..... ENPL

MOEX Regulation S GDR trading symbol: ..... ENPL

**C.2** *Currency of the securities issued.*

The currency of the GDRs is the dollar.

**C.4** *A description of the rights attached to the securities.*

One GDR represents an interest in one Ordinary Share on deposit with the Custodian on behalf of the Depositary. A Holder of GDRs will have the rights set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate), including the Master GDRs, which may be summarised as:

- the right to withdraw the Deposited Shares (as defined therein) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares;
- the right to receive payment (in U.S. Dollars, if practicable) from the Depositary of an amount equal to cash dividends or other cash distributions received by the Depositary from the Company in respect of the Deposited Shares;
- the right to receive from the Depositary additional GDRs representing additional Ordinary Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issue of additional GDRs is deemed by the Depositary to be unlawful or not operationally practicable or subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the distribution of the Ordinary Shares and the GDRs representing such Ordinary Shares must be registered under the Securities Act or other laws, the net proceeds (in U.S. Dollars, if practicable) of the sale of such Ordinary Shares);

- the right to receive from the Depositary any dividend or distribution in the form of property other than Ordinary Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the Depositary to be unlawful or not reasonably practicable, the net proceeds (in U.S. Dollars, if practicable) of the sale of such property);
- the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of Ordinary Shares (or if such process is deemed by the Depositary to be unlawful or not reasonably practicable, the right to receive the net proceeds (in U.S. Dollars, if practicable) of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights);
- the right to instruct the Depositary regarding the exercise of any voting rights notified by the Company to the Depositary, subject to conditions; and
- the right to receive from the Depositary copies received by the Depositary of notices provided by the Company to holders of Ordinary Shares or other material information,

in each case subject to applicable law, and the detailed terms set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDRs.

**C.5** *A description of any restrictions on the free transferability of the securities.*

The GDRs are freely transferable, subject to certain transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the EEA and other jurisdictions, contractual lock-ups for certain shareholders, the Company, VTB and the Cornerstone Investor and the Terms and Conditions of the GDRs. The Depositary shall refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws.

The Securities have not been and will not be registered under the Securities Act or under the applicable securities laws of any state of the United States and may not be offered, sold or transferred, directly or indirectly, within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The GDRs are also subject to transfer restrictions in circumstances that would trigger a requirement to make a mandatory offer under the terms of the M&A or where certain provisions of the M&A have been breached in respect of the Ordinary Shares represented by GDRs.

Each purchaser of GDRs within the United States in reliance on Rule 144A of the Securities Act, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States. Each purchaser of GDRs offered in reliance on Regulation S of the Securities Act, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States.

**C.14** *Information about the depositary receipts.*

The Terms and Conditions of the GDRs (as endorsed on each GDR certificate) set out the provisions relating to the exercise of and benefit from the rights attaching to the Ordinary Shares. The following summarises relevant provisions of the Terms and Conditions of the GDRs relating to the exercise of and benefit from rights attaching to the underlying Ordinary Shares.

## **Distributions**

### ***Cash Distributions***

*Describe the exercise of and benefit from the rights attaching to the underlying Ordinary Shares, in particular voting rights, the conditions on which the issuer of the depositary receipts may exercise such rights, and measures envisaged to obtain the instructions of the depositary receipt holders—and the right to Ordinary Share in profits and any liquidations surplus which are not passed on to the holder of the depositary receipt.*

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property (as defined in the Terms and Conditions of the GDRs) in a currency other than U.S. Dollars, the Depositary shall, if practicable, convert or cause to be converted the same into U.S. Dollars in accordance with the Deposit Agreements and shall promptly distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of the Deposit Agreements.

### ***Distributions of Ordinary Shares***

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution of, Ordinary Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Ordinary Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; *provided that*, if and insofar as the Depositary deems any such distribution to all or any Holders to be unlawful or not operationally practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Depositary withhold an amount on account of taxes or other governmental charges) , or subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the distribution of the Ordinary Shares and the GDRs representing such Ordinary Shares must be registered under the Securities Act or other laws,, the Depositary may sell such Ordinary Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreements to the Holders entitled thereto.



### ***Distribution other than Cash or Ordinary Shares***

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Ordinary Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem practicable for effecting such distribution; *provided that*, if and insofar as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell the securities or property so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall distribute the resulting net proceeds of such sale as a cash distribution pursuant to the Deposit Agreements to the Holders entitled thereto. If the Depositary is unable to sell the securities or property, or any part thereof, the Depositary may dispose of such securities or property in any way it deems reasonably practicable under the circumstances.

### **Rights Issues**

If and whenever the Company announces its intention to make any offer or invitation to the holders of Ordinary Shares to subscribe for or to acquire Ordinary Shares by way of rights, and provides a notice to the Depositary indicating that the Company wishes such rights to be made available to Holders of GDRs, upon receipt of satisfactory documentation and after making the requisite determinations in the Deposit Agreement, the Depositary shall establish a record date and the procedures to distribute such rights and/or to enable Holders to exercise the rights, and issue and deliver GDRs upon the valid exercise of such rights. The Company shall assist the Depositary to the extent necessary in establishing such procedures.

If and insofar as the Depositary does not receive satisfactory documentation or is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges), or if the Company requests that the rights not be made available to Holders, or any rights made available are not exercised and appear to be about to lapse, the Depositary will, *provided that* Holders have not taken up rights through the Depositary as provided above, determine whether it is lawful and reasonably practicable to sell such rights, in a riskless principal capacity, at such place and upon such terms (including public and private sale) as it may deem practicable. The Company shall assist the Depositary to the extent necessary to determine such legality and practicability. If the Depositary sells such rights, the Depositary shall distribute the net proceeds of such sale as a cash distribution pursuant to the Deposit Agreement to the Holders entitled thereto except to the extent prohibited by applicable law.

### **Voting Rights**

The Company will notify the Depositary of any meeting at which the holders of Ordinary Shares are entitled to vote, or of solicitation of consents or proxies from holders of Ordinary Shares or other Deposited Property. As soon as practicable after receipt from the Company of such notice, the Depositary shall fix the record date (which shall be the same date or as close as possible to the corresponding record date set by the Company) in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing and not prohibited by applicable law, and at the Company's expense, distribute to Holders as at the record date: (a) such notice of meeting or solicitation of consent or proxy; (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreements, the M&A and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Ordinary Shares or other Deposited Property represented by such Holder's GDRs; and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of Ordinary Shares or other Deposited Property in respect of which the requirements and conditions for voting as may be set forth under applicable law have been complied with by Holders. Upon the timely receipt from a Holder of GDRs as at the record date of voting instructions in the manner specified by the Depositary, the Depositary shall use its reasonable endeavours, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreements, the M&A and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Ordinary Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

*Description of the bank or other guarantee attached to the depositary receipts and intended to underwrite the company's obligations.*

Not applicable; there is no bank or other guarantee attached to the GDRs.

## Section D—Risks

- D.2** *Key information on the key risks that are specific to the issuer of the underlying Ordinary Shares.*
- The Company is exposed to the following key risks:
- the interdependence of En+ Power and RUSAL affects the Group's business;
  - the long-term effects of the current programme of reform to the Russian electricity market and any further regulatory developments on the Group's business remain uncertain;
  - the prices that the Group is able to obtain on the unregulated markets for its electricity and capacity may fluctuate or be subject to limitations;
  - the electricity output of the Group's hydro power generation facilities is subject to fluctuations in water flows;
  - demand for electricity and heat varies significantly seasonally and from year-to-year;
  - the aluminium industry is highly cyclical and subject to price volatility as a result of significant fluctuations in supply and demand;
  - RUSAL could be materially adversely affected by declines in aluminium prices, including global, regional and product specific prices;
  - the Group's power generation, aluminium and other operations are subject to hazards and risks that could lead to damage to property or injury or death to persons; and
  - the Group has high leverage and a substantial amount of its borrowings are secured and subject to covenants, which could be breached.
- D.5/  
D.3** *Key information on the key risks that are specific to the securities.*
- The GDRs have the following key risks:
- an active trading market for the GDRs may not develop;
  - the Ordinary Shares underlying the GDRs are not listed and may be illiquid;
  - the voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and the relevant requirements of Jersey law;
  - sales of additional GDRs or Ordinary Shares following the Offering may result in a decline in the price of GDRs;
  - the Company may elect not to pay dividends in the future; and
  - holders of GDRs in certain jurisdictions may not be able to exercise their pre-emptive rights.

## Section E—Offer

- E.1** *The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the company or the offeror*
- The total net proceeds attributable to the GDRs will be approximately U.S.\$1,465 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.\$1,535 million, assuming that the Over-Allotment Option is exercised in full (in each case assuming full payment of the total discretionary fee to the Managers).
- The total fees, expenses and commissions payable in connection with the Offering will be approximately U.S.\$35 million, assuming that the Over-Allotment Option is exercised in full (assuming full payment of the discretionary fee to the Managers). These amounts include, among others, fees for auditors, tax advisors and legal counsel, as well as selling commissions. All fees, expenses and commissions in connection with the Offering will be paid by the Company.
- E.2a** *Reasons for the offer, use of proceeds, estimated net amount of the proceeds.*
- The Offering is being conducted in order to allow the Selling Shareholder to dispose of a portion of its shareholding and allow the Group to raise funds to repay a portion of debt incurred by the Company. In particular, the Group intends to repay in full the loan provided to it by VTB under the VTB Facility. The outstanding amount of this loan was U.S.\$942 million as at 30 June 2017.
- E.3** *A description of the terms and conditions of the offer.*
- The Offering comprises 112,142,858 GDRs to be sold by the Selling Shareholder and the Company, assuming full exercise of the Over-Allotment Option, with one GDR representing an interest in one Ordinary Share.
- The Offering consists of: (i) a private placement to certain institutional and other eligible investors in various jurisdictions of 71,428,573 GDRs (the “**International Offering**”) and (ii) a placement of up to 35,714,285 GDRs to the Cornerstone Investor (the “**Cornerstone Offering**”), assuming no exercise of the Over-Allotment Option.
- The Offering is being made by way of an offer of GDRs: (i) within the United States to QIBs in reliance on Rule 144A under the Securities Act, or another exemption from the registration requirements of the Securities Act; and (ii) outside the United States to institutional investors in “offshore transactions” in reliance on Regulation S under the Securities Act.
- The Offer Price is U.S.\$14 per GDR.
- The GDRs are being offered by the Managers, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.
- The Joint Global Coordinators have applied to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg, as well as the NSD, and the Rule 144A GDRs accepted for clearance through the U.S. Clearing Agent.
- In order to take delivery of the GDRs, investors must pay for them in same-day funds on or about the Closing Date and must have an appropriate securities account.
- E.4** *A description of any interest that is material to the issue/offer including conflicting interests.*
- Not applicable

**E.5** *Name of the person or entity offering to sell the security.*

The persons offering to sell the GDRs are:

- a) the Company; and
- b) the Selling Shareholder.

The Selling Shareholder is Basic Element Limited.

*Lock-up agreements: the parties involved; and indication of the period of the lock-up.*

Each of the Company and the Selling Shareholder has undertaken to each of the Managers or, in the case of B-Finance Limited and the Other Shareholders, to the Company that during the period from the date of the Underwriting Agreement to and including 180 days from the date of the London Admission, neither it nor any of its subsidiaries or their affiliates nor any person acting on its behalf will, subject to certain exceptions, without the prior written consent, in the case of the Company and the Selling Shareholder, of the Joint Global Coordinators, acting on behalf of the Managers and, in the case of B-Finance Limited and the Other Shareholders, of the Company: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares, any GDRs or other shares of the Company, or any securities convertible into or exercisable or exchangeable for Ordinary Shares, GDRs or other shares of the Company, or file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Ordinary Shares, any GDRs or other shares of the Company, whether any such transaction described in sub-clause (i) or (ii) above is to be settled by delivery of Ordinary Shares, GDRs or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction.

The Cornerstone Investor has agreed, subject to certain exceptions, that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period until (and including) 180 days from the date of the London Admission, offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any legal or beneficial interest in the GDRs purchased by the Cornerstone Investor pursuant to the Cornerstone Investment Agreement (the “**Cornerstone Investor GDRs**”) (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, the Cornerstone Investor GDRs or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether, conditionally or unconditionally, or enter into any swap or other agreement or arrangement that transfers, in whole or in part, any of the economic consequences or incidents of ownership of the Cornerstone Investor GDRs or such other securities convertible into or exchangeable for the Cornerstone Investor GDRs or enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of the Cornerstone Investor GDRs or such other securities, in cash or otherwise, nor shall it agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of the Cornerstone Investor GDRs.

VTB has agreed, subject to certain exceptions, that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period until (and including) 180 days from the date of the London Admission, (i) offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any legal or beneficial interest in GDRs and/or Ordinary Shares (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, GDRs and/or Ordinary Shares or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether, conditionally or unconditionally; or (ii) enter into any swap or other agreement or arrangement that transfers, in whole or in part, any of the economic consequences or incidents of ownership of GDRs and/or Ordinary Shares or such other securities convertible into or exchangeable for GDRs and/or Ordinary Shares; or (iii) enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of GDRs and/or Ordinary Shares or such other securities, in cash or otherwise; or (iv) agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of GDRs and/or Ordinary Shares.

- E.6** *The amount and percentage of immediate dilution resulting from the offer.* 71,428,572 New Ordinary Shares will be issued pursuant to the Offering. The Existing Ordinary Shares will represent 87.5% of the total issued Ordinary Shares immediately following the London Admission.
- E.7** *Estimated expenses charged to the investor by the company or the offeror.* Not applicable; the investor will not be charged any expenses by the Company, the Selling Shareholder or the Managers in connection with the Offering.

## THE OFFERING

**The Company** . . . . . En+ Group plc, a company limited by shares incorporated under the laws of Jersey.

**The Selling Shareholder** . . . . . Basic Element Limited, a company limited by shares incorporated under the laws of Jersey.

**The Offering** . . . . . The Offering comprises 112,142,858 GDRs to be sold by the Company and the Selling Shareholder, assuming full exercise of the Over-Allotment Option, with one GDR representing an interest in one Ordinary Share.

The Offering consists of: (i) the International Offering and (ii) the Cornerstone Offering. The Offering is being made by way of an offer of GDRs: (i) within the United States to QIBs, as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from the registration requirements of the Securities Act; and (ii) outside the United States to institutional investors in “offshore transactions” as defined in, and in reliance on, Regulation S.

In September 2017, the Company entered into a cornerstone investment agreement with the Cornerstone Investor which has agreed, subject to certain conditions, to subscribe (through its wholly-owned subsidiary or, failing which, itself) for the GDRs in the Offering at the Offer Price. The Cornerstone Investor has committed U.S.\$500 million for the subscription of GDRs. Based on the Offer Price, the total number of GDRs subscribed for by the Cornerstone Investor is 35,714,285 GDRs, which represents 31.8% of the GDRs offered in the Offering, assuming that the Over-Allotment Option is exercised in full. The Cornerstone Investor is an independent third party and is not an existing shareholder of the Company. See “*Plan of Distribution—Cornerstone Investor*”.

**Minimum Amount** . . . . . No minimum amount determined.

**Offer Price** . . . . . U.S.\$14 per GDR.

**Ordinary Shares** . . . . . Prior to the Offering, the Company had 500,000,000 issued Ordinary Shares, which are fully paid or credited as fully paid, with a par value of U.S.\$0.00007. In addition, the Company is authorised to issue 214,285,714.286 additional Ordinary Shares.

The Existing Ordinary Shares will be diluted by the issue of 71,428,572 New Ordinary Shares pursuant to the Offering. Assuming full exercise of the Over-Allotment Option, the New Ordinary Shares to be issued pursuant to the Offering will represent approximately 14.3% of the Existing Ordinary Shares of the Company, and approximately 12.5% of the enlarged Ordinary Share capital of the Company immediately following London Admission. The Ordinary Shares are subject to applicable provisions of Jersey law and regulations and the Company’s M&A, and have the rights described under “*Description of Ordinary Shares and Certain Requirements of Jersey Law*”.

**The GDRs** . . . . . Each GDR represents one Ordinary Share on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreements. The GDRs will be evidenced initially by Master GDRs, each to be issued by the Depositary pursuant to the Deposit Agreements.

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to Holders in exchange for interests in the GDRs represented by the Master GDRs (see “*Terms and Conditions of the Global Depositary Receipts*”).

**Over-Allotment Option** . . . . . In connection with the Offering, VTB Capital plc (the “**Stabilisation Manager**”) or any persons acting for the Stabilisation Manager, may, for stabilisation purposes, over-allot up to 5,000,000 GDRs. For the purposes of allowing the Stabilisation Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilisation Manager during a period of 30 days after the announcement of the Offer Price (the “**Stabilisation Period**”), the Selling Shareholder has granted the Managers the Over-Allotment Option pursuant to which the Stabilisation Manager on behalf of the Managers, may require the Selling Shareholder to sell up to 5,000,000 additional GDRs at the Offer Price.

The Over-Allotment Option is exercisable within 30 days of the announcement of the Offer Price in whole or in part from time to time on one or more occasions only during the Stabilisation Period for the purposes of meeting over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions, upon written notice from the Stabilisation Manager on behalf of the Managers, to the Selling Shareholder (see “*Plan of Distribution*”). Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Save as required by law or regulation, neither the Stabilisation Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

**Opening Date** . . . . . The date of this Prospectus.

**Closing Date** . . . . . Expected to be on or about 8 November 2017.

**Depositary** . . . . . Citibank, N.A.

**Lock-up** . . . . . Each of the Company and the Selling Shareholder has undertaken to each of the Managers or, in the case of B-Finance Limited and the Other Shareholders, to the Company that during the period from the date of the Underwriting Agreement to and including 180 days from the date of the London Admission, neither it nor any of its subsidiaries or their affiliates nor any person acting on its behalf will, subject to certain exceptions, without the prior written consent, in case of the Company and the Selling Shareholder, of the Joint Global Coordinators, acting on behalf of the Managers and, in the case of B-Finance Limited and the Other Shareholders, of the Company: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares, any GDRs or other shares of the Company, or any securities convertible into or exercisable or exchangeable for Ordinary Shares, GDRs or other shares of the Company, or file any registration statement under the Securities



Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Ordinary Shares, any GDRs or other shares of the Company, whether any such transaction described in sub-clause (i) or (ii) above is to be settled by delivery of Ordinary Shares, GDRs or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction (see “*Plan of Distribution—Lock-up Arrangements—Lock-up of the Company, the Selling Shareholder, B-Finance Limited and Other Shareholders*”).

The Cornerstone Investor has agreed, subject to certain exceptions, that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period until (and including) 180 days from the date of the London Admission, offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any legal or beneficial interest in the Cornerstone Investor GDRs (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, the Cornerstone Investor GDRs or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether conditionally or unconditionally, or enter into any swap or other agreement or arrangement that transfers, in whole or in part, any of the economic consequences or incidents of ownership of the Cornerstone Investor GDRs or such other securities convertible into or exchangeable for the Cornerstone Investor GDRs or enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of the Cornerstone Investor GDRs or such other securities, in cash or otherwise; nor shall it agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of the Cornerstone Investor GDRs (see “*Plan of Distribution—Lock-up Arrangements—Lock-up of the Cornerstone Investor*”).

VTB has agreed, subject to certain exceptions, that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period until (and including) 180 days from the date of the London Admission, (i) offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any legal or beneficial interest in GDRs and/or Ordinary Shares (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, GDRs and/or Ordinary Shares or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether, conditionally or unconditionally; or (ii) enter into any swap or

other agreement or arrangement that transfers, in whole or in part, any of the economic consequences or incidents of ownership of GDRs and/or Ordinary Shares or such other securities convertible into or exchangeable for GDRs and/or Ordinary Shares; or (iii) enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of GDRs and/or Ordinary Shares or such other securities, in cash or otherwise; or (iv) agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of GDRs and/or Ordinary Shares (see “*Plan of Distribution—Lock-up Arrangements—Lock-up of VTB*”).

**Voting** ..... If you hold Ordinary Shares, you will be entitled, upon a poll, to one vote per Ordinary Share at a shareholders’ meeting, subject to certain exceptions described in “*Description of Ordinary Shares and Certain Requirements of Jersey Law*”. Under the Deposit Agreements, one GDR carries the right to vote one Ordinary Share, subject to the provisions of the GDR Terms and Conditions described under “*Terms and Conditions of the Global Depositary Receipts*” and applicable Jersey law and regulations.

The Depositary will endeavour to exercise or cause to be exercised on behalf of Holders of GDRs, at any meeting of holders of the Ordinary Shares of which the Depositary receives timely notice, the voting rights relating to the Ordinary Shares underlying the GDRs in accordance with instructions it receives from Holders of GDRs. The Company will notify the Depositary of any resolution to be proposed at any general meeting of shareholders (see “*Terms and Conditions of the Global Depositary Receipts—Voting Rights*”).

**Taxation** ..... For a discussion of certain U.S., U.K., Jersey and Cypriot tax consequences of purchasing and holding the GDRs, see “*Taxation*”.

**Transfer Restrictions** ..... The GDRs will be subject to certain restrictions on transfer as described under “*Selling and Transfer Restrictions*”, “*Plan of Distribution*” and “*Settlement and Delivery*”.

**Listing and Trading** ..... The Company has applied to the FCA, in its capacity as competent authority under the FSMA, for the GDRs to be admitted to the Official List of the FCA and to the London Stock Exchange to admit the GDRs for trading under the symbol ENPL on its market for listed securities through its IOB.

The Company expects that conditional trading in the GDRs through the IOB will commence on an if-and-when issued basis on or about 3 November 2017 and that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. All dealings in the GDRs before commencement of unconditional dealings will be of no effect if the expected London Admission does not take place and will be at the sole risk of the parties concerned.

The Company is seeking the approval of MOEX in relation to the admission of the GDRs to be issued from time to time to trading on MOEX under the symbol ENPL. The MOEX Admission may not take place earlier than the London Admission. Dealings in the GDRs on MOEX prior to the

MOEX Admission are not permitted. The Company expects that the MOEX Admission of the GDRs may take place on or about 8 November 2017, although no assurance can be given that MOEX will approve the MOEX Admission or that the Company will be able to maintain it.

**Payment and Settlement . . . . .** The GDRs are being offered by the Managers subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The Joint Global Coordinators have applied to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg, as well as the NSD, and the Rule 144A GDRs accepted for clearance through the U.S. Clearing Agent.

In order to take delivery of the GDRs, investors must have an appropriate securities account and, in the case of investors in the Offering, must pay for them in same-day funds on or about the Closing Date.

Under the terms of the underwriting agreement entered into by the Company, the Selling Shareholder and the Managers, with respect to the GDRs, the underwriting agreement may be terminated, in a limited number of circumstances, by the Managers at any time prior to the Closing Date. Any return of funds to investors will be determined by the relevant Manager and investor arrangements.

## RISK FACTORS

*Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Securities. The risks highlighted below could have a material adverse effect on the Group's business, financial condition, results of operations or prospects, which, in turn, could have a material adverse effect on the value of the GDRs. Prospective investors should note that the risks described below are not the only risks the Group faces. The Group has only described the risks it considers to be material. There may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effects set forth above.*

*The risks below have been classified into the following categories: (i) Risks relating to the Group's Business and Industries of Operation (Risks relating to Power Operations, Risks relating to RUSAL, General Risks relating to Operation of Industrial Assets, Risks relating to Financial Condition, Risks relating to Strategy, Risks relating to Corporate Structure); (ii) Risks relating to Russia and Other Countries of Operation (General, Risks relating to the Political, Economic and Social Situation in Russia, Risks relating to the Russian Legal System); (iii) Risks relating to Taxation; and (iv) Risks relating to the Securities and the Trading Market. This categorisation is provided for convenience only, and any particular category should not be assumed to contain all the risks related to that category.*

### **Risks relating to the Group's Business and Industries of Operation**

#### ***Risks relating to Power Operations***

***The long-term effects of the current programme of reform to the Russian electricity market and any further regulatory developments on the Group's business remain uncertain***

Since 2001, the Russian power market has been undergoing a large-scale reform aimed at deregulation and the creation of a sustainable power industry. While the most significant regulatory structure changes to the power industry occurred from 2001 to 2008, additional reforms have been made in the past eight years (see "Russian Power Industry Overview—Russian Power Sector Reform").

The current regulatory regime contemplates expansion of the competitive segment of both the Russian electricity and the Russian capacity markets and, consequently, a reduction in the portion of these markets that is subject to tariff regulation. This reform has resulted in a more liberalised wholesale market for electricity generation, in which electricity and electricity capacity prices are generally established on the basis of supply and demand (subject to limited exceptions). The current process of liberalisation neither extends to the heat nor retail electricity markets, both of which remain subject to regulated tariffs, nor contemplates the creation of a free market for transmission, distribution and dispatch services.

As part of the reform process, the rules governing the Russian power market (including the rules related to market liberalisation, the determination of tariffs for electricity and electricity capacity, the operation of the capacity market and the framework for relations between power generators and consumers) have all undergone significant change. While the Russian power market now operates within a relatively stable legal framework with respect to the wholesale electricity market, which is based on marginal prices, and the capacity market, which is based on a four-year-ahead capacity selection process, the Russian authorities continue to amend the rules and procedures related to: (i) capacity modernisation and decommissioning; (ii) transmission and distribution tariffs; and (iii) capacity prices for certain types of power generators. In addition, there can be no assurance that the current legal framework will not change or that additional new regulations will not be imposed, either of which could adversely affect the Group's business. There is only a limited track record that demonstrates the potential effect of the current process of deregulation on the Russian power market and on the Group's results of operations. Due to this limited availability of evidence, there may not be sufficient data available to identify past trends and assess potential future trends. The Group's power operations may, therefore, be subject to a large number of operational, technical, managerial, regulatory and other risks, which are currently difficult or impossible to predict and which are beyond the Group's control. The uncertainties associated with the changes in the regulatory landscape may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***The classification of certain subsidiaries of the Group as natural monopolies may result in adverse regulatory interference in their operations***

A number of the Group's companies, including, amongst others, PJSC Irkutskenergo ("**Irkutskenergo**"), OJSC Irkutsk Electric Grid Company ("**Irkutsk GridCo**"), LLC Zavodskie Seti ("**Zavodskie Seti**"), LLC Teploseti ("**Teploseti**") and JSC Enser ("**Enser**"), are involved in activities regulated by Federal Law No. 147-FZ "On Natural Monopolies" dated 17 August 1995, as amended (the "**Natural Monopolies Law**"). In particular, the Federal Antimonopoly Service of the Russian Federation ("**FAS**") regulates the activities of regulated companies through a range of methods, including by: (i) establishing tariffs for the part(s) of their services that are considered to be monopolistic; (ii) requiring non-discriminatory provision of services to all market participants; and (iii) exercising control over certain transactions or investments by them valued at more than 10% of their equity capital. The FAS is also entitled to issue mandatory instructions to such companies, requiring them to perform certain actions in order to avoid abusing their natural monopoly status. Irkutsk GridCo, Irkutskenergo, Zavodskie Seti, Teploseti and Enser may all experience substantial limitations on their activities and operational flexibility as a result of the complex regulation of natural monopoly related activities, the restrictions on companies having natural monopoly status and regulatory interference with, and supervision of, such companies' operations. Civil, administrative and even criminal liability of these subsidiaries or their senior management could also arise. Such events could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

Natural monopolies are also obliged to use open tenders when selecting certain service providers, which could restrict their commercial flexibility and reaction time in selecting such service providers, which could, in turn, adversely affect their business. As the relevant law is vague and subject to different interpretations, there is a risk that certain transactions may be successfully challenged and/or declared invalid by a Russian court on the basis that the companies did not fully comply with the relevant public procurement rules, which could, in turn also have a material adverse effect on the Group's business, financial position and results of operations.

***Certain operations on the power market are subject to tariff regulation***

A proportion of electricity and capacity sales in Russia continue to be subject to tariff regulation by the FAS. The Group's power subsidiaries are currently required to sell certain amounts of their planned output of electricity (primarily to households) under regulated contracts at tariffs set by the FAS.

Heat generation and distribution tariffs are also subject to regulation at both the federal and regional levels. Currently, heat tariffs are set by regional tariff authorities for each individual generation and distribution unit, based on a "cost-plus" calculation, within the limits approved by the FAS. Regulated heat tariffs allow heat generators to recover their capital costs (subject to the approval of the relevant regulatory authorities), and therefore encourage new investments in the maintenance and modernisation of their assets. In addition, the revision of tariffs, which takes into account any increases in the costs of heat generation and distribution, occurs on an annual basis. Therefore, the heat generators and distributors may not be adequately compensated for any increases in their costs that occur during that year.

Russian electricity transmission and distribution companies are also subject to tariff regulation. At present, the tariffs in this sub-sector of the Russian power industry are determined on the basis of economically justified expenses. Irkutsk GridCo, a consolidated subsidiary of the Group, provides electricity transmission and distribution services and is therefore subject to such tariffs, which are indexed on an annual basis.

If tariffs established by Russian regulatory authorities fail to provide adequate economic returns to the Group's companies or are set at rates that are not sufficient to cover related expenses due to social or political reasons, or if the Group is required to sell a higher portion of planned output of electricity under regulated contracts in the future, any of these events could have a material adverse effect on the Group's business, financial condition and results of operations.

***Unregulated prices for electricity and capacity may fluctuate or be subject to limitations***

The gradual deregulation of Russia's power market has been for the most part completed, except for household electricity consumption, which is priced at regulated tariffs. Power generators are obliged to supply electricity to guaranteed suppliers, in amounts that match household electricity consumption, at regulated prices, and they are able to sell the rest of the electricity they generate and their available

capacity at unregulated prices that are set using marginal pricing principles. These pricing principles aim to ensure that all producers sell their products at a margin, therefore prices are based on the maximum marginal production costs on the market. It is possible that some of the Group's generating facilities may at times be required to sell their electricity output at prices as low as zero, for example, due to fluctuations involving extremely low demand or high water levels, although historical data shows that this occurs on average approximately only 43 hours a year. Market prices for capacity are set at four-year ahead capacity auctions based on, among other factors, a capacity demand curve set by the FAS and projected capacity demand. There can be no assurance, however, that unregulated market prices will be sufficient to cover the Group's electricity generation costs or its costs incurred in the maintenance of its capacity, as the case may be.

Price fluctuations on the wholesale electricity market are monitored by the state authorities. If the magnitude of a price increase exceeds predetermined levels within specified periods of time (three and seven days), a special price smoothing mechanism may be applied by Joint-Stock Company "Trading System Administrator of Wholesale Electricity Market Transactions" ("ATS") for a period of up to five days. In such cases, the ATS does not take into account price bids exceeding a certain level determined by the ATS for the calculation of the competitive market price. As a result, the average weighted price is set at a lower level but generators are paid a price no lower than that indicated in their bids. However, the above mentioned mechanism was introduced to suppress short-term power price spikes. Consequently, the threshold levels have historically been set quite high (for 2017 these levels for three and seven day periods were set at 22% and 19%, respectively) and historically the price smoothing mechanism has been rarely applied.

The regulations provide for a protective price limiting mechanism that applies in certain extraordinary situations, i.e., in cases where significant increases in the prices of electricity are observed. At the first stage of this procedure, the price smoothing mechanism is applied for a period of seven days. If this does not lead to the required decrease in pricing levels, state regulation of prices is introduced in individual price zones of the wholesale electricity market for a period of up to 30 days. During such period, marginal pricing is temporarily substituted by the payment for electricity at prices capped at pre-approved, regulated price levels. Upon the expiration of the 30 day period, pricing on the wholesale electricity (capacity) market returns to the general procedure. If the price smoothing mechanism is applied or state regulation is introduced in the electricity industry, the financial results of the Group may be adversely affected by the lower realised electricity prices that the Group will have to apply.

If unregulated prices for electricity or capacity are not sufficient to cover electricity generation or capacity maintenance costs, including as a result of the application of the price smoothing mechanism or the introduction of state regulation, the Group's business, financial condition and results of operations may be materially adversely affected.

***The Group's power operations are dependent upon third parties that provide services in the wholesale electricity market***

The Group's power operations relating to the sale of electricity and capacity on the wholesale market are, or may be, to a significant extent dependent upon services provided by third parties including, in particular, the Joint-Stock Company "System Operator of the United Power System" ("**System Operator**") (for the administration of regional supply services), the ATS (for the management of the trading system within the wholesale market) and the clearing centre (for the clearance and settlement organisation of the Russian wholesale electricity and capacity and infrastructure services markets). Most of these third parties are monopolies and, in such cases, alternative providers are not available. Should any of these third parties fail to provide the relevant administration, management or settlement services for any reason, the Group's power operations will be disrupted, which may, in turn affect the Group's business, financial condition and results of operations.

***The electricity output of the Group's hydro power generation facilities is subject to fluctuations in water flows***

The Group's hydro power generation facilities are subject to fluctuations in water flows. There can be no assurance that the water inflows at the Group's HPPs will be consistent with its expectations, or that climatic and environmental conditions will not change significantly from the prevailing conditions at the time the Group's projections are made. Water inflows vary each year and depend on factors such as precipitation, rate of snowmelt and seasonal changes. In addition, the capacity load factor of JSC Krasnoyarsk Hydro Power Plant ("**Krasnoyarsk HPP**"), the Group's principal subsidiary, is relatively low

due to various constraints caused by Krasnoyarsk HPP's existing infrastructure, that are aimed to protect local areas from potential floods. In addition to fluctuations in water inflows attributable to the natural environment, the potential construction of a state-owned HPP in Mongolia (which may take up to three years) may temporarily lower the water inflow to Baikal, during which time water will continue to accumulate in the reservoir. Furthermore, due to the significant importance of Baikal, the water levels of which are regulated by the Russian authorities, the respective regulators also establish limits with respect to water discharge to HPPs. These limits may result in decreased water inflows and respective low capacity utilisation levels. As a result of these factors, electricity production and capacity from the Group's hydro power generation facilities may vary over the years. For example, lower water inflows in 2014-2015 resulted in a decrease in electricity production at the Group's HPPs. The decreased hydro power generation by the Siberian HPPs resulted in increased prices for electricity in the Siberian IPS. For this period, the Group increased its production at CHPs. Electricity production from CHPs is less cost-efficient than that from HPPs. This decreased hydro power generation by the Siberian HPPs, therefore, resulted in increased production costs. Accordingly, any increase in the proportion of electricity produced from CHPs as compared to HPPs has in the past, and may in the future, result in an increase in the Group's operating costs, which could materially adversely affect the Group's business, financial condition and results of operations.

#### ***Demand for electricity and heat varies seasonally and year-to-year***

The demand for electricity and heat varies seasonally and from year to year, due to weather conditions and other factors. Demand for electricity and heat is usually higher during the period from October through March, due to the longer nights and colder weather, and lower in the period from April through September, due to the longer days and warmer weather. Furthermore, demand may fluctuate from year to year due to changes in global or regional weather patterns.

The Group's generation capacity may, therefore, be fully utilised during certain months and under-utilised during other months of the year. The Group schedules its maintenance and repair works for periods when its generation facilities operate at low loads, and accumulates additional inventories of coal and fuel oil for periods when its generation facilities operate at high loads. The amounts accumulated are based upon various factors, including long-term weather forecasts and fuel prices. As a result of seasonal fluctuations in demand for electricity and heat, as well as weather conditions, the highest revenues from heat sales are generated in the period from October through March. Electricity sales are also subject to seasonality, though to a lesser extent, with the highest revenue period also falling from October through March. Furthermore, equipment repair and maintenance costs tend to grow in the period from April to September. If the Group fails to obtain its expected level of revenues during periods when its generation capacities reach their peak loads, it may be unable to compensate for lost revenues during other periods when the demand for electricity and heating is lower.

If the Group is unable to accurately address or forecast seasonal and yearly fluctuations in demand for electricity and heat, this could have a material adverse effect on the Group's business, financial condition, and results of operations in a given year and could cause its financial condition and results of operations to vary significantly from year to year.

#### ***A portion of the power operations are dependent on supply of gas and fuel***

The Group's LLC Avtozavodskaya TEC ("Avtozavodskaya CHP"), located in the European part of Russia, and Enser, located in the South Ural region of Russia, use gas and fuel oil. Gas is the primary fuel consumed by Avtozavodskaya CHP and Enser. Gazprom's regional subsidiary supplies gas to Avtozavodskaya CHP and Enser and their boiler houses under annual agreements at regulated prices. The Russian Government regulates gas tariffs. The Russian Government has increased in the past and is expected to continue to increase such tariffs in the future with a view to ensuring that gas producers have the same profitability through domestic sales as through export gas sales. Avtozavodskaya CHP may also operate using fuel oil, the price of which depends on the price of crude oil on global markets.

Any unexpected fluctuation in fuel supply levels (including any future disruptions or reductions in the supply of gas or fuel oil to the Group's power generation plants), any increases in the regulated prices for gas, or any increases in gas or fuel oil prices in general may materially adversely affect the Group's business, financial condition and results of operations.

*The Group may be subject to competition from other power generating companies*

One of the principal stated aims of the Russian Government's decision to implement power market reforms was to create competition in the electricity generation and electricity supply sectors. In addition to the Group's power operations, which had a 37.6% share by total installed electricity capacity in the Siberian IPS in 2016, according to SEEPX, other key players in the Siberian electricity market include PJSC RusHydro ("**RusHydro**"), LLC Siberian Generating Company, PJSC Inter RAO ("**Inter RAO**") and JSC SIBECO. As 76.6% of the Group's installed electricity capacity is represented by HPPs, the Group's power subsidiaries compete primarily with RusHydro's HPPs located in Siberia. In December 2012, Boguchansk HPP, which is operated by the joint venture of RusHydro and RUSAL, commenced generating power (see "*Business—Business Operations—RUSAL—BEMO Project*"). In addition to existing operating plants, the Group may face competition with new generators which, if launched, may increase the supply of electricity on the market, which in turn may affect prices. If the Group is unable to maintain its market share or to compete effectively with its competitors, the Group's business, financial condition and results of operations may be materially adversely affected.

The Group could also face increasing competition in the heat market, which could lead to the Group's competitors modernising their existing thermal energy infrastructure or constructing new third-party sources of thermal energy, which in turn could prevent the Group from being able to maintain sales in heat and power at its current levels. The Group may also be unable to maintain sales of heat power at its current levels if its customers construct their own heat generation facilities, including, for example, boilers. Any reduction in sales of heat by the Group could have a material adverse effect on its business, financial condition and results of operations.

*Risks arise for the Group's business from technological changes in the energy sector*

The energy market is subject to far-reaching technological changes, both on the supply side and on the demand side. For example, with respect to energy generation, the development of energy storage devices (battery storage in the megawatt range) or facilities for the temporary storage of power through conversion to gas (so-called "power-to-gas technology"), as well as other new technological applications, could lead to an increase in energy supply.

New technologies that increase energy efficiency and improve heat insulation (for example, through the direct generation of power at the consumer level) or enable improved refeeding (for example, by using power storage for renewable generation) may lead to structural market changes. Such structural market changes may, for example, favour energy sources with low or zero CO<sub>2</sub> or, on the demand side, decentralised power generation (i.e., small-scale power plants within or close to residential areas or industrial facilities).

If the Group is unable to react to changes caused by new technological developments and any associated changes to the structure of the market, this could result in a loss of customers and declining sales volumes. This could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

*Customers may withhold payments to, or fail to pay, the Group's subsidiaries for the electricity and heat supplied to them, and the ability of the Group's subsidiaries to enforce contracts against customers and/or collect damages from them may be limited*

The Group's subsidiaries sell part of their electricity on the wholesale market, under regulated contracts, in accordance with Rules of the Wholesale Electricity and Capacity Market and Amendments into Certain Regulations of the Russian Government Relating to the Operation of the Wholesale Electricity and Capacity Market approved by the Resolution of the Russian Government No. 1172 dated 27 December 2010, as amended (the "**Wholesale Market Rules**"). The customers under such regulated contracts are assigned by the ATS to certain generators on the basis of several factors, including forecasts of electricity production and consumption (as established by the FAS). If a customer is unable to pay for any of the electricity supplied to them or withholds payment for such electricity, the Group's subsidiaries may be unable to terminate the regulated contract or suspend electricity supply unilaterally. For example, a supplier may suspend its supply of electricity to an individual only if the amounts that are unpaid and overdue from that individual exceed two average monthly payments. Many customers of the Group under the regulated contracts are, or may in the future be, regional electricity supply companies and, in general, these supply companies resell this electricity to end consumers. As a result, these supply company customers of the Group are highly vulnerable to the ability or willingness of such end consumers to pay.



Some of these end consumers, including individuals as well as state and municipal institutions, have in the past been late with payments, or have failed to pay for the electricity, in part due to their poor financial condition and in part due to technical or regulatory constraints. In view of the foregoing, there is no assurance that all of the electricity that is purchased from the Group under regulated contracts and supplied by regional supply companies to end consumers will be paid for in full by such end consumers and the supply companies may, in turn, be unable or unwilling to pay for the electricity supplied to them by the Group. Payment delays and failures to pay for electricity supplied by the Group to either supply companies or end consumers may materially adversely affect the Group's business, financial condition and results of operations.

The Group's subsidiaries also sell a significant portion of their electricity and heat production to retail customers, including residential consumers. Pursuant to existing regulations governing the retail power market, in the event that consumers, other than residential consumers or certain other consumers designated by the state, fail to pay for electricity and for services related to electricity supply, the Group may reduce or cut-off their supply of electricity. However, the Group may not reduce or cut-off any supply of electricity before sending a number of preliminary warnings to the defaulting consumers and, in some cases, to the competent state authorities, in order to give the defaulting customers the opportunity to repay without the imposition of such restrictions. Moreover, aside from residential consumers and other designated consumers for whom electricity supply cannot be restricted, there are certain electricity consumers for which a minimum required level of electricity supply must be maintained, even where such consumers fail to pay for their electricity. In addition, it is not possible to terminate the supply of heat to consumers. Instead, a delinquent or non-paying customer would be subject to certain administrative sanctions, including fines, which only the relevant authorities would be able to impose.

The electricity and heat generation market in Russia continues to remain regulated, and the supply of energy by power generating companies in the region(s) in which they operate is considered by Russian regulators to be a social responsibility. Thus, for example, Irkutskenergo cannot take measures and disconnect electricity and heat for non-payment by, amongst others, state housing and utilities companies, residential customers and certain other consumers designated by the state.

In addition, two of the Group's supply companies, LLC Irkutskaya Energosbytovaya Kompaniya ("Irkutskenergosbyt") and CJSC Volgaenergosbyt ("Volgaenergosbyt"), are guaranteed suppliers to the electricity market in the Irkutsk and Nizhny Novgorod Regions, respectively. As guaranteed suppliers to the retail electricity market, Irkutskenergosbyt and Volgaenergosbyt must acquire electricity on the wholesale market and sell it to retail industrial and residential consumers in their respective regions. This status, as guaranteed suppliers, results in the application of a particular regulatory regime, which, among other things, obliges Irkutskenergosbyt and Volgaenergosbyt to conclude an electricity supply contract with any customer applying for such contract that is located within the boundaries of the operational area of the respective company, regardless of the credit standing of such customer. Should such consumers withhold payments or fail to pay for any of the electricity supplied to them by Irkutskenergosbyt and/or Volgaenergosbyt, these supply companies may face liquidity shortages and, in turn, may fail to meet their payment obligations to generators on the wholesale market. As the ability to perform payment obligations in a timely manner constitutes one of the requirements imposed upon wholesale market participants, any failure by Irkutskenergosbyt and Volgaenergosbyt to collect payments for electricity supplied by them to customers may limit their access to the wholesale electricity market, which in turn may have a material adverse effect on the Group's business, financial position and results of operations.

If the Group faces difficulties in collecting overdue accounts receivable or if the amount of overdue accounts receivable increases, it could have a material adverse effect on the Group's business, financial position and results of operations.

### ***Risks relating to RUSAL***

#### ***The aluminium industry is highly cyclical and subject to price volatility as a result of significant fluctuations in supply and demand***

The aluminium industry is highly cyclical, and demand and prices for aluminium products are closely correlated to economic growth. RUSAL is, therefore, subject to cyclical fluctuations in global and regional economic conditions affecting aluminium end use markets. RUSAL sells many products to industries that are cyclical, such as the construction, transportation and automotive industries, and the demand for its products is sensitive to, and quickly impacted by, varying levels of demand for the finished goods

manufactured by its customers in these industries, which, in turn, may be impacted by changes to the worldwide economy, currency exchange rates, energy prices or other factors beyond RUSAL's control.

A significant portion of the global supply of aluminium is supplied by Chinese producers. Chinese aluminium producers often benefit from low cost of production, attributable to their access to inexpensive captive power sources and their historical investment in efficient production technologies. The low cost of production and favourable export policies of the Chinese government may lead to an oversupply of aluminium in the world market, particularly if Chinese production capacity continues with its current trend of re-acceleration. In addition, the impact of non-market forces on the total capacity of the global aluminium industry, such as political pressures in certain countries to keep jobs or to maintain or further develop industry self-sufficiency, may lead to the prevention of, or delay to, the closure or curtailment of certain otherwise non-performing producers' smelters, irrespective of their position on the industry cost curve.

In addition, there is a risk of global demand for aluminium decreasing as a result of the potential tightening of U.S. regulation on the physical trade of commodities, reduced foreign direct investment into China and reduced construction activity in connection with, amongst other things, the following potential scenarios: (i) an increase in the U.S. federal funds rate; (ii) a price correction in the Chinese real estate market; or (iii) an economic slowdown resulting from the exit of the U.K. from the European Union ("Brexit"). An increase in the supply of aluminium combined with a reduction in demand for aluminium could lead to a decrease in the price of the aluminium products sold by RUSAL.

RUSAL is unable to predict the future effects of aluminium industry variables, including the strength of the global economy and the effects of government intervention, on the aluminium industry. Negative economic conditions, such as major economic downturns, prolonged recovery periods, downturns in the commodity sector or disruptions in the financial markets, could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition to the factors relating to the cyclical nature of the aluminium industry, there is some volatility in the markets for alumina and bauxite, which are key raw materials used by the aluminium industry. The markets for alumina and bauxite are primarily governed by private contractual arrangements, where pricing information is not publicly disclosed. A relatively small proportion of alumina and bauxite trade is conducted on the spot market. The spot market largely follows the trends in the aluminium market, however, there can be some divergence.

#### ***The aluminium industry is highly competitive***

The Russian and international markets for aluminium and aluminium products are highly competitive. RUSAL competes primarily on the basis of price, volume, quality, technical innovation and the ability to meet customers' product specifications and delivery schedules. RUSAL's competitors include foreign aluminium producers, some of which are comparable to RUSAL in terms of their size, capital resources, global operations and production costs. The highly competitive nature of the aluminium industry, combined with excess production capacity for some aluminium products and a decline in raw material costs, has resulted, and may in the future continue to result, in downward pressure on the prices of some of RUSAL's products. In addition, the aluminium industry itself competes with other industries for certain other materials, in particular: (i) steel (used in transport, construction, packaging and engineering); (ii) plastics (used in packaging and construction); and (iii) copper (used in electrical applications and heat exchangers). The intensity of intra and inter market competition, combined with the cyclical nature of the aluminium markets, results in significant variations in economic performance, which could have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***RUSAL could be materially adversely affected by declines in aluminium and aluminium related product prices on global and regional markets***

The overall price of primary aluminium consists of several components: (i) the underlying base metal component, which is typically based on quoted prices from the LME; (ii) the regional premium, which comprises the incremental price over the base LME component that is associated with the physical delivery of metal to a particular location; and (iii) the product premium, which represents the incremental price for receiving physical metal in a particular shape (e.g., billet, slab, rod, etc.) or alloy. Each of the above three components has its own drivers of variability.

The LME price is typically driven by macroeconomic factors, such as global supply and demand for aluminium (including market expectations for growth or contraction in global supply and demand and the level of global inventories at any given time). An imbalance in the global supply and demand of aluminium, such as decreasing demand without corresponding supply declines, could have a negative impact on aluminium pricing. Speculative trading in aluminium, in addition to the influence of hedge funds and other financial institutions participating in commodity markets, has also increased in recent years, potentially contributing to higher levels of price volatility. In 2016, the cash LME price of aluminium reached a high of U.S.\$1,777 per tonne and a low of U.S.\$1,453 per tonne. High LME inventories, or the release of substantial inventories into the market, could lead to a reduction in the price of aluminium. Declines in the LME price have had a negative impact on RUSAL's results of operations.

Additionally, RUSAL's results could be adversely affected by decreases in the regional premiums that the parties in the physical metal market are willing to pay for immediate delivery of aluminium. Regional premiums tend to vary based on the supply of and demand for metal in a particular region and associated transportation costs. Product premiums are generally a function of supply and demand for a given primary aluminium shape and alloy combination in a particular region.

Since 2013, the LME has been engaged in a programme aimed at reforming the rules under which registered warehouses in its global network operate. The initial rule changes took effect on 1 February 2015, and further changes took effect in December 2016. These and potentially other changes to LME warehousing rules could cause regional premiums to decrease, which could have a negative short-term impact on the Group's results of operations.

The price of aluminium is variable and volatile. Variations in the price of aluminium are reflected in RUSAL's revenues within a short period of time. RUSAL has limited flexibility to respond to declines in the aluminium price by reducing operating costs or capital expenditure, as many of RUSAL's operating costs are relatively fixed and, furthermore, a substantial portion of RUSAL's capital expenditure budget is devoted to maintenance. Accordingly, a sustained weak LME aluminium pricing environment, deterioration in LME aluminium prices or a decrease in regional premiums or product premiums, could have a material adverse effect on the Group's business, financial condition and results of operations.

***RUSAL is exposed to the risk of non-payment or loss of key customers***

Large scale customers of RUSAL in 2016 included Glencore plc ("**Glencore**"), Toyota, Mechem SA, SMZ JSC and KUMZ JSC. The largest customer and the five largest customers of RUSAL accounted for 34% and 47%, respectively, of RUSAL's total sales for the year ended 31 December 2015, and for 31% and 42%, respectively, of RUSAL's total sales for the year ended 31 December 2016.

If one or more of RUSAL's key customers breaches or terminates their contracts with RUSAL or renegotiates or renews them on terms less favourable to RUSAL than those currently in effect, or if any such customer decreases the amount of business it transacts with RUSAL, this could have a material adverse effect on the Group's business, financial condition, prospects and results of operations. In particular, RUSAL's seven year contract with Glencore, RUSAL's largest customer by total sales, expires at the end of 2018. This agreement does not provide for an early termination at Glencore's option. If RUSAL is unable to reallocate the capacity presently purchased by Glencore to other customers following the expiration of the contract or is unable to enter into a new contract with Glencore on similar terms, the Group's business could be affected.

Furthermore, a significant downturn or deterioration in the business or financial condition of any key customers supplied by RUSAL could affect RUSAL's, and in turn the Group's, results of operations. RUSAL's customers may experience delays in the launch of new products, labour strikes, diminished liquidity or credit unavailability, weak demand for their products or other difficulties in their businesses. If RUSAL is not successful in replacing business lost from such customers, RUSAL's and, in turn, the Group's profitability may be adversely affected.

***RUSAL depends on the provision of uninterrupted transportation services and access to state owned infrastructure for the transportation of its materials and end products, often across significant distances, and the prices for such services (particularly rail tariffs) could increase***

The production of aluminium generally involves the transportation of materials and end products, often over great distances, because bauxite mines, alumina refineries, aluminium smelters and the principal

markets for aluminium products are located in different parts of the world. Most of RUSAL's main smelters are located in Siberia, far from their sources of materials, seaports and primary markets.

Railway transportation is RUSAL's principal means of transporting materials, mainly alumina, to its smelters and, conversely, end products to its customers. Any significant increase in rail tariffs could adversely affect RUSAL's profitability.

Certain portions of the railway tracks, including rail sidings and branch lines laid from the main rail system directly to several of RUSAL's production facilities, are not owned by RUSAL or by PJSC Russian Railways.

In addition to its use of railway transportation, RUSAL transports materials by sea, mainly alumina, from its overseas facilities to its Russian aluminium smelters, and distributes most of its upstream output to customers in markets outside Russia. For sea transportation RUSAL uses a number of Russian ports, primarily Novorossiysk, St. Petersburg, Vanino, Vladivostok, Vostochny and Zarubino. A failure in the transportation of materials to RUSAL's upstream production facilities, or any delays in deliveries, or any increase in costs arising from the transportation, could reduce RUSAL's competitiveness in international markets.

***RUSAL relies on third party suppliers for certain materials and the prices for such materials could increase***

RUSAL requires substantial amounts of raw materials, in particular bauxite, to produce aluminium and alumina. RUSAL's mines supplied most of the bauxite RUSAL used in alumina production in the years ended 31 December 2015 and 2016, with the remainder being supplied by third party mines with which RUSAL has medium and long term supply contracts. If RUSAL is unable to renew its bauxite supply contracts, expand production from its existing mines or acquire new mines, RUSAL might have to acquire bauxite from other suppliers at less favourable prices, which could adversely affect RUSAL's business, financial condition, results of operations and prospects. It could be difficult for RUSAL to find alternative sources of these materials on commercially acceptable terms, or indeed at all, if production by its third party suppliers were disrupted or if such suppliers significantly increased prices for raw materials supplied to RUSAL. Failure by RUSAL to secure the supply of these materials at commercially acceptable prices, either through negotiations with existing suppliers, purchases from other third party suppliers or through an increase in its own production capacity, could have a material adverse effect on RUSAL's and the Group's business, financial condition, prospects and results of operations.

***RUSAL is subject to certain requirements under Russian anti-monopoly laws***

Federal Law No. 135 FZ "On Protection of Competition" dated 26 July 2006, as amended (the "**Competition Law**"), generally prohibits any concerted action, agreement or coordination of business activity that results or may result in, among other things: (i) price fixing, discounts, extra charges or margins; (ii) a coordination of auction bids; (iii) the partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; and (iv) a refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons. There are also agreements which may be qualified as illegal where the regulator proves that they lead or may lead to restriction of competition. For example, agreements which impose unfavourable contractual terms, fix disparate prices for the same goods, create barriers for entering or exiting a market or restrict competition in any other way may be qualified as illegal. There is no established court practice on what constitutes concerted actions or coordination of business activity and the courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as a violation of the Competition Law. In a number of precedents, Russian courts found there to be concerted actions where market participants acted in a similar way within the same period of time, although, some might argue there were in such instances legitimate economic reasons for such behaviour and such behaviour was not aimed at restriction of competition. There is a risk that RUSAL could be found in violation of the Competition Law if its market behaviour vis à vis its customers or suppliers was viewed as being similar to the behaviour of RUSAL's competitors and perceived by the FAS as a purported restriction of competition. The Competition Law also prohibits any form of unfair competition, including, among other things, through defamation or otherwise. Such broad provisions and any such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on RUSAL's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

As a condition to obtaining anti-monopoly approval in Russia for RUSAL's acquisition of SUAL International Limited ("**SUAL**") and certain of the alumina and aluminium businesses of Glencore (the

“Glencore Businesses”), which occurred in 2007, RUSAL is required to notify the Russian regulatory authorities of any change in the prices of its products above a permitted range. In addition, for 20 years following the acquisition, RUSAL cannot charge a price for primary aluminium higher than a price calculated pursuant to a formula based primarily on the LME price and regional premium net of logistical costs when entering into agreements with purchasers in Russia based on an ex works or free carrier basis (as such terms are defined in the Incoterms published by the International Chamber of Commerce). In addition, during such 20 year period, RUSAL must not unreasonably change the technical purpose of the equipment used in RUSAL’s day-to-day operations, unless it receives the prior consent of the regulatory authorities, satisfies the demand on the Russian market at reasonable prices (to the extent possible), particularly with respect to products of which RUSAL is the sole Russian producer, offers non-discriminatory terms to all purchasers on Russian commodities markets and does not increase the price of foil and certain other products by more than 5% each quarter or 20% each year. Furthermore, RUSAL is required to inform the antimonopoly authority of any change in RUSAL’s structure or change in the position on the market of any of RUSAL’s subsidiaries, or of any change to RUSAL’s merchandising policy.

As a major Russian aluminium producer, RUSAL is likely to have a market share in Russia (and certain other CIS states) that exceeds 50%, which means that it is deemed to have a dominant position in those markets. Under the Competition Law, companies having a dominant position are subject to restrictions on their ability to set prices for their products. Any such restrictions on RUSAL may adversely affect its results of operations.

Furthermore, in connection with RUSAL’s international network of assets, past or future transactions, such as acquisitions, could be subject to the review and/or approval of foreign national or regional antitrust authorities, which, in turn, could result in fines, sanctions and/or delays, and could prevent it from completing transactions or could restrict its ability to realise its expected financial and/or strategic goals.

***The Group does not have operational or management control over Norilsk Nickel***

The Group holds 27.82% of the share capital of Norilsk Nickel through its shareholding in RUSAL. As at 30 June 2017, RUSAL has pledged a 27.66% shareholding in Norilsk Nickel as collateral to secure the RUSAL’s indebtedness to Sberbank. RUSAL has representatives on the board of directors of Norilsk Nickel, although such representatives do not constitute the majority of the board of directors. Although RUSAL is able to exert significant influence over Norilsk Nickel, the Group believes that its interest in the share capital and the presence of its directors on the board of directors does not provide RUSAL with the ability to prevent Norilsk Nickel from engaging in activities or pursuing strategic objectives that may conflict with the interests or overall strategic objectives of RUSAL and/or the Group. RUSAL also does not control the cashflows of Norilsk Nickel and its current cash return on this investment (absent divestment) is limited to the amount of dividends paid by Norilsk Nickel. Whilst the dividends received by RUSAL from Norilsk Nickel in recent periods have been sufficient to cover the entirety of RUSAL’s interest obligations under its outstanding indebtedness, a suspension or significant reduction in dividends paid by Norilsk Nickel could, in the absence of offsetting income from other sources, have a material adverse effect on the Group’s business, financial condition and results of operations.

***General Risks relating to the Group’s Operation of Industrial Assets***

***The Group’s power generation, aluminium and other operations are subject to hazards and risks that could lead to property damage or injury or death to persons***

The Group’s operations, like those of other companies engaged in production operations, such as power generation and the production of metals, as well as mining, are subject to all of the hazards and risks normally associated with the industrial development and exploration of natural resources, any of which could result in health and safety shortfalls or damage to persons or property. In particular, hazards associated with the Group’s power generating, aluminium production, mining and other operations include accidents associated with the operation of large equipment, mishandling of hazardous materials or wastes or fires, or accidents at electrolytic cells and other industrial accidents, or accidents during the preparation and ignition of large scale blasting operations. These operations have the potential to present risks to the health and safety of workers and neighbouring populations. The occurrence of any of these hazards could result in material damage to, or the destruction of, production facilities, human exposure to pollution, personal injury or death, environmental damage or damage to natural resources, delays to production or shipping, reduced sales, increased costs and losses associated with remedying the above situations, as well

as potential legal liability for the Group. The liabilities resulting from any of these risks may not be adequately covered by the Group's insurance, and no assurance can be given that the Group will be able to obtain additional insurance coverage at rates it considers to be reasonable. The Group may therefore incur significant costs that could have a material adverse effect on the Group's business, financial condition and results of operations.

***Equipment failures or other difficulties may result in production curtailments, reduced sales, increased costs or shutdowns***

A significant part of the existing industrial assets of the Group were commissioned during the Soviet era and require regular maintenance and modernisation in order to extend their operating lives. These facilities may be particularly susceptible to technical failures or emergencies, which, should they occur, could: (i) lead to accidents; (ii) cause disruptions in the Group's business; and (iii) necessitate the incurrence of additional expenses connected with planned and unplanned repairs of the facilities, maintenance costs and the replacement of such plant and equipment.

In addition, the businesses of power generation, mining, smelting and refining metals involve a number of other risks and hazards, including unusual or unexpected geological conditions, mine collapses, fires, explosions, adverse weather conditions and other natural phenomena such as earthquakes, hurricanes and floods. Moreover, the production of aluminium is dependent on the consistent supply of electricity, which can be interrupted for many reasons.

The occurrence of any of these events could result in curtailments to the production or shutdowns of the Group's assets, reduced sales, increased costs, significant damage to property or the environment, a loss of customers or a need for the Group to incur larger than expected capital expenditure to remedy the situation. Failures of the Group's facilities may result in accidents, which could result in personal injury to, or the death of, the Group's employees, damage to the environment and/or damage to the Group's assets. Such personal injury, death or damage could result in significant liabilities or losses for the Group.

In August 2009, a major accident occurred at Sayano-Shushenskaya HPP in Siberia, which is owned and operated by RusHydro, when water from the Yenisei river flooded the turbine and transformer rooms at the power plant's dam, killing 75 people and causing billions of roubles in damage. An official report published by Rostekhnadzor stated that the accident was primarily caused by the turbine vibrations, which led to fatigue damage to the mountings of the turbine. As a result of the accident, the plant halted power production, leading to severe power shortages. The production at Sayano-Shushenskaya HPP resumed partially within five months following the accident and fully in November 2014.

Furthermore, any opposition relating to the operation or development of the Group's industrial projects, whether from local government authorities or local community, political or environmental groups, could increase the Group's development costs, cause delays to or cancellations of the Group's development plans, harm the Group's reputation and/or hamper the Group's ability to develop new projects.

As evidenced by the above, failure to ensure the safe use of equipment could materially adversely affect the Group's operating results through reduced revenues and increased operating and capital costs, which could materially adversely affect the Group's financial condition and results of operations. While the Group implements regular inspection and maintenance practices with the aim of ensuring that defective plant, equipment and components are repaired or replaced before they fail, there is no guarantee that these preventative measures will be sufficient to prevent an operational failure and, consequently unplanned losses may occur, which, in turn, could materially adversely impact the Group's business, financial condition and results of operations.

***The Group's existing and future insurance may not cover certain events***

The Group's subsidiaries operate industrial facilities in which hazardous materials and substances that have the potential to present risks to the health or safety of workers and neighbouring populations are in use. The insurance policies purchased by the Group contain certain limits and exclusions that the Group believes to be in line with local industry practice. Should any claims be brought against the Group involving its business or products, it may be held liable for amounts exceeding applicable coverage ceilings or funding requirements and/or for losses arising in relation to uninsured or non-insurable events. Furthermore, any accident, whether occurring at a production site or during the transport or use of products made by the Group, may result in production delays or claims for compensation, particularly

contractual claims, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

*The Group is subject to numerous environmental, health and safety laws and regulations*

Ensuring compliance by the Group's subsidiaries with environmental laws and regulations requires the commitment of financial resources. Pollution risks and associated clean-up costs are often impossible to assess until audits of compliance with environmental standards have been performed and the extent of liability under environmental laws can be clearly determined.

The Group's power generation plants, coal production facilities, mines, refineries, aluminium smelters and other of the Group's facilities located in Russia are subject to statutory limits on air emissions and the discharge of liquids and other substances. Russian authorities may permit, in accordance with the relevant Russian laws and regulations, a particular Group facility to exceed these statutory limits, *provided that* the Group develops a plan for the reduction of the emissions or discharge and pays a levy based on the amount of contaminants released in excess of the limits. In September 2016, the Russian Government introduced a new scale of fixed-fee rates payable for negative environmental impact, depending on the particular type of pollutant. The lowest fees were imposed for pollution within the statutory limits, intermediate fees were imposed for pollution within individually approved limits and the highest fees were imposed for pollution exceeding all such limits. In 2016, 2015 and 2014, such fees amounted to U.S.\$7.2 million, U.S.\$10.7 million and U.S.\$16.5 million for RUSAL, respectively, and U.S.\$0.8 million, U.S.\$1.9 million and U.S.\$2.5 million for En+ Power, respectively. It is within the discretion of the Russian authorities to individually permit pollution in excess of the statutory limits, but any request may be denied. Moreover, the payment of fees for exceeding these statutory limits does not relieve the Group from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Compliance with environmental regulations in the jurisdictions where RUSAL has facilities, including E.U. regulations applicable to RUSAL's current and potential future assets located in the E.U., is an ongoing process. New laws and regulations, the imposition of stricter requirements for obtaining licences, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licences and/or the discovery of previously unknown contamination may require further expenditure to modify operations, install pollution control equipment, perform site clean ups, curtail or cease certain operations, pay fees or fines or make other payments for discharges or other breaches of environmental laws or regulations. The Group's management believes the financial risks associated with the introduction of increasingly strict environmental regulations are not significant for the Group.

In some cases, the Group is expected to benefit from stricter environmental regulations. For example, the introduction of prospective international obligations on "greenhouse gas" emissions, including the Paris Agreement, which is expected to apply from 2020, may result in RUSAL being able to sell its emission quotas. RUSAL has decreased its emissions from 5.8 tCO<sub>2</sub>e/tAl in 1990 to 2.4 tCO<sub>2</sub>e/tAl in 2016. In the event that the Group incurs significant additional unbudgeted expenditure, or experiences shutdowns of Group facilities as a result of environmental laws or regulations, this could have a material adverse effect on the Group's business, financial condition and results of operations.

A violation of environmental or health and safety laws applicable to a particular power generation plant, mine, refinery, smelter or other facility, or any failure by the Group to comply with the regulations or instructions of relevant environmental or health and safety authorities could lead to, among other things: (i) governmental authorities or private parties bringing lawsuits based upon damages to property and/or injury to persons resulting from the Group's past and current operations; (ii) the loss of a right to mine or operate a refinery, smelter or other plant; (iii) the confiscation of manufactured goods; (iv) the imposition of substantial fines, penalties, other civil or criminal sanctions; (v) the curtailment or cessation of operations; (vi) orders to pay compensation or orders to remedy the effects of violations; and/or (vii) orders to take preventative steps against possible future violations. Under Russian law, a temporary shutdown of an operating asset or, in certain cases, confiscation of manufactured goods may be imposed as a sanction for the breach of environmental or health and safety laws and regulations, although such sanctions are not usually applied in such cases in practice. If environmental or health and safety authorities require the Group to shut down all or a portion of a mine, refinery, smelter or other plant, or impose other penalties or implement costly compliance measures, whether pursuant to new or existing environmental or health and safety laws or other regulations, such measures could have a material adverse effect on the Group's business, financial condition and results of operations.

Russian environmental laws are constantly developing and improving to match the high standards of Western, including European Union, environmental regulations. For example, in 2014 the Russian Government adopted amendments to the existing environmental legislation introducing the concept of “best available techniques”. These amendments provide for, *inter alia*, developing a set of guidelines and measures to enable Russian production and industrial companies to improve their environmental performance by implementing the latest and most efficient techniques and methods for reducing the negative impact on the environment caused by their operations. It is currently unclear what specific guidelines and measures, if any, will be imposed pursuant to the new environmental legislation in respect of the industries in which the Group operates. However, should companies of the Group fail to implement or comply with any new or future legislation or environmental standards, such non-compliance may lead to a material adverse effect on the Group’s business, financial condition and results of operations.

The Group’s HPPs are located in the Siberian Federal District, along the Angara river. The vast water reserves of the Angara river create a natural environment for the development of hydro generation. However, such reserves are dependent on the water levels of Baikal, the river head of the Angara river. The water level of Baikal significantly affects Irkutsk HPP’s power output, while each of Bratsk HPP and Ust-Ilimsk HPP are less affected. Baikal and its fresh water reserves are protected by a special legislative environmental protection regime, which, *inter alia*, prescribes measures to control and maintain the level of Baikal’s waters. Such measures, among others, may include decreasing the level of water discharge to the Angara river, thus decreasing the water flow to the Group’s HPPs and their respective capacity utilisation levels, which in turn may adversely affect the Group’s results of operations. Furthermore, should any additional environmental legislation imposing further restrictions or obligations on the companies of the Group operating in Baikal area or otherwise affecting their operations be adopted, this may lead to a material adverse effect on the Group’s business, financial condition and results of operations.

***The licences and permits that the Group’s subsidiaries require for their business may be invalidated, suspended or may not be issued or renewed, or may contain onerous terms and conditions that restrict their ability to conduct operations or could result in substantial compliance costs or administrative penalties***

The Group’s business depends on the ability of the Group’s companies to identify and obtain the licences that they require, the continuing validity of certain of their licences and permits, the issuance of new licences to them and their compliance with the terms of such licences and permits. The Group’s operations and assets are subject to regulation by various government entities and agencies, both when obtaining and renewing various licences, approvals, authorisations and permits, as well as on an ongoing basis when complying with existing laws, regulations and standards.

Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, approvals, authorisations and permits and in monitoring licensees’ compliance with the terms thereof. Requirements imposed by these regulatory authorities may be costly/or time-consuming and may result in delays in the commencement or continuation of exploration activities or to production operations.

Under certain circumstances, state authorities in countries where the Group’s subsidiaries operate may seek to interfere with the issuance of licences, for example, by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure or other extra-legal factors. For example, in the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities if the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the relevant licence. Accordingly, any licences that the Group requires may be invalidated or may not be renewed. Such licences that are issued or renewed may not be issued or renewed in a timely fashion and/or may involve conditions that restrict the Group’s ability to conduct its operations in a profitable manner, or to conduct its operations at all in a given area.

Pursuant to the Group’s obligations under current licensing regulations and the terms of its licences, it is also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group’s operations, maintain all appropriate filings and, upon request, submit appropriate information to certain licensing authorities, which are entitled to exert control over and inspect its activities. As a result, while the Group seeks to comply with the terms of its licences and believes that it is currently in material compliance with the terms of all such licences, there can be no assurance that its licences will not be suspended or



terminated if the licensing authorities in the countries where the Group operates discover or otherwise allege a material violation of the terms of the licences by the Group, in which case, the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying such alleged violation, which, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Any or all of these factors could affect the Group's ability to obtain, maintain or renew its material licences. If the Group fails to comply with the requirements of applicable laws, fails to meet the terms of its licences, is unable to obtain, maintain or renew necessary licences, or is only able to obtain or renew them with new material restrictions, it may have to cease or otherwise alter certain or its operations, and this, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Furthermore, there can be no assurance that no new local, state or federal licence requirements will be introduced (for example, electricity supply, which is not subject to licensing, is currently being considered by the Russian Parliament to become subject to licensing) or that any given licence will be deemed by the competent governmental authorities to sufficiently cover the Group's current or future operations, nor can there be any assurance that the Group will be able to obtain the necessary licences to cover such operations in the desired timeframe, if at all.

***The Group's business may be affected by labour disruptions, shortages of skilled labour and labour cost inflation***

Competition for skilled labour is intense in the production industries, such as the power industry and the metals industries, and labour costs have in the past increased significantly, particularly in Russia. The demand and, consequently, costs for skilled engineers, construction workers and operators may continue to increase if the current levels of significant demand from other industries and public infrastructure projects continues. Continual high demand for skilled labour and continued increases in labour costs could have a material adverse effect on the Group's business, financial condition and results of operations.

A significant amount of the Group's employees in Russia are members of labour unions. The Group has not experienced any strikes that have had a material adverse effect on the Group. However, there can be no assurance that a material work slowdown, stoppage or strike will not occur, particularly at the key production facilities of the Group's subsidiaries. The Group's management is unable to estimate the effect of any such work slowdown, stoppage or strike on the Group's subsidiaries' production levels.

Significant work slowdowns, stoppages or other labour-related developments could have an adverse effect on the Group's business, financial condition and results of operations, particularly if they occur at key production facilities of the Group's subsidiaries.

***Risks relating to Financial Condition***

***The Group has high leverage and a substantial amount of its borrowings are secured and subject to covenants, which could be breached***

The Group has a substantial amount of outstanding indebtedness, primarily consisting of bank loans. As at 30 June 2017, the Group's consolidated total debt (comprising long-term loans and borrowings, current loans and borrowings, accrued interest and bonds) was U.S.\$14,211 million. The Group's interest expense for the first half of 2017 was U.S.\$621 million. The Group's consolidated total debt as at 30 June 2017 comprises RUSAL's debt (63.0%) and En+ Power's debt (37.0%). The Group's ability to service and repay its indebtedness will depend on its ability to generate cash in the future and to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which are outside of the Group's control, such as the willingness of credit institutions to provide financing to the Group on commercially reasonable terms, in a timely manner, or at all.

The Group's ability to generate cash is dependent on several factors, including the Group's ability to generate sufficient operating cash flows, otherwise engage in cash-generative transactions or raise additional indebtedness. In particular, in order to generate cash, the Group is also dependent on the earnings and dividend streams of its subsidiaries. The terms governing the Group's existing indebtedness, however, contain certain restrictive covenants, which may limit the Group's ability to incur new debt, create liens on the Group's property, dispose of assets or otherwise engage in certain transactions that would generate sufficient cash flows. The Group may enter into similar agreements in the future that further restrict it from engaging in these or other types of activities.

Any inability of the Group to generate sufficient cash flow or otherwise obtain the funds necessary to service or repay its indebtedness, or any failure of the Group to comply with any of the covenants given by it under terms of its indebtedness, may cause a default, may result in the debt becoming immediately due and payable and may potentially lead to cross-defaults under or acceleration of the Group's other indebtedness, each of which would materially adversely affect the Group's business, results of operations, financial condition and prospects.

In addition, the Group may be required to refinance all or portions of its indebtedness on or before maturity, sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms, or at all, and the Group may not be able to sell its assets or, if sold, the proceeds therefrom may not be sufficient to meet the Group's debt service obligations.

The Group's inability to generate sufficient cash flow to satisfy its debt service obligations, or to refinance debt on commercially reasonable terms, could materially adversely affect the Group's business, results of operations, financial condition and prospects.

***The Group's ability to meet its obligations depends to a large extent upon receipt of sufficient funds from its subsidiaries***

The Group depends on dividends from its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of principal and interest on its existing debt, and any of the Group's borrowings incurred in the future. The Group's subsidiaries located in various jurisdictions are subject to different limitations on their ability to declare and pay dividends as a result of regulatory, fiscal and other restrictions. For example, in Russia, where most of the Group's operating subsidiaries are located, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards ("RAS"). Furthermore, certain loans and borrowings, including those of the Group's subsidiaries, are subject to restrictive covenants, including, but not limited to, compliance with established financial ratios, limitations on dispositions of assets and limitations on transactions within the Group's companies.

In particular, the Group to a large extent depends on the receipt of dividends from RUSAL, which has a significant amount of indebtedness, the terms of which impose restrictive covenants limiting RUSAL's ability to dedicate a substantial portion of its cash flow to business purposes other than the servicing of its debt portfolio, such as restrictive covenants limiting capital expenditures, investments and dividends. Covenants included in RUSAL's loan agreements also restrict its ability to distribute dividends by linking such payments to satisfaction of a specific net debt/EBITDA ratio. Prior to 2015, RUSAL did not meet the threshold ratio and did not distribute dividends to its shareholders, while in 2015 and 2016 RUSAL was able to reduce its Covenant Net Debt/EBITDA ratio below the established ratio, which enabled it to approve interim dividends for 2015 and 2016. Following the refinancing of the Combined PXF in 2017, the dividend covenant was revised to allow RUSAL to pay dividends to its shareholders in an amount capped at 15% of RUSAL's Covenant EBITDA (as defined in the 2017 PXF Facility Agreement, and which includes for this purpose dividends paid on shares in Norilsk Nickel), subject to certain conditions. Whilst RUSAL's management considers the reduction of RUSAL's leverage to be its key priority in the near and medium term, there can be no assurance that it will be successful in doing so and/or that RUSAL will be able to distribute dividends in future periods.

The Company has entered into a deed of guarantee in connection with a loan agreement between one of the Group's subsidiaries (as borrower) and VTB (as lender) in the aggregate principal amount of U.S.\$1,043 million, pursuant to which it undertakes to comply with certain restrictive covenants. In particular, the Company undertakes not to pay, make or declare any dividend or other distribution (including the provision of any amounts pursuant to any form of intercompany loan) to its shareholders in respect of any financial year while any amount remains outstanding under the loan agreement. The Offering is being conducted, *inter alia*, in order for the Group to raise funds to repay in full the loan provided by VTB under the VTB Facility. The outstanding amount of this loan was U.S.\$942 million as at 30 June 2017. For further description of the VTB Facility, see "*Operating and Financial Review—Indebtedness—Loans and Borrowings—En+ Power—Loan agreement between GrandStroy and VTB guaranteed by the Company*".

Any inability of the Group's subsidiaries to distribute dividends to the Group could have a material adverse effect on the Group's cash flows generally and, in particular, on its ability to service its borrowings or to meet any other costs it may incur.

***The Group is exposed to foreign currency fluctuations which may affect its financial results***

The Group reports its financial results in dollars. Revenues of several key subsidiaries of the Group, such as RUSAL, are either denominated in dollars or linked to the dollar, while their costs are partially denominated in the rouble, euro and/or hryvnia (because they or certain of their subsidiaries have substantial production facilities in Russia, the E.U. and/or Ukraine, respectively). Accordingly, depreciation of these currencies against the dollar has a positive effect, and appreciation of these currencies against the dollar has a negative effect, on the Group's operating margins. However, revenues of the companies attributable to En+ Power are denominated in roubles and linked to prices partially set by the Russian regulator in roubles. Therefore, depreciation of the rouble decreases the corresponding share of revenues attributable to such companies as presented in the Group's consolidated results, which are presented in dollars. Thus, exchange rate fluctuations are partly hedged between the Group's key reporting segments, as for example, depreciation of the rouble decreases En+ Power's revenues in the Group's consolidated results, but at the same time RUSAL's costs are decreased.

Furthermore, the Group estimates that while depreciation of the rouble against the dollar may have a positive effect on the consolidated results from operations, it may also have a negative effect on the Group's profit and comprehensive income due to foreign exchange losses caused by the revaluation of the dollar-denominated debt and rouble-denominated investments (including the interest in Norilsk Nickel).

The rouble has in recent periods experienced significant depreciation against the dollar, largely as a result of the CBR's free float rouble exchange rate policy and the significant fall in prices of oil and commodities, which are the principal generators of Russia's export earnings. Moreover, inflation of the Group's costs in roubles, euros and hryvnia, if not counterbalanced by a corresponding depreciation of the relevant currency against the dollar or an increase in prices for the Group's products, could adversely affect margins of the Group's subsidiaries and the consolidated accounts of the Group. For more information on the Group's exposure to foreign currency fluctuations (see "*Operating and Financial Review—Key Factors Affecting Results of Operations—General Factors—Currency Fluctuations*").

***The Group faces interest rate risk***

The Group's exposure to interest rate risk relates primarily to the Group's long-term borrowings with floating interest rates. As the Group's key subsidiaries have different functional currencies (the rouble or dollar), the Group obtains long-term financing on different interest rate bases to better hedge the Group's interest rate risk.

As at 31 December 2016, 76.7% of the Group's total loans had floating interest rates. These financings are mainly attributable to RUSAL, whose functional and presentation currency is the dollar. As at 31 December 2016, 29.2% of the Group's total loans were rouble-denominated and were predominantly attributable to those of En+ Power's subsidiaries whose functional currency is the rouble. In December 2014, in response to significant volatility on the financial markets, the CBR increased its key rate from 10.5% to 17.0%. Following the increased cost of funding on the interbank market, the Russian lenders to En+ Power increased their rates on loans to maintain their margins, which, in turn, increased the interest expenses of En+ Power. The Group managed this exposure by early repayment of floating rate borrowings, while retaining other existing credit line agreements which contained provisions that prevented the lender from unilaterally increasing the interest rate. In light of the stabilisation of the market, the CBR has gradually decreased the key interest rate, subsequently lowering it to 8.25% in October 2017. Although the Group monitors interest rate fluctuations in order to mitigate its interest rate risk, interest rate movements on both the domestic and international markets may have a material adverse effect on the Group's business and financial condition. For a discussion of this exposure see "*Operating and Financial Review—Financial Risk Management—Interest Rate Risk*".

***The Group typically receives a qualified review report on its financial information as at and for the three months ended 31 March and as at and for the nine months ended 30 September in each financial year***

Because the Group's principal equity investee, Norilsk Nickel, does not publish any financial information as at or for the three-month period ended 31 March and as at or for the nine-month period ended 30 September in each financial year, for the purposes of preparing its financial information for such

periods, the Group is required to estimate certain amounts in respect of its interests in associates. As a result, the Group's independent auditor typically provides a review report with a qualified conclusion relating to such periods.

While the Group believes, based on the information RUSAL receives as a shareholder in Norilsk Nickel and other publicly available information about Norilsk Nickel's business, that its estimates are reliable, there can be no assurance that these estimated amounts will not need to be adjusted in the future. Any such adjustment could potentially require the Group to restate its financial information as at and for the three-month period ended 31 March and as at or for the nine-month period ended 30 September, or to reflect such adjustments in its audited consolidated financial statements for subsequent periods, any of which could, if such adjustments are negative, have a material adverse effect on the results of operations or financial condition of the Group for such period.

### ***Risks relating to Strategy***

#### ***The interdependence of En+ Power and RUSAL affects the Group's business***

RUSAL's core Siberian aluminium smelters are among the largest customers of En+ Power. En+ Power supplies electricity to RUSAL's Bratsk, Irkutsk and Krasnoyarsk aluminium smelters under direct long-term and short-term power supply agreements.

Aluminium smelting is an electricity intensive industry, dependent on high volumes of electricity for the production of aluminium. En+ Power has no single customer who consumes volumes of electricity comparable to those required by RUSAL's aluminium smelters that En+ Power supplies. Similarly, there are limited numbers of other power generation companies capable of assuring the volumes of electricity and capacity required by RUSAL aluminium smelters. In addition, these aluminium smelters source a certain volume of electricity on the wholesale market, therefore also indirectly from En+ Power. Historically, aluminium smelters and HPPs were built as a single production complex.

In 2016, RUSAL consumed a total of 59.4 TWh of electricity in the Siberian IPS under CRU estimates, while En+ Power produced 67.4 TWh of electricity (56.3 TWh of which by HPPs) in Siberia. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The Company's management believes that the Group's key competitive advantage in terms of creating value through vertical integration lies in the close match of the electricity needs of RUSAL and the electricity production of En+ Power. The long-term power supply contracts secure a stable source of electricity supply for RUSAL's aluminium smelters, while providing a benefit for En+ Power through securing a base load demand for electricity. The Company estimates that even if these contracts did not exist, the volumes would be supplied to the wholesale market by En+ Power's HPPs (being the price takers and supplying to the market as much electricity as they are able to generate) and would be consumed by RUSAL's Siberian smelters (being one of the most cost efficient aluminium producers in the world).

Consequently, the relationship between En+ Power, on the one hand, and the aluminium smelters of RUSAL (through long-term supply agreements and through the wholesale market), on the other, is interdependent and complementary. Through day-to-day management of En+ Power and its strategic control of RUSAL, the Company has the ability to plan long-term capital expenditures for its power and aluminium businesses in Siberia.

In October 2016, En+ Power entered into new long-term power supply agreements with RUSAL effective from 1 November 2016 and 1 January 2017, replacing previous arrangements that had been in place since November and December 2009. The parties renegotiated these long-term power supply contracts to reflect the price for electricity with reference to the wholesale market in Siberia. The renegotiated long-term contracts provide for the supply of electricity to RUSAL's aluminium smelters located in Bratsk, Irkutsk and Krasnoyarsk, generally at a rate 3.5% below market price (on a day-ahead market basis). The agreements also contain certain provisions relating to the volumes of electricity to be supplied each year. The 3.5% discount does not apply to any electricity supplied to the aluminium smelters that is in excess of such annual maximum amounts. Also, these agreements do not include the sale of capacity (see "*Business—Business Operations—En+ Power—Power Segment—Sales and Distribution—Power Supply Contracts with RUSAL*").

The prices under the previous long-term power supply agreements with subsidiaries of RUSAL were calculated through formulae linked to the LME aluminium price and the RUB/U.S.\$ rate. These formulae took into account a variety of factors, which varied somewhat from contract to contract, such as generation costs and a margin, day-ahead market prices and the aluminium price, and also set price floors. The agreements set forth maximum amounts of electricity to be supplied each year and the prices under the contracts did not apply to any electricity and capacity supplied to the smelters in excess of such maximum amounts. The price formulae under the previous long-term supply agreements predominantly led to prices that were usually below the prevailing day-ahead market prices in the Siberian IPS. As a result, En+ Power sold a substantial part of its electricity and capacity at prices below the prevailing day-ahead market prices.

The demand for electricity and capacity from the aluminium smelters of RUSAL located in Siberia either under long-term power supply agreements or through the wholesale market will likely impact the prices for electricity and the production volumes of En+ Power. If RUSAL smelters were to stop or substantially curtail their aluminium production, there would be a reduction in the aggregate demand for electricity and capacity. The Group's management believes that it is unlikely that RUSAL will stop or substantially curtail aluminium production at its Siberian smelters, as they are the most efficient smelters of RUSAL and within the first quartile of the cash cost curve globally. The Company believes that if RUSAL were to commission new projects in the future, through which additional demand for electricity was created, the installed capacity of power generation facilities of En+ Power would allow them to satisfy this increase in demand without significant capital expenditures (assuming sufficient water inflow) at least within a five-year horizon. In the past, RUSAL impacted En+ Power as a result of significant leverage. For example, RUSAL experienced financial difficulties in late 2008 through the end of 2009, and, as a result, its aluminium smelters failed to make substantial payments when due in respect of their power purchases. If prices for electricity decrease due to decreased demand, if RUSAL smelters purchase less electricity and capacity than expected under the Group's long-term power supply agreements (and other customers are not found to purchase electricity at similar prices) or if substantial arrears due from RUSAL build up, En+ Power's and, therefore, the Group's business and results of operations could be materially adversely affected.

The unregulated prices at which En+ Power sells the majority of its electricity and capacity may fluctuate significantly. It is possible that some of En+ Power's generating facilities may at times be required to sell their electricity output at low prices. While electricity consumption is proportionate to the aluminium produced, and so an increase in the volume of aluminium produced by a smelter will result in a corresponding increase in the electricity consumed by the smelter, lower prices for electricity will have a positive impact on RUSAL's cost of sales and an adverse effect on En+ Power's revenues. Historically, electricity prices have in general consistently increased in line with inflation, although, on average, the comparatively low electricity prices in Siberia remain a structurally competitive advantage for RUSAL. Prices on the Russian power market are denominated in roubles and are not linked to an exchange rate to dollars or any other foreign currency.

In light of the above, the Group may be in a situation where the increased electricity component in RUSAL's cost of sales translates into increased revenues and profit for En+ Power. The opposite trend may occur, whereby any decreased prices for electricity could be positive for RUSAL and adversely affect En+ Power's business. While on a consolidated basis the Group's results of operations will generally remain unaffected, if a significant downturn occurs that results in a material decrease in demand for electricity from RUSAL, which, in turn, adversely affects prices for the electricity supplied by En+ Power, the Group's business, financial condition and results of operations could be adversely impacted.

Furthermore, in the event that any other risk factor described in this Prospectus came into effect and significantly affected the operations of En+ Power or RUSAL to a point where either of them were unable to perform their obligations in respect of their counterparties, including counterparties operating in another segment of the Group, such other interconnected segment may be correspondingly affected.

Therefore, taking into account the Group's strategy to further deepen the synergy and interdependence between its core assets, should either En+ Power or RUSAL change its cooperation and synergy strategy, or should one of these segments be adversely affected by any of the other risks described above or elsewhere in this Prospectus, the other segment's (and, therefore, the Group's) business, results of operations, financial condition and prospects may be significantly and adversely affected.

*The Group may fail to effectively manage the growth of its business and operations*

Some of the Group's businesses and operations have experienced, and may experience in the future, rapid growth, which has placed, and may continue to place, significant demands on the Group's managerial, operational and financial infrastructure. If the Group does not effectively manage such growth, the quality of its companies' products and services could suffer, which could negatively affect the Group's operating results. To sustain or manage this growth effectively, the Group will need to continue to improve its operational, financial and managerial controls, and the reporting systems and procedures of some of its subsidiaries. Effective management of the Group's growth will require, among other things: (i) the continued development and implementation in newly acquired businesses of financial and managerial controls and information technology systems; (ii) the ability to adapt to changes in the markets and industries in which the Group operates; (iii) the ability to manage risks associated with potential expansion into other emerging markets; and (iv) the hiring and training of new personnel. Any inability of the Group to successfully manage this growth could have a material adverse effect on its business, results of operations, financial condition and prospects.

*The Group is dependent on attracting and retaining qualified senior management personnel at a reasonable cost*

The Group's ability to maintain its competitive position and to implement its business strategy is dependent, to a certain degree, on the skills and abilities of its senior management team. The Group's business has benefited in the past from the contributions of a number of the Group's key senior managers, including the strategic guidance of the Mr. Oleg Deripaska (the "**Majority Shareholder**"), the controlling shareholder of the Group. Competition in Russia for personnel with relevant expertise is relatively intense, due to the limited quantity of qualified individuals, and this situation affects the Group's ability to retain its existing senior management and attract additional qualified senior management personnel. The loss of or diminution in the services of members of the Group's senior management team, or an inability to attract, retain and maintain additional senior management personnel, could have a material adverse effect on the Group's business, financial condition and results of operations.

*Risks relating to Corporate Structure*

*The Majority Shareholder will continue to control the Group and the Majority Shareholder's interests may differ from the interests of other shareholders*

Immediately prior to the Offering, the Majority Shareholder was the Group's controlling shareholder with 82.65% of the Company's share capital. Following the completion of the Offering, the Majority Shareholder will control 77.4% of the Company's share capital (and 76.6% assuming full exercise of the Over-Allotment Option). As the controlling shareholder, the Majority Shareholder has significant influence over the Group's business strategy (including decisions on acquisitions and disposals of businesses), corporate affairs, management and policies. The Group believes that such influence has been, and will continue to be, important in the development, pursuit and implementation of the Group's strategy. However, there can be no assurance that the Majority Shareholder's interests, views or strategy in relation to the development of the Group's business will coincide with those of other shareholders. The Majority Shareholder possesses and is expected to continue to possess sufficient votes to pass most shareholder resolutions without regard to the votes of other shareholders. Potential conflicts may arise if the Majority Shareholder chooses not to approve matters which would otherwise be in the interests of the remaining shareholders. In addition, the Majority Shareholder may act in concert with other significant shareholders that may have similar interests and/or views on matters submitted to a vote of shareholders or to the Board of Directors for deliberation. Taken together, such shareholders acting in concert would be able to control the outcome of virtually all such shareholder votes and deliberations of the Board of Directors.

*Adverse media speculation, claims and other public statements could adversely affect the value of the GDRs*

The media and others have speculated publicly from time to time about a wide variety of matters relating to the Group's beneficial owners. For example, there has been negative coverage in the media recently relating to the rejection by U.S. authorities of Mr. Deripaska's application for a visa to enter the United States, the most recent of which occurred in 2015. Mr. Deripaska has repeatedly and consistently challenged these denials as being unwarranted and unsupported, and since 2015 has continued to enter the United States with his Russian diplomatic passport.

There have also been recent negative media reports alleging that Mr. Deripaska had ties to one of U.S. President Donald Trump's campaign associates who reportedly is under investigation by the U.S. Justice Department and Congress in relation to alleged collusion with Russian officials to interfere in the U.S. presidential campaign. In connection with any such investigation, Mr. Deripaska may be required to provide assistance by way of witness testimony and/or the provision of documents. Mr. Deripaska has consistently challenged such allegations as false and unsupported. Mr. Deripaska has confirmed to the Company that, to the best of his knowledge, neither he nor any of his business interests, including the members of the Group, is the subject of any current U.S. or E.U. governmental or regulatory investigations or proceedings.

Local and international press may generate, from time to time, speculative reports that contain allegations against Russian companies or individuals within Russian companies, irrespective of whether those allegations have any basis in fact. Nevertheless, adverse media speculation, claims and other public statements of the kind referred to above may adversely affect the value of the GDRs or distract the Group's management from their day-to-day management responsibility.

### **Risks relating to Russia and Other Countries of Operation**

The majority of the production assets owned and/or operated by any of the Group's subsidiaries are located in Russia, which is an emerging market. Investors in emerging markets should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political, social and legal risks. Investors should also note that emerging economies, such as Russia, are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

#### ***General***

***Emerging markets, such as Russia, are generally subject to greater risks than more developed markets, including significant economic, political and legal risks***

Prospective investors should exercise particular care in evaluating the risks involved in investing in emerging market securities, and must decide for themselves if, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with, and fully appreciate the significance of, the risks involved in investing in such markets. Investors should be aware that emerging markets, such as the Russian Federation, are subject to greater risks than more developed markets, including in some cases significant economic, political, social, legal and legislative risks. Prospective investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in such emerging economies and adversely affect their economies. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as funding sources are withdrawn. Any financial turmoil in emerging or developing markets other than in Russia could materially adversely affect the Group's business, results of operations, financial position and prospects.

#### ***Risks relating to the Political, Economic and Social Situation in Russia***

***Political risks could adversely affect the Group's operations***

Subsidiaries of the Group have production facilities in Russia, Ukraine, Italy, Sweden, Ireland, Jamaica and Nigeria. There are a number of risks associated with operating in some of these countries, particularly in Russia, where most of the Group's fixed assets are located.

While the political situation in the Russian Federation has been relatively stable since 2000, its future policies and regulations may be less predictable than in less volatile markets. Any future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. In addition, any change in the Russian Government or its current programme of market reform, or any lack of consensus between the Russian President, the Prime Minister, the Russian Government, the Parliament and powerful economic groups, could lead to political instability and a deterioration in Russia's investment climate, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

According to some commentators, politically motivated actions, including claims brought by the Russian authorities against several major Russian companies, have called into question the security of property and contractual rights, the progress of the current programme of market and political reforms, the independence of the judiciary and the certainty of legislation. This has, in turn, resulted in significant fluctuations in the market price of Russian securities and has had a negative impact on foreign investments in the Russian economy, over and above the recent general market turmoil. Any similar actions by the Russian authorities which result in a further negative effect on investor confidence in Russia's business and legal environments, could have a further material adverse effect on the Russian securities market and the price of Russian securities.

Russia is a federative state consisting of 85 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the Russian Government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" ("federal'nye okruga"), which are overseen by a plenipotentiary representative of the President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subjects have enacted conflicting laws in areas such as privatisation, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, subject and local authorities. This tension creates uncertainties in the operating environment in Russia, which may prevent businesses from carrying out their strategy effectively.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been committed within the Russian Federation. The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

***Deterioration of Russia's relations with other countries could negatively affect the Russian economy and those of nearby regions***

Over the past several years, Russia has been involved in conflicts, both economic and military, involving neighbouring states. On several occasions, this has resulted in the deterioration of Russia's relations with other members of the international community, including the United States and various countries in Europe. Many of these jurisdictions are home to financial institutions and corporations that are significant investors in Russia and whose investment strategies and decisions may have been affected by such conflicts and by the worsening relations between Russia and its immediate neighbours. For example, political instability and deteriorating economic conditions led to a wide-scale crisis in Ukraine in late 2013 and the beginning of 2014. For example, as a result of a wide-scale political crisis in Ukraine in late 2013 and the beginning of 2014, in March 2014, following a public referendum, the Crimean peninsula and the city of Sevastopol became new separate constituents of the Russian Federation. The events relating to Ukraine and Crimea have been strongly opposed by the E.U. and the United States, with a resulting material negative impact on their relationships with Russia.

In addition, Russia's involvement in the armed conflict in Syria since September 2015 has occasionally put and may continue to put pressure on international relations between Russia and other countries. Russia's involvement in the conflict in Syria could further lead to an escalation of geopolitical tensions, the possible introduction or expansion of international sanctions against Russia by other countries and an increased risk of terrorist attacks.

In December 2016, the President of the United States issued an executive order, which allowed for the imposition of sanctions on individuals and entities determined to be responsible for tampering, altering, or causing the misappropriation of information with the purpose or effect of interfering with or undermining election processes or institutions in the United States. In accordance with the executive order, the U.S. Office of Foreign Assets Control ("OFAC") extended its list of sanctioned Russian entities and individuals to include persons which are believed to have been involved in the alleged hacker attacks on the servers of the U.S. political parties during the 2016 presidential election. Furthermore, on 2 August 2017, the U.S. President signed into law the "Countering America's Adversaries through Sanctions Act" (the "CAATs Act") which includes additional sanctions against Russian entities. The CAATs Act, *inter alia*: (i) codifies the existing sanctions against Russia established by former President Obama's executive orders, effectively requiring the U.S. President to secure Congressional approval before easing the targeted U.S. sanctions



pertaining to Russia; (ii) reduces the permitted terms of financing under the existing sectoral sanctions and further restricts supplies of equipment to certain energy projects involving Russian companies; (iii) gives the U.S. Treasury Secretary the power to impose sanctions against state-owned parties in Russia in the railways, metals, and mining sectors of the Russian economy and allows the U.S. President to introduce additional sanctions against new persons (including those investing in the construction or servicing of Russian energy export pipelines); (iv) requires the U.S. Treasury Secretary to produce a report to U.S. Congress assessing the potential impact of imposing additional sanctions on Russian persons; and (v) purports in certain circumstances to require the U.S. President to impose asset-blocking and travel sanctions, including certain secondary sanctions, on any person who knowingly engages in significant activities that undermine the cybersecurity of any person or government, including a democratic institution, on behalf of the Russian government. The sanctions package may have a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally and could, in particular, materially adversely affect the Group's business, results of operations, financial position and prospects.

The sanctions which the United States has or may in future impose consist of (i) sectoral sanctions which place restrictions on access to capital markets and financing terms; (ii) designation as a Specially Designated National and Blocked Person (“SDN”), which prohibits substantially all transactions by any U.S. persons or entities with the SDN; and (iii) secondary sanctions, whereby non-U.S. persons can be subject to sanctions for dealing with an SDN or other existing sanctions target.

The emergence of new or escalation of existing tensions between Russia and neighbouring states or other states could negatively affect the Russian economy. This, in turn, could result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such lack of confidence could result in reduced liquidity, increased trading volatility and significant declines in the price of listed securities.

#### *Sanctions relating to the situation in Ukraine*

The political instability and conflict in Ukraine, heightened levels of tension between Russia and other states, the imposition by the United States, the European Union and other countries of sanctions and other restrictive measures against Russia, and the imposition by Russia of sanctions, including import and travel restrictions against others, has had in the past, and may continue to have in the future, an adverse effect on the Russian economy.

The United States, the European Union and a number of other jurisdictions and authorities have imposed sanctions on a number of Russian officials and individuals and former Ukrainian officials, and several Russian companies and banks, with the consequence that entities and individuals in the United States and European Union cannot do business with such persons or provide funds or economic resources to them. Certain assets in the relevant sanctioning jurisdictions are subject to seizure and the sanctioned individuals to visa bans. In addition, the United States and European Union have applied “sectoral” sanctions, whose principal consequence is that several leading Russian banks have been restricted from accessing international capital markets. These sanctions have adversely affected the Russian economy and Russia's financial markets, increased the cost of capital and capital outflows, and worsened the investment climate in Russia. Any introduction of sanctions targeting a broader segment of the Russian economy could interfere with the Group's operations, which would have a material adverse effect on its ability to conduct business with suppliers, agents and other third parties.

In addition, regarding sanctions imposed by Ukraine, Order No. 467/2016 and Order No. 133/2017 of the President of Ukraine were introduced in October 2016 and May 2017, respectively. They designated the following persons as sanctioned persons under Ukrainian law: (i) JSC Russian Aluminium (a Russian subsidiary of RUSAL and intermediate holding company for RUSAL's Russian operations); (ii) Judson Trading Limited (a Cypriot subsidiary of RUSAL); and (iii) four individuals that have in the past been members of the board of directors or, in one instance, an attorney-in-fact of the former RUSAL subsidiary PJSC Zaporozhye Aluminium Combine (“ZALK”). Such designation places certain restrictions on the activities and assets within Ukraine of the designated persons. RUSAL does not expect its main operational asset in Ukraine, the Nikolaev alumina refinery, to be affected by the Ukrainian sanctions designations described in this paragraph.

Furthermore, while none of the Group's subsidiaries nor the Majority Shareholder are currently subject to any U.S., E.U. or Ukrainian sanctions, should any of the Group's subsidiaries or the Majority Shareholder become subject to such sanctions, there may be significant restrictions or bans imposed on dealings with

the companies of the Group. Any non-compliance with U.S., E.U. and other sanctions programmes could expose the Group to significant fines and penalties and to enforcement measures, which in turn could adversely impact its business, financial condition, results of operations or prospects.

***Acts of terrorism could have a material adverse effect on the Group's business***

Like other companies with major industrial assets, the Group's plants, warehouses and ancillary facilities may be targets of terrorist activities. Any damage to infrastructure facilities, such as electricity generation, transmission and distribution facilities, or injury to employees, who could be direct targets or indirect casualties of an act of terrorism, may affect the Group's operations. For example, in July 2010, Baksanskaya HPP, located in the North Caucasus part of Russia and owned by RusHydro, was attacked and various equipment was damaged. No interruption of electricity supply for consumers resulted from the incident, although the attack resulted in a slight decline in power generation by Baksanskaya HPP. Any disruption of the Group's operations could result in a significant decrease in Group revenues and significant additional costs being incurred by the Group to replace, repair or insure its assets, which could have a material adverse effect on the Group's business, financial condition and results of operations.

***Economic instability could adversely affect the value of the Group's investments***

The Russian economy has been subject to abrupt downturns in the past, and continues to be under economic pressure. As Russia produces and exports large quantities of crude oil, natural gas, metal products and other commodities, its economy is particularly vulnerable to fluctuations in the prices of commodities on the world market.

The Russian economy faced a number of serious challenges in 2014-2016. In the period between July 2014 and the end of 2015, crude oil prices decreased significantly, which caused a shock to the Russian economy and contributed to a sharp depreciation of the rouble against the dollar. The global benchmark Brent crude oil price decreased from U.S.\$111 per barrel as at 4 July 2014 to U.S.\$56 per barrel as at 31 December 2014 and to U.S.\$37 per barrel as at 31 December 2015. While the Brent crude oil price recovered to U.S.\$55 per barrel as at 31 December 2016, as at 30 June 2017, the Brent crude oil price was U.S.\$48 per barrel, and it is widely predicted that a significant recovery will not occur for several years to come.

In December 2014, in response to significant volatility on the financial markets, the CBR increased its key rate from 10.5% to 17.0%. As a result of high volatility in the financial markets generally, as well as the CBR actions particularly, the cost of funding for Russian companies has also increased. Following the stabilisation of the market, the CBR has gradually decreased the base interest rate, lowering it to 9.75% in March 2017, to 9.25% in May 2017, to 9.0% in June 2017, to 8.5% in September 2017 and to 8.25% in October 2017. However, there can be no assurance that the CBR will not increase the base interest rate in case of further volatility of the rouble or other macroeconomic factors.

In addition, the geopolitical tensions that began in March 2014 with respect to Ukraine led to economic sanctions being imposed on certain Russian individuals and companies by, among others, the E.U. and the U.S. Against the background of this tension, investors have become more cautious about investing in Russia. The ongoing deterioration of the Russian economy has had a negative impact on consumer confidence and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Russian banking system remains underdeveloped***

Russia's banking and other financial systems are in a period of ongoing development. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow, with the capacity to service companies of the size of those found in the Group. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet all internationally accepted norms. In the fall of 2017, the CBR announced its decision to implement measures aimed at improving the financial stability of several Russian banks, including PJSC Bank Otkritie Financial Corporation and PJSC B&N Bank. Moreover, there has been recent media coverage relating to significant increase in withdrawals by state-owned corporations from Russian private banks. Liquidity difficulties on the market could arise among the privately and state owned banks in Russia, which could undermine investors' confidence and lead to instability of the Russian banking system. There can be no assurance that such banks would not be subject to rehabilitation measures

by the CBR, which would further exacerbate difficulties in the banking sector and the local financial markets.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. A prolonged or serious banking crisis or the bankruptcy of a number of large Russian banks could, should they occur in the future, have a material adverse effect on the Group's business.

Further, the Group partially relies on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis were to occur in Russia, the Group's ability to access this source of financing may be limited, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

***Social risks and corruption could adversely affect the value of investments in Russia***

Emerging markets such as Russia are prone to social risks and increased lawlessness, including significant criminal activity. High levels of official corruption reportedly exist, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or other individuals. Additionally, published reports indicate that a significant number of Russian media providers regularly publish biased articles in return for payment. Corruption and other illegal activities could disrupt the Group's ability to conduct its business effectively, and claims that the Group was involved in corruption or illegal activities could generate negative publicity, either of which could harm the Group's business and financial position.

In addition, rising unemployment, forced unpaid leave, wages in arrears, and weakening economies, especially in single industry cities, has in the past led to, and could in the future lead again to, labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. Such labour and social unrest could disrupt normal business operations, which could also materially adversely affect the Group's business and financial condition.

***Some of Russia's physical infrastructure is in poor condition and its further deterioration could have a material adverse effect on the Group's business***

Russia's physical infrastructure largely dates back to Soviet times and some of it has not been adequately funded and maintained in recent years. Particularly affected are the rail and road networks, power distribution (low-voltage) facilities and building stock. The deterioration of Russian physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in the Russian Federation and can interrupt business operations. Further deterioration in Russia's physical infrastructure could have a material adverse effect on the Group's business, financial condition and results of operations.

***The Russian economy is dependent on the global economic environment***

Russia's economy was adversely affected by the global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future.

The global economic downturn which began in 2008 has had an extensive adverse impact on the Russian economy. While many economies have subsequently recovered from the economic crisis, growth in many markets remains slow, and many markets which previously had seen very high growth have exhibited slower growth in recent years. In 2015, the global economic environment remained unstable with global GDP growth slowing to 2.4%, as compared to 2.6% in 2014. Global GDP growth reached 2.5% in the first half of 2016. The slowdown has been attributed to slowing growth rates in emerging and developing economies, among other developments. In particular, China has recently seen a substantial decline in its rate of growth, which has contributed to a significant decline in commodity prices. There is a risk of a possible cyclical downturn in the Chinese economy and other developing markets and a stagnation of European and U.S. economies, which would result in a global economic downturn and impact the Russian economy in general and the Group's industry and business as a result.

The global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation, continuing high levels of unemployment, political tensions over global trade of goods, labour and capital mobility,

terrorism and concerns over the stability of the monetary and political union in the E.U. Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debt of periphery and potentially other E.U. countries, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, as well as concerns about a slowdown in growth in certain economies. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the E.U. in a national referendum. The British Government triggered the exit process on 29 March 2017. It is expected that the United Kingdom will officially leave the E.U. on 29 March 2019. There is a possibility of trade barriers resulting from the U.K. leaving the E.U. which may affect the macroeconomic environment in Europe. The referendum has also given rise to calls for the governments of other E.U. member states to consider withdrawal. In addition, the latest U.S. presidential election, as a result of which the Republican Party nominee, Donald Trump, has become the president of the United States, may impact the financial markets and lead to greater uncertainty on the status of trade relations between the U.S. and some of its largest trade partners, including the U.S.'s existing trade agreements. The worsening of such trade relations, in particular between the U.S. and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress economic activity, commodities markets and restrict access to capital. If the global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the GDRs.

In addition, any future financial instability caused by downturns in the global economic environment, may lead to restrictions or prohibitions, in particular, in currency regulation and control regimes. For example, as a result of the political, financial and economic crisis in Ukraine that emerged in 2014 and is still ongoing, certain currency controls were reintroduced in Ukraine to prevent further outflow of capital. Should restrictions or prohibitions on hard currency payments and operations be imposed in Russia and other countries where the Group operates, it could limit the Group's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities, purchase raw materials or sell its products internationally and limit the Group's ability to repatriate earnings from securities of its subsidiaries located in the country where such restrictions or prohibitions apply.

The above negative impacts from the global economic downturn could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

***There can be no assurance as to the completeness, reliability or accuracy of official data***

The official data published by the Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in those countries. The Group relies on and refers to information from various third-party sources and its own internal estimates. The Group believes that these sources and estimates are reliable, but it has not independently verified them and, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they may be subject to the same uncertainty as the official data on which they are based. Any discussion of matters relating to Russia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

***Risks relating to the Russian Legal System***

***Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity***

The Russian Federation is still developing the legal framework required by a market economy. The Group's business is subject to the rules of federal laws and decrees, orders and regulations issued by the President, the Russian Government, the federal ministries and regulatory authorities, which are, in turn, complemented by regional and local rules and regulations. These legal norms at times overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to ten years, and many have recently been amended. The recent nature of many Russian laws and the rapid

evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. Many new laws remain untested. In addition, Russian law sometimes leaves substantial gaps in regulatory infrastructure. Among the risks of the current Russian legal system, to varying degrees, are: (i) inconsistencies among federal laws, among decrees, orders and regulations issued by the President, the Russian Government, federal ministries and regulatory authorities and among regional and local laws, rules and regulations; (ii) limited judicial and administrative guidance on interpreting Russian law; (iii) the possibility of undue influence on or manipulation of judges and the judicial system; substantial gaps in the regulatory structure due to delay or absence of implementing legislation; (iv) a high degree of discretion on the part of governmental authorities; and (v) bankruptcy procedures that can be subject to abuse.

The interpretation of new laws and regulations can involve a degree of uncertainty. For example, under Russian law, one group of companies operating on the electricity market may not simultaneously own electricity generation and electricity transmission and distribution assets within the same pricing zone of the wholesale market. The share that the group involved in the electricity generation is allowed to own in any electricity transmission and distribution asset must not amount to or exceed 20% of the share capital of the electricity transmission and distribution company. Potential liability for breach of this rule may include: (i) obligatory reorganisation of a company (in a form of division/spin-off); (ii) obligatory sale of electricity generation equipment (or rescission of contracts entitling a person to such equipment); or (iii) obligatory sale of electricity transmission/distribution equipment (or rescission of contracts entitling a person to such equipment). All of these weaknesses could affect the Group's ability to enforce its rights under contracts, or to defend against claims brought under the Russian jurisdiction against the Group by third parties, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations.

As at the date of this Prospectus, Irkutskenergo directly owns a 19.9% share in Irkutsk GridCo. However, indirectly and through financial arrangements and share purchase contracts with third party shareholders of Irkutsk GridCo, the Group is able to consolidate Irkutsk GridCo's results of operations under IFRS on the basis of a 52.3% effective interest in Irkutsk GridCo as at the date of this Prospectus. There is a degree of uncertainty with respect to the legal interpretation of the aforementioned existing arrangements and, therefore, Russian regulatory authorities may construe such arrangements as non-compliant with applicable legislation. In such case, the Group could be required to unwind such arrangements and sell the part of its stake in Irkutsk GridCo exceeding the 19.9% threshold to a third party, which may, in turn, lead to the decrease in the level of operational control over Irkutsk GridCo and result in a deconsolidation of its results of operations. As at 31 December 2016, Irkutsk GridCo's share in the Group's total revenue and total assets amounted to 2.9% and 2.6%, respectively. The Group would not expect there to be any operational impact on the Group if a compulsory reorganisation resulting in the deconsolidation of Irkutsk GridCo were imposed by the Russian regulatory authorities, because, even if it were no longer a member of the Group, Irkutsk GridCo would be obliged to continue to provide services to the Group due to the requirements imposed upon Irkutsk GridCo as a provider of regulated services (which restrict it from refusing access to the electricity grid network to third parties). Further, as prices for electricity transmission and distribution are regulated, there would not be expected to be any change in the prices for electricity transmission and distribution charged by Irkutsk GridCo following any such deconsolidation. Moreover, a compulsory reorganisation that could result in the deconsolidation of Irkutsk GridCo is not expected to affect the Group's consolidated historical results, because it is expected that Irkutsk GridCo would cease to be consolidated prospectively from the time the Group ceases to consolidate Irkutsk GridCo and under IFRS, it is expected that such deconsolidation would not be applied retrospectively. However, any compulsory reorganisation that could result in the deconsolidation of Irkutsk GridCo may have a material adverse effect on the Group's financial condition and results of operations in the future, due to the fact that the results of operations of Irkutsk GridCo would not be included in the Group's consolidated financial statements.

Further, Federal Law No. 57-FZ "On Foreign Investments into Companies of Strategic Significance for the Defence of the Country and Security of the State" dated 29 April 2008, as amended, establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation (such as certain companies of the Group) (see "*Russian Industry Regulation—Investments into Russian Companies by Foreign Investors*").

### ***Risks relating to the multijurisdictional regulatory and legal environment in which the Group operates***

As is the case for all international companies, the Group has dealings with the governments of, and is affected by the laws and regulations of, the countries in which it operates. In the case of Russia, this involves, in the ordinary course of business, interaction from time to time with the relevant Russian governmental, regulatory and other authorities, including such authorities with jurisdiction covering taxation matters, the railways and the electricity industry, among others. As one of the largest employers in Russia, the Group has also maintained periodic communications with senior Russian government officials, including through participation in industry-related government consultations on potential policy changes. The Group's management believes that the Group has maintained a good relationship with the Russian Government and the relevant Russian governmental, regulatory and other authorities, although the Group may from time to time exercise its legal rights to challenge the decisions of such authorities, where the Group believes that such action is appropriate.

Nonetheless, and although the Group has sought to arrange its affairs in compliance with the law, including the tax laws, the Group's management cannot exclude the possibility that, for the reasons described above, members of the Group may be charged with violations of law, such as tax evasion, that such charges may be upheld by a Russian court and that, as a result, the Group may be subject to a range of measures, including the forfeiture or effective nationalisation of its assets in Russia.

### ***RUSAL may deal with Iranian and other sanctioned counterparties in the future***

In light of the recent relaxation of sanctions against Iran pursuant to the Joint Comprehensive Plan of Action of 2015, RUSAL may consider whether and to what extent to engage in dealings with Iranian counterparties. RUSAL would expect any such dealings with Iranian counterparties to represent an immaterial amount of its sales of aluminium in the short to medium term. It is also possible that RUSAL could have dealings with parties subject to sanctions by one or more countries in the future, or that one of its current counterparties could become subject to sanctions. Although RUSAL intends to comply with all applicable economic sanctions in connection with its dealings with Iran and any other sanctioned person or country, given the global nature of RUSAL's business and the complexity and lack of certainty regarding the scope of some countries' laws, there can be no assurance that RUSAL's efforts to comply with all applicable economic sanctions and embargo laws and regulations will be completely effective to detect and prevent violations. A violation of sanctions could have a material adverse impact on the Group's business, financial condition, prospects or results of operations.

### ***Unlawful or arbitrary government action may have an adverse effect on the Group's business***

Governmental authorities have a high degree of discretion in the markets in which the Group operates, including the Russian Federation, and some would argue they have in the past exercised their discretion arbitrarily, without due process or prior notice, and sometimes in a manner contrary to law. Moreover, the authorities also have the power, in certain circumstances, whether by regulation or governmental act, to interfere with the performance of, nullify or possibly terminate contracts. Unlawful or arbitrary governmental actions have reportedly included the withdrawal of licences, sudden and unexpected tax audits and the bringing of criminal prosecutions and civil actions against certain persons. Federal and local governmental entities have also purportedly used common defects in share issuances and share registrations as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often for political purposes. Unlawful or arbitrary governmental action, if directed at the Group's subsidiaries, could have a material adverse effect on the Group's business, financial condition and results of operations.

### ***The Group may have difficulties in obtaining effective redress in court proceedings, including to protect property rights***

The judicial systems of some of the countries in which the Group operates are not immune from economic and political influences. The court systems in these jurisdictions are understaffed and underfunded, and the quality of justice, duration of legal proceedings, performance of the courts and enforcement of judgments all remain problematic. For example, under Russian legislation, judicial precedents generally have no binding effect on subsequent decisions of the courts and are not recognised as a source of law. However, in practice, Russian courts usually consider judicial precedents in their decisions. Enforcement of court judgments can in practice be very difficult and time consuming. Additionally, court claims are

sometimes used in furtherance of political and commercial aims. All of these factors can make judicial decisions difficult to predict and can make effective redress problematic in certain instances.

There are also legal uncertainties relating to property rights. During its transformation from a centrally planned economy to a market economy, the Russian Federation enacted laws to protect private property against expropriation and nationalisation and to provide for fair compensation to be paid if such events were to occur. However, it is possible that due to their lack of experience in enforcing these provisions or due to political pressure, Russian courts would not enforce these laws in the event of an attempted expropriation, nationalisation or re-nationalisation. Similar risks exist in some of the other countries in which the Group carries out its operations. For example, in 2015, the State of Ukraine de-privatised ZALK, a subsidiary of RUSAL. Over the past decade, challenges to the private company status of several of the Group's assets were also attempted in Nigeria and Guinea. Such expropriation, nationalisation or re-nationalisation could potentially bring little or no compensation and could have a material adverse effect on the Group's business, financial condition and results of operations.

In 2005, CEAC Holdings Limited ("CEAC"), the Company's subsidiary, as part of a privatisation process purchased 65.4% of shares in Kombinat Aluminijuma Podgorica ("KAP"), the largest aluminium smelter in Montenegro, for a cash consideration of EUR48.5 million. Shortly after the privatisation, CEAC discovered material financial inaccuracies in the 2004 accounts of KAP that were provided to CEAC in the course of the pre-acquisition due diligence. The revealed deficiencies included additional liabilities of KAP, as well as unrecorded environmental damages. KAP was declared bankrupt in 2013 following the insolvency proceedings initiated by the Government of Montenegro, notwithstanding the agreement between CEAC and the Government of Montenegro to support the aluminium smelter's operations by all available means, including by way of providing subsidies for electricity prices by the authorities. In 2014, the assets of KAP were sold to a local private company for a cash consideration of EUR28 million. Since 2007, CEAC and the Company have been instituting multiple claims, arbitration and legal proceedings in various jurisdictions against the Government of Montenegro, the bankruptcy administrator and certain other affiliated parties to seek legal redress for protection of investments. In August 2017, the Group has been informed that KAP has filed a claim against CEAC (in its capacity as former majority shareholder of KAP) with the commercial court of Podgorica, Montenegro. It is a claim for damages arising out of the alleged unscheduled and improperly handled shutdown of the alumina refinery in 2009 at the plant following the defendant's executive decision. KAP seeks damages in the amount of EUR 45 million. The Group is preparing its statement of defense and witness statements in support of its legal position. Based on a preliminary assessment of the claim, the Group believes that the claim is without merit and does not expect the case to have any material adverse effect on its financial position and operations.

In addition, the Group is subject to ongoing and potential future litigation with certain minority shareholders of Irkutskenergo. In June 2016, the Group acquired 40.3% of shares in Irkutskenergo from Inter RAO, thus increasing its stake to 90.8% of shares. Under the anti-takeover provisions of Russian law, within 35 days after an acquisition by any means of more than 30%, 50% or 75% of ordinary shares (or voting preferred shares) or 35 days from the date when the acquirer learned or should have learned that it, either independently or together with its affiliates, owns any such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders owning respective type of shares and persons owning securities convertible into respective type of shares (mandatory offer). The acquirer and its affiliates cannot, from the time that the relevant threshold is breached until the date that the acquirer makes a mandatory offer in compliance with the law, exercise voting rights in excess of the relevant threshold. The relevant threshold in respect of the Group amounts to 75.0% of the shares in Irkutskenergo. Prior to making a mandatory offer to the minority shareholders of Irkutskenergo in June 2017, the Group faced several lawsuits from Irkutskenergo's minority shareholders and the CBR, aimed at obliging the Group to make a mandatory offer and/or recover losses (as appropriate). Following the announcement of a mandatory tender offer in June 2017, a number of claims (including from the CBR) were withdrawn. In addition, the voting restrictions described above were also removed by operation of law. As at the date of this Prospectus, the statutory term for accepting the mandatory offer made in June 2017 (70 days after such offer was received by Irkutskenergo) had expired. The Group has accepted for purchase 0.7458% of the shares in Irkutskenergo for the aggregate amount of RUB619 million. The shares are to be purchased at the weighted six-months trading average price prior to the offer (such price amounting to RUB17.42 (U.S.\$0.3) per share). By contrast, if the mandatory offer had been placed immediately following the initial acquisition of Irkutskenergo shares by the Group in June 2016, the buyout price would have amounted to RUB36.45 per share (as per the price of purchase from Inter RAO). The Group is currently still facing a number of claims and may potentially face further actions

from Irkutskenenergo's minority shareholders aiming to recover losses resulting from the described difference in the foregoing purchase prices. While the Group may be obliged to buy out the shares of the minority shareholders at unfavourable prices as a result of these actions, the Group believes that the aggregate amount of such losses is expected to be insignificant in the context of the Group.

***Shareholder liability provisions of Russian law could expose the Group to liability for its subsidiaries' obligations***

The Company is a holding company and conducts a substantial majority of its business operations through Russian subsidiaries. Under Russian law, in certain cases, the Company may be jointly and severally liable for the obligations of a subsidiary. Furthermore, the Company may also bear contingent liability for the obligations of a subsidiary that becomes insolvent or bankrupt if this is shown to be the Company's fault.

Under Russian law, if the Company knew that the action taken pursuant to its instructions would result in losses, then the subsidiary's shareholders would be able to seek compensation from the Company for such losses. Such shareholder liability provisions of Russian law, if triggered with respect to the Group's operating subsidiaries that are also owned by other third-party shareholders, could result in significant liabilities for the Group and adversely affect its business, financial condition and results of operations.

***Russian legal entities may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law***

Certain provisions of Russian law may allow a court to order the liquidation of a Russian legal entity on the basis of its non-compliance with certain formalities that are required to be observed during its formation, reorganisation or in conducting its operations. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with certain provisions of Russian law have been used by Russian courts as a basis for the liquidation of that entity. Some Russian courts, in deciding whether to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the expected economic and social consequences of such liquidation.

Under Russian legislation, if the net assets of a Russian joint stock company (determined in accordance with the RAS) fall below its charter capital at the end of the third year following its incorporation, or at the end of any subsequent reporting year where it was also below the charter capital at the end of the previous reporting year, the company is required to voluntarily liquidate itself or decrease its charter capital to match its net assets. In addition, if the net assets of a Russian joint-stock company, at the end of its second or any subsequent reporting year, fall below the statutory minimum share capital requirement, then the company must liquidate itself. If a company fails to comply with either of the requirements stated above within six months after the end of the relevant reporting year, the company's creditors may accelerate their claims and seek to require the company to perform its obligations early and pay damages, and governmental authorities may seek the involuntary liquidation of the company. Substantially similar rules apply if the net assets of a limited liability company fall below the charter capital. Courts have on occasion ordered the involuntary liquidation of a company for having insufficient net assets, even where the company continued to fulfil its obligations and had net assets in excess of the minimum amount at the time of liquidation.

In addition, if the net assets of a joint stock company (as stated in its RAS statutory accounting reports) fall below its charter capital by more than 25% at the end of any quarter in a reporting year following its second (or each subsequent) reporting year, the company is required to make two publications disclosing information to that effect. Creditors whose rights of claim arose before such publication may, within 30 days after the last publication, require the company to perform its obligations early and pay damages. A court may refuse to satisfy a creditor's claim if the company establishes that: (i) a decrease in the net assets does not violate the creditor's rights; or (ii) the obligation is adequately secured.

Many Russian companies have negative net assets due to very low historical asset values reflected on their RAS balance sheets; however, their solvency is not adversely affected by such negative net assets. Some of significant subsidiaries of the Group in Russia have net assets below the statutory minimum charter capital. If an involuntary liquidation or claims for the early repayment of its obligations were to occur in respect of the Group's subsidiaries in Russia, the Group could be forced to reorganise the operations it conducts through such subsidiaries, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations.



## **Risks relating to Taxation**

### ***Risks relating to Russian taxation***

The Russian taxation system is continually evolving and is subject to frequent changes, which could have an adverse effect on the Group. A significant percentage of the Group's assets and operations are located in Russia and, therefore, weaknesses in the Russian tax system could adversely affect the Group. The Russian subsidiaries of the Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including but not limited to, corporate income tax, value added tax ("VAT"), property tax and payroll-related social security contributions.

The Tax Code of the Russian Federation (the "**Russian Tax Code**") has been in force for a short period relative to the tax laws and regulations in more developed market economies. Moreover, the provisions of Russian tax laws applicable to financial instruments (including, securities) may be subject to more rapid and unpredictable changes than similar tax laws in jurisdictions with more developed financial markets or more developed taxation systems. The implementation of Russian tax laws and regulations is often unclear or inconsistent.

Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes to the tax legislation, which sometimes have occurred on short notice and have been applied retrospectively. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed or interpreted in the future in a manner adverse to the stability and predictability of the Russian tax system. The possibility exists that Russia may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect the Group's business.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels. Such differing interpretations increase the level of uncertainty and, therefore, tax risks, and could potentially lead to the inconsistent enforcement of these laws and regulations. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. The current practice is that private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the representatives of the local Russian tax authorities will not take positions contrary to those set out in such clarifications. Moreover, there can be no assurance that the current Russian legislation and regulations will not be altered, in whole or in part, or that the Russian tax authorities and/or Russian courts or other regulatory authorities will not interpret these rules and regulations in such a way that the arrangements described in this Prospectus would be subject to tax treatment different from that described in this Prospectus, whether retroactively or otherwise, or would be adversely affected in some way.

There is a possibility that the Russian Government could impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of the GDRs.

The Russian tax authorities are increasingly taking a "substance over form" approach. Russian tax legislation is becoming increasingly technical and complex. Certain new revenue raising measures have been introduced, as discussed below, and it is expected that additional measures may be introduced. In some instances the Russian tax authorities may apply new interpretations of tax laws retroactively. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable.

During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to an increased number of material tax assessments issued by them as a result of tax audits. In practice, the Russian tax authorities generally interpret tax laws in ways that do not favour taxpayers. In particular, in October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, formulating a concept of "unjustified tax benefit", which is defined in the Ruling by reference to specific examples of such tax benefits (e.g., tax benefits obtained as a result of a transaction that has no reasonable business purpose), which may lead to disallowance of their application. The "unjustified tax benefit" concept is aimed to

prohibit taxpayers from reducing its tax obligations or receiving a tax refund in cases where a transaction was primarily aimed at tax avoidance or did not have a reasonable business purpose, there was no actual sale of goods (performance of work or rendering of services) or transfer of property rights, etc. Based on the available court practice relating to Ruling No. 53, it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the tax law abuses, based on the available judicial interpretations relating to Ruling No. 53, the Russian tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court of the Russian Federation. The available court practice is contradictory. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties. The legislators recently effectively transposed the “unjustified tax benefit” concept into the Russian Tax Code. No assurance can currently be given as to what exact effect the above law may have on taxpayers, including Russian companies of the Group.

The Group cannot offer prospective investors any assurance that additional tax exposures will not arise. Additional tax exposures could have a material adverse effect on the Group’s business, results of operations, financial condition or prospects.

On 1 July 2015, the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the Organisation for Economic Co-operation and Development (the “**OECD**”) came into effect in Russia. In addition, in June 2017, Russia acceded to the OECD Multilateral Convention to Implement Tax Treaty Related Measures to prevent Base Erosion and Profit Shifting (“**BEPS**”) with regard to amending double tax treaties.

Each of the foregoing factors creates tax risks in Russia that may be substantially more significant than those typically found in countries with more developed tax systems. These tax risks impose additional burdens and costs on the Group’s operations, including in respect of its management resources. Although the Group undertakes measures aimed at minimising tax risks and strives to comply with the Russian tax laws and regulations, there can be no assurance that the Group would not be required to make substantially larger tax payments in the future and that certain transactions and activities of the Group that have not been challenged in the past will not be challenged in the future, resulting in a greater than expected tax burden. These risks and uncertainties complicate tax planning as well as related business decisions, and could possibly expose the Group’s subsidiaries to significant fines, penalties and enforcement measures, despite the Group’s best efforts at compliance, and could result in a greater than expected tax burden.

#### ***Russian anti-offshore measures may have adverse impact on business decisions***

The Group operates in various jurisdictions and includes companies incorporated outside of Russia.

The Russian Federation, like a number of other countries in the world, is actively involved in discussions surrounding measures against tax evasion through the use of both low tax jurisdictions and aggressive tax planning structures. In particular, effective from 1 January 2015, the following concepts were introduced into Russian tax legislation:

- the concept of “controlled foreign companies” (the “**CFC Rules**”);
- the concept of “corporate tax residence”; and
- the concept of “beneficial ownership”, which is broadly in line with the concept developed by the OECD.

Introduction of these new rules and concepts is likely to impose an additional administrative burden on the Group. No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact (including additional tax liability, if any) on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because of these changes being introduced and applied to transactions carried out by the Group, which could, in turn, have a material adverse effect on the Group.

#### ***The Russian thin capitalisation rules allow for different interpretations***

The Russian subsidiaries of the Group may be affected by the Russian Federation’s thin capitalisation rules if at any time they receive loans from or have loans guaranteed by foreign or Russian related parties.

It is currently unclear how the Russian tax authorities will interpret and apply the amended thin capitalisation rules. Therefore, it cannot be ruled out that the Group might be subject to additional tax liabilities, which could, in turn, have a material adverse effect on business, financial condition, results of operations, prospects and trading price of GDRs.

***Repeated tax audits and extension of liability beyond the limitation period may result in additional tax liabilities***

The Russian Tax Code provides for the possible extension of the three-year statute of limitations for tax offences if the taxpayer has actively obstructed the performance of the tax audit and the actions of the taxpayer create insurmountable obstacles for the tax audit. Because the terms “obstructed” or “created insurmountable obstacles” are not defined in Russian law, the tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “created insurmountable obstacles” in respect of an inspection, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year term. Therefore, the statute of limitations is not entirely effective with respect to liability for tax offences in Russia.

Tax audits or inspections may result in additional costs to the Group’s subsidiaries, in particular if the relevant tax authorities conclude that they did not satisfy their tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group’s subsidiaries by diverting the attention of its management and financial personnel and requiring resources for defending the Group’s tax-filing position, including for any tax litigation. The outcome of these audits or inspections could have a material adverse effect on the Group’s business, financial condition, results of operations, prospects and the trading price of the GDRs.

***Russian transfer pricing rules may lead to transfer prices being challenged by the Russian tax authorities***

The Russian transfer pricing rules may have a potential impact on the Group’s tax costs arising from the pricing mechanisms used in controlled transactions and, in particular, transactions with related parties in and outside of the Russian Federation. The Russian tax authorities will be entitled to impose additional tax liabilities if prices of the “controlled transactions” differ from those which independent counterparties in similar conditions would have applied.

As a result, due to the uncertainties in the interpretation of transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the prices applied by the Group’s subsidiaries and make adjustments to the tax position of such subsidiaries. Unless such tax adjustments are successfully contested in court, the Group’s subsidiaries could become liable for increases in their taxes payable. The Russian transfer pricing law, including the possible tax adjustments outlined above, could have a material adverse effect on the Group’s business, results of operations, financial condition, prospects and the trading price of the GDRs.

On 26 January 2017, representatives of the Federal Tax Service of Russia signed the Multilateral Competent Authority Agreement for Country-by-Country Reporting (“MCAA CbCR”) during the meeting of the Inclusive Framework of the OECD in Paris on the implementation of the BEPS package. Russia joining the MCAA CbCR was performed as part of implementation of Action 13 of the BEPS Action Plan.

Joining the MCAA CbCR will enable the Russian tax authorities to obtain country-by-country reports from foreign tax authorities that contain information on the allocation of revenues, profits taxes, number of employees, assets, and other items, broken down by the jurisdictions in which the multinational corporate enterprises group has a presence, which are to be used for assessing risks related to base erosion and profit shifting. This exchange of information will occur automatically on an annual basis. The first such exchange of information may occur in 2018.

In addition to that, certain other reporting forms would need to be submitted locally and at a global level by multinational corporate enterprises, detailing their groups operations (locally and globally, respectively), as well as the transfer pricing methodologies applied to any of their intra-group transactions. At the moment it is unclear how the above measures will be applied in practice by the Russian tax authorities and courts.

***Withholding income tax could be imposed in Russia on dividends distributed from Russian subsidiaries***

Dividends paid by a Russian legal entity to a foreign legal entity are subject to Russian withholding income tax at the rate of 15% (or such other rate as may be effective at the time of payment), although this tax rate may be reduced under an applicable double tax treaty.

The Group intends to rely on provisions of the Russia-Cyprus double tax treaty in order to apply for a reduced withholding tax rate on dividends. The Russia-Cyprus double tax treaty allows the application of the reduced withholding tax rate on dividends paid by a Russian company to a Cypriot company of 10% *provided that* the following conditions are met: (i) the Cypriot company is a tax resident of Cyprus within the meaning of the Russia-Cyprus double tax treaty; (ii) the Cypriot company is the beneficial owner of the dividends; (iii) the dividends are not attributable to a permanent establishment of the Cypriot company in Russia; and (iv) the treaty clearance procedures established by the Russian Tax Code are duly performed. This rate could be further reduced to 5% if the direct investment of the Cypriot company in a Russian company paying the dividends is at least EUR100,000. If the Group claims reduction of the Russian withholding tax under the Russia-Cyprus double tax treaty, there is a risk that the Russian tax authorities would challenge the application of the reduced withholding tax rate under the Russian “beneficial ownership” rules and apply 15% withholding tax rate (or such other tax rate as may be effective at the time of payment).

Effective 1 January 2017, the Group should provide a confirmation to a Russian company, distributing dividends, that the former is the “beneficial owner” of dividend income to be distributed from Russia. There is no list of the particular supporting documents (in addition to a tax residency certificate, which should be requested in accordance with the treaty clearance procedures), which can be supplied by the Group for this purpose. Therefore, in the absence of a clear set of supporting documents, Russian “beneficial ownership” rules may be aggressively applied by the Russian tax authorities and courts. As a result, there can be no assurance that the Group would be able to benefit from the reduced withholding tax rate on dividends which, in practice, could have a material adverse effect on the results of the Group’s operations, financial condition and the trading price of the GDRs. For example, the Group may incur the 15% withholding tax at source on dividend payments from its Russian subsidiaries if the treaty clearance procedures established by the Russian Tax Code (including those procedures providing for the delivery of documents confirming the “beneficial ownership” status of the foreign income recipient) are not duly performed at the date when dividend payments are made. In this case, the Group may seek to claim as a refund the difference between the 15% tax withheld and the tax at the reduced rate pursuant to the provisions of the Russia-Cyprus double tax treaty of 10% or 5%, as appropriate. However, there can be no assurance that such difference would be refunded, which could have a material adverse effect on the Group’s business, results of operations, financial condition and the trading price of the GDRs.

***Income in form of material benefit from acquisition of the GDRs below fair market value or/and capital gains from the sale of the GDRs by non-resident investors may be subject to Russian withholding tax or Russian personal income tax, as applicable***

Non-resident investors—legal entities and organisations

Capital gains derived by non-resident legal entities and organisations from the sale of shares (participation interest) of companies whose assets are more than 50% (directly or indirectly) represented by immovable property located in Russia (“**property-rich shares**”), as well as financial instruments deriving their value from such shares (participation interest) (other than shares that are regarded as “publicly traded” for Russian tax purposes) should be subject to Russian withholding tax at the rate of 20% (or such other tax rate as may be effective at the time of payment) *provided that* the foreign income recipient is able to present duly executed documents confirming the basis cost of the shares (participation interest) as well as other expenses connected with their acquisition, holding and disposal. Otherwise, the Russian withholding tax will apply to the gross amount of the sales proceeds of property-rich shares. With effect from 1 January 2017, under the Russia-Cyprus double tax treaty, capital gains on the sale of shares (participation interest) deriving more than 50% of their value from immovable property located in Russia could be taxed in Russia and hence are subject to Russian withholding tax.

The interpretation of the above provisions is associated with a significant level of ambiguity. The term “financial instrument deriving its value from shares (participation interest)” is not explicitly defined in the Russian Tax Code and could be interpreted rather broadly to include not only derivative instruments themselves, but also any financial structures that base their value on underlying shares (such as the GDRs). The exemption established for “publicly traded” shares is not applicable to the proposed structure of the

issuance of the GDRs pursuant to this Prospectus as the Ordinary Shares are not, and will not be, listed on any stock exchange. However, there is no explicit guidance in the Russian Tax Code on how to determine whether Russian immovable property comprises more than 50% of the assets of a holding company, such as the Company, in respect of the assets of its Russian subsidiaries (one of the potential approaches is to calculate the ratio of immovable property to the total assets of the company based on the consolidated financial statements). Moreover, currently the Russian Tax Code does not contain a self-assessment mechanism which would allow a foreign legal entity that is the recipient of income that is subject to Russian withholding tax to pay such tax to the Russian revenue authorities in the absence of a tax agent (i.e., in the situation when property-rich shares are sold by a foreign seller to a foreign buyer). There is, however, no assurance that such mechanism would not be introduced in the future.

Moreover, there is a risk that tax agents in respect of income tax withholding on capital gains related to the GDRs may not have sufficient information regarding the composition of the asset base of the Company to be in a position to draw a conclusion on the percentage of the immovable property located in Russia, and that they may, therefore, conservatively seek to apply income tax withholding to the amount of consideration paid to a non-resident investor of the GDRs that is a legal entity or an organisation. Application of such withholding tax, or any assertion by the Russian tax authorities that such withholding tax applies, may adversely affect the trading price of the GDRs.

#### Non-resident individual investors

Under the Russian tax legislation, taxation of income derived by non-resident individual investors will depend on whether such income qualifies as having been received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the material benefit from acquisition of securities / capital gains from sale of securities should be sourced, in practice, the Russian tax authorities may infer that such income should be considered as Russian source income, if the GDRs are purchased or sold “in Russia”. In the absence of any additional guidance as to what should be considered as a purchase or sale of securities “in Russia”, the Russian tax authorities may apply various criteria to determine the source of the related material benefit or capital gains, including looking at the place of conclusion of the acquisition transaction, the location of the issuer of the securities, or other similar criteria. There is no assurance, therefore, that any material benefit or capital gains received by the non-resident individual investors will not become taxed in Russia in connection with their acquisition of the GDRs.

If gains derived by the non-resident individual investors from their acquisition and disposition of the GDRs in Russia are deemed to be Russian-source income, the gains generally will be subject to Russian tax withholding at source in case the income is paid by a Russian legal entity or a foreign legal entity with a permanent establishment in Russia carrying out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the individual investor. The applicable personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) should be withheld at source by such person, who will be considered a tax agent. There is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

The Russian personal income tax will apply to the gross amount of sale proceeds or other disposal proceeds realised upon such sale or other disposal of the GDRs less any duly documented cost deductions (including the acquisition cost of the GDRs and other documented expenses related to the acquisition, holding and sale or other disposal of the GDRs), *provided that* the documentation supporting cost deductions is made available in a timely manner to the tax agent. Although such tax may be reduced or eliminated based on the provisions of an applicable double tax treaty, subject to timely compliance by that non-resident individual with the treaty clearance formalities, in practice non-resident individuals may not be able to obtain the advance treaty relief in relation to a material benefit derived from any acquisition, sale or disposal proceeds received from a source within Russia, so obtaining a refund of taxes so withheld can be considerably difficult, or sometimes impossible.

#### ***The Company may not be considered as Jersey tax resident***

Under the Income Tax (Jersey) Law 1961, as amended, a company incorporated in Jersey shall be regarded as tax resident in Jersey unless: (i) it is managed and controlled outside of Jersey in a country or territory

where the highest rate at which any company may be charged to tax on any part of its income is 10% or higher; and (ii) it is resident for tax purposes in that country or territory.

Therefore, there is the risk that the Jersey entity will not be considered tax resident in Jersey if it is managed and controlled elsewhere. Whilst this risk would not give rise to any immediate Jersey tax implications for the Company, it could become tax resident in the jurisdiction where it is managed and controlled and hence be subject to tax at a rate higher than 0%, and this could affect the tax position of the Company and the returns to shareholders.

### **Risks relating to the Securities and the Trading Market**

#### ***An active trading market for the GDRs may not develop***

There is currently no active trading market for the GDRs. Although the GDRs are expected to be listed on the London Stock Exchange, there is no guarantee that an active trading market for the GDRs will develop and continue after the London Admission. If an active trading market for the GDRs does not develop, it could have a material adverse effect on the liquidity and the market price of the GDRs and investors may not be able to sell the GDRs they purchased in the Offering at or above the Offer Price or at all. As a result, investors who purchase the GDRs in the Offering could lose all or part of their investment in the GDRs. The Offer Price of the GDRs has been determined after consultation with the Selling Shareholder and the Company, and may not be indicative of the market price of the GDRs after the Offering.

In addition, the trading price of the GDRs may also be subject to significant volatility in response to, among other things, the following factors: (i) changes in analysis and recommendations of securities analysts; (ii) announcements made by the Group or its competitors; (iii) changes in investors' perception of the Group and the investment environment; (iv) changes in the Group's pricing or of its competitors'; (v) the liquidity of the market for the GDRs; and (iv) general economic factors. Furthermore, as the Group consolidates RUSAL's results of operations, any changes, positive or negative, in RUSAL's financial condition will likely affect the Group's consolidated financial statements. In addition, since RUSAL is a publicly traded company, its announcements and mandatory disclosures may also adversely affect the trading price of the GDRs.

#### ***The Ordinary Shares underlying the GDRs are not listed and may be illiquid***

Unlike the shares underlying most of the other GDRs traded on the London Stock Exchange, the Ordinary Shares are neither listed nor traded on any stock exchange. The Group does not intend to apply for the listing or admission to trading of the Ordinary Shares on any stock exchange. As a result, a withdrawal of Ordinary Shares by a holder of the GDRs, whether by election or due to certain events described under "*Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreements*", will result in that holder obtaining securities that are not listed and significantly less liquid than the GDRs, and the price of those Ordinary Shares may be discounted as a result of such withdrawal.

#### ***The GDRs may not be admitted to trading on MOEX or may be de-listed from MOEX***

Prior to the Closing Date, the Company intends to file an application for the admission of the GDRs to trading on MOEX so that such trading may commence on the business day following the Closing Date. To date, there have been very few precedents of admission of foreign securities to public trading in Russia. Russia has only recently codified the rules relating to admission of foreign securities to public offering and trading in Russia. Russian securities law rules applicable to foreign issuers are still being developed and in many cases do not clearly distinguish between the issuer of the foreign depositary receipts and the issuer of the foreign underlying securities. In particular, the relevant Russian regulations governing the admission eligibility criteria and the listing criteria for foreign securities are not well developed and remain largely untested and open to conflicting interpretations. There has been little official guidance from the CBR as to interpretation and implementation of the rules applicable to non-Russian issuers. Consequently, it may not always be clear how to apply such rules with respect to the Company. Therefore, the interpretation of the admission eligibility criteria by MOEX or the CBR may be different from the meaning which the Company expects to be applicable or may be challenged, which may result in the refusal or subsequent cancellation of the MOEX Admission and de-listing of the GDRs from MOEX.

Upon the application for admission of the GDRs to trading on MOEX, the Company becomes subject to regulation under certain Russian securities laws, including the rules relating to insider trading and market manipulation, which have not been yet tailored for non-Russian issuers. In addition, if the GDRs are

admitted to trading or included into a quotation list, in order to maintain such admission or listing on MOEX, the Company will be required to comply with Russian securities law rules, including certain listing, reporting and disclosure requirements. A material failure to comply with these rules may constitute grounds for de-listing of the GDRs from MOEX. Such compliance may be particularly problematic due to the new, untested nature of the relevant Russian regulations and the lack of official guidance from the CBR on their interpretation and implementation.

The Company can provide no assurance that its MOEX Admission or the inclusion of the GDRs into a quotation list will be approved, that trading of the GDRs will commence or that the Company will be able to maintain its MOEX Admission or inclusion in the quotation list.

***Voting rights with respect to the Ordinary Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Jersey law***

GDR holders will have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. GDR holders will be able to exercise voting rights with respect to the Ordinary Shares represented by the GDRs only in accordance with the provisions of the Deposit Agreements and the relevant requirements of Jersey law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights, due to the additional procedural steps involved in the Company communicating with such holders.

Holders of the Ordinary Shares will receive relevant notices directly from the Company and will be able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, will not receive relevant notices directly from the Company. Rather, in accordance with the Deposit Agreements, the Company will provide notice to the Depositary. The Depositary has agreed that it will, as soon as practicable, at the Company's expense, distribute to GDR holders notices of meetings, copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which GDR holders may give instructions.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote in relation to the Ordinary Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of Ordinary Shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. If the Depositary does not receive timely voting instructions, the Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person appointed by the Company to vote in relation to such Ordinary Shares, *provided that* such discretionary proxy will not be given if the Company does not wish such proxy to be given or if such matter materially and adversely affects the rights of holders of Ordinary Shares. If timely voting instructions are not received and no discretionary proxy is given in respect of such Ordinary Shares, or if the Depositary determines that it is not permissible under Jersey law or it is reasonably impracticable to vote or to arrange for a vote in relation to the Ordinary Shares held by the Depositary, the voting rights in respect of such Ordinary Shares will not be exercised (see "*Terms and Conditions of the Global Depositary Receipts*"). Any concern by the GDR holders regarding these limits on voting rights in respect of the Ordinary Shares represented by the GDRs could have a material adverse effect on the trading price of the GDRs.

***The ability of shareholders to bring actions or enforce judgements against the Company or the Directors may be limited***

The ability of a shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in Jersey. The rights of shareholders are governed by Jersey law and by the M&A. These rights may differ from the rights of shareholders in corporations incorporated in other jurisdictions. A shareholder may not be able to enforce a judgement against some or all of the Directors and executive officers. Consequently, it may not be possible for a shareholder to effect service of process upon the Directors and executive officers within the shareholder's country of residence or to enforce against the Directors and executive officers judgements of courts of the shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that a shareholder will be able to enforce any judgements in civil and commercial matters or any judgements under the securities laws of countries other than Jersey against the Directors or executive officers who are residents of a country other than those in which judgement is made. In addition, the courts in Jersey, or elsewhere, may not impose civil liability on the Directors or executive officers in any original action based

solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in Jersey or another country.

Jersey law limits the circumstances under which shareholders of companies may bring derivative actions, and, in most cases, only the Company can bring an action in respect of any wrongful act committed against it. Neither an individual shareholder nor any group of shareholders has any right of action in such circumstances.

***Sales of additional GDRs or Ordinary Shares following the Offering may result in a decline in the price of the GDRs***

Each of the Company, the Selling Shareholder, B-Finance Limited, the Other Shareholders, VTB and the Cornerstone Investor has agreed, subject to certain exceptions (and, in the case of the Company and the Selling Shareholder, except with the prior written consent of the Joint Global Coordinators, acting on behalf of the Managers), that, until the expiry of a period of 180 days after the date of the London Admission, neither it nor any of its subsidiaries or its affiliates nor any person acting on its behalf will issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares, any GDRs or other shares of the Company (the “**Lock-up Agreements**”). Upon the expiry of the Lock-up Agreements, the sale of a substantial number of the Ordinary Shares, the GDRs or any other securities representing the Ordinary Shares, or the perception that such sales could occur, could materially and adversely affect the market price of the GDRs and could also impede the Company’s ability to raise capital through the issue of equity securities in the future. Moreover, the Company may in the future issue new Ordinary Shares, any other securities convertible or exchangeable into the Ordinary Shares or shares that have rights, preferences or privileges senior to those of the Ordinary Shares. Any such issue could result in an effective dilution for investors purchasing the GDRs (see also “*Principal and Selling Shareholder—Conversion of Shareholding in RUSAL into the GDRs*”). Any of these events could adversely affect the price of the GDRs. As a result, investors who purchase the GDRs could lose all or part of their investment in such GDRs.

***The Company may elect not to pay dividends in the future***

To the extent that the Company declares and pays dividends on its Ordinary Shares, owners of the GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreements. The Company paid dividends in the amount of U.S.\$318 million in 2016, U.S.\$262 million in 2015 and U.S.\$203 million in 2014. On 25 July 2017, the Company declared interim dividends in the amount of U.S.\$35 million, which were paid in full in September 2017. On 28 September 2017, the Company declared dividends in the amount of U.S.\$144 million, which were paid in full in October 2017. The Company has adopted a dividend policy to pay on at least a semi-annual basis the dividends which will be equal to the sum of: (i) 100% of dividends received from RUSAL; and (ii) 75% of Free Cash Flow of En+ Power, subject to a minimum of U.S.\$250 million per annum (with U.S.\$125 million in December 2017). Any future decision to declare and pay dividends will be subject to applicable law and commercial considerations (including without limitation, applicable regulations, restrictions, the Group’s results of operations, financial condition, cash requirements, contractual restrictions and the Group’s future projects and plans). In addition, the Company’s ability to pay dividends depends significantly on the extent to which it receives dividends from its subsidiaries and there can be no assurance that its subsidiaries will pay dividends. The Company can give no assurance that it will pay any dividends in the future. As a result, GDR holders may not receive any return on their investment in the GDRs unless they sell their GDRs for a price greater than that which they paid for them.

***Holders of GDRs in certain jurisdictions may not be able to exercise their pre-emptive rights***

In order to raise funding in the future, the Company may issue additional Ordinary Shares, including in the form of the GDRs. Holders of the GDRs in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights for Ordinary Shares represented by the GDRs unless the applicable securities law requirements in such jurisdiction (including in the United States) are adhered to or an exemption from such requirements is available. No assurance can be given that the Company will elect to comply with such applicable laws and regulations, or in the case of U.S. holders, that an exemption from the registration requirements of the Securities Act would be available to enable such U.S. holders to exercise such pre-emptive rights and, if such exemption were available, that the Company would take the steps necessary to enable U.S. holders of the Ordinary Shares to rely on it.



*The contemplated redomiciliation of the Company may entail certain risks*

Following the Offering, the Company intends to redomicile from Jersey to Cyprus in 2018. The process of transferring the registered office involves compliance with the exhaustive list of requirements of applicable laws, as well as the interaction and filings with the respective local authorities (for details, see “*Business—Corporate Organisation—Redomiciliation*”). The Company has been advised by its external legal counsels on both Jersey and Cypriot law that this procedure of transfer has been tested in the past by other companies. While the redomiciliation is not expected to involve a bureaucratically complicated process, the procedure involves discretionary powers of local regulators. Under the Cyprus Companies Law Cap 113, an application for the registration of an overseas company as continuing in Cyprus shall be rejected in the following circumstances: (i) the dissolution or liquidation of the overseas company has started or the proceedings of insolvency or an arrangement or composition or proceedings of execution of court orders or other analogous proceedings have been initiated from or against the overseas company; (ii) a liquidator or special administrator of the overseas company or receiver of its property has been appointed; (iii) there is a decision or order with which the creditors’ rights are suspended or limited; or (iv) there are proceedings that have commenced against the overseas company for the contravention of the laws of the country or the jurisdiction of its incorporation. While, on the basis of the advice from its external counsels, the Company believes that the change of its place of registration is not a complicated process and it will not lead to the suspension of trades in the GDRs or trigger any takeover procedures, there is no assurance that the contemplated redomiciliation will be completed as planned or at all. Any delays in completing the process as planned or failure to successfully complete the redomiciliation could negatively impact the price of the GDRs.

## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

By accepting delivery of this Prospectus, you agree to the following. This Prospectus is being furnished by the Company solely for the purpose of enabling you to consider the purchase of the GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Managers, the Depositary, the Selling Shareholder or any of their respective affiliates or advisers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy, verification or completeness of any of the information in this Prospectus, and accordingly disclaims to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this Prospectus or any such statement. Nothing contained in this Prospectus is, or shall be relied upon, as a promise or representation in this respect, whether as to the past or the future. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholder or the Managers that any recipient of this Prospectus should subscribe for or purchase the GDRs. Each potential subscriber or purchaser of the GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription or purchase of the GDRs should be based upon such investigation as it deems necessary.

This Prospectus, including the financial information included herein, is in compliance with the Prospectus Rules. Such rules are compliant with the provisions of Directive 2003/71/EC, as amended by the Directive 2010/73/EU (the “**Prospectus Directive**”), for the purpose of providing information related to the Company and the GDRs. This Prospectus is a prospectus for the purposes of the Prospectus Directive.

The Company accepts responsibility for the completeness and accuracy of the information contained in this Prospectus and, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Company’s knowledge, in accordance with the facts and contains no omissions likely to affect its import.

The directors of the Company have taken all reasonable care to ensure that the facts stated in this Prospectus are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in the document, whether of fact or of opinion. All the directors accept responsibility accordingly.

**This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to purchase or otherwise acquire the GDRs. In making an investment decision, you should rely on your own investigation, examination, enquiry and analysis of the Company, the Company and its consolidated subsidiaries taken as a whole (the “Group”), the terms of the Offering, including the merits and risks involved, your own determination of the suitability of any such investment, with particular reference to your own investment objectives and experience and any other factors that may be relevant to you in connection with an investment in the GDRs. Any decision to buy the GDRs should be based solely on the information contained in this Prospectus. No person has been authorised to provide any information or to make any representations in connection with the Offering other than those contained in this Prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Managers, any of their respective affiliates, advisers or any other person. At any time following the date of this Prospectus, neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances imply that the information contained in this Prospectus is correct as of any date subsequent to the date hereof or that there has been no change in the Group’s business, financial condition or results of operations.**

You should not consider any information in this Prospectus to be investment, legal, tax, business or financial advice. You should consult your own investment, legal, tax, business, financial and other advisors for each of their respective advice regarding purchasing the GDRs. None of the Company, the Selling Shareholder or the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

The price of securities and the income therefrom can decrease as well as increase.

Merrill Lynch International is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Société Générale is a French credit institution authorised and supervised by the European Central Bank and the *Autorité de Contrôle Prudentiel et de Résolution* and regulated by the *Autorité des Marchés Financiers*. The Managers are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to herein.

The investors acknowledge that: (i) they have not relied on the Managers or any person affiliated with the Managers in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied only on the information contained in this document; and (iii) no person has been authorised to provide any information or to make any representation concerning the Company, its subsidiaries or the GDRs (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Selling Shareholder or the Managers.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe to or purchase, as the case may be, a portion of the GDRs in the Offering as a principal position and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed, placed or otherwise dealt with should be understood as including any issue, offer, subscription, placement or dealing to any of the Managers and any of their respective affiliates acting in such capacity. In addition, certain of the Managers or their affiliates may enter into financing arrangements (including swaps with investors in connection with which such Managers (or their affiliates) may from time to time acquire, hold or dispose of GDRs). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company and the Selling Shareholder may withdraw the Offering at any time, and the Company, the Selling Shareholder and the Managers reserve the right to reject any offer to purchase the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor. The distribution of this Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about and observe any such restrictions (see “*Selling and Transfer Restrictions*” and “*Plan of Distribution*”). You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. None of the Company, the Selling Shareholder or the Managers is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The contents of the websites of the Company, any of the Company’s subsidiaries, any of the Selling Shareholder’s and its subsidiaries do not form part of this Prospectus.

#### **NOTICE TO CERTAIN INVESTORS**

**THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. WE HAVE NOT UNDERTAKEN, AND DO NOT INTEND, TO REGISTER THE GDRS UNDER THE SECURITIES ACT.**

#### **NOTICE TO PROSPECTIVE UNITED STATES INVESTORS**

This Offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the GDRs which does not involve a public offering. In making

your purchase, you will be deemed to have made certain acknowledgments, representations and agreements (see “*Selling and Transfer Restrictions*” and “*Plan of Distribution*”).

This Prospectus is being provided: (i) to a limited number of investors in the United States reasonably believed to be QIBs for informational use solely in connection with their consideration of the purchase of the GDRs; and (ii) to investors outside the United States in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S.

#### NOTICE TO EEA INVESTORS

This Prospectus has been prepared on the basis that all offers of GDRs other than the offers contemplated in this Prospectus in the United Kingdom once this Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive as implemented in the United Kingdom will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. None of the Company or the Managers has authorised, nor do they authorise, the making of any offer of the GDRs through any financial intermediary, other than offers made by the Managers, which constitute the final placement of the GDRs contemplated in this Prospectus.

Each person in an EEA Member State which has implemented the Prospectus Directive (each, an “**EEA Relevant Member State**”) who receives any communication in respect of the GDRs or who acquires any GDRs will be deemed to have represented, acknowledged and agreed that: (i) it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive (a “**Qualified Investor**”); (ii) in the case of any GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, the GDRs acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any EEA Relevant Member State other than Qualified Investors or in circumstances in which the prior consent of the Managers has been given to the offer or resale; and (iii) where the GDRs have been acquired by it on behalf of persons in any EEA Relevant Member State other than Qualified Investors, the offer of those GDRs to it is not treated under the Prospectus Directive as having been made to such persons. The Company, the Managers, the Company’s and the Managers’ affiliates and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements, and will not be responsible for any loss occasioned by such reliance. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase the GDRs, *provided that* publication of a Prospectus would not be required pursuant to Article 3 of the Prospectus Directive.

For the purposes of this representation, the expression an “**offer within the EEA of the GDRs**” in relation to any GDRs in any EEA Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs.

#### NOTICE TO UNITED KINGDOM INVESTORS

This Prospectus is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “**Order**”); or (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or other persons to whom it may lawfully be communicated (such persons collectively being referred to as “**Relevant Persons**”). The GDRs are only available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire such GDRs will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

#### NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

This Prospectus does not constitute an offer or advertisement of the GDRs in the Russian Federation, is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any GDRs in the Russian Federation, and must not be passed on to third parties or otherwise be made publicly available in the Russian Federation except to the extent permitted under Russian law. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the CBR. Therefore, “public placement” of the GDRs in Russia is prohibited. In addition, before the MOEX Admission, in

respect of the timing of which no assurance can be given by the Company, the Selling Shareholder or the Managers, the GDRs may not be distributed, circulated, offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except to qualified investors within the meaning of Article 51.2 of the Russian Securities Market Law or as otherwise may be permitted by Russian law.

#### **NOTICE TO INVESTORS IN AUSTRALIA**

This Prospectus has not been lodged with the Australian Securities and Investments Commission as a disclosure document under Chapter 6D of the Corporations Act 2001 (Cwth) of Australia (the “**Corporations Act**”) and is only directed to certain categories of exempt persons. Accordingly, if you receive this Prospectus in Australia:

- (a) you confirm and warrant that you are either:
  - (i) a “sophisticated investor” under section 708(8)(a) or (b) of the Corporations Act;
  - (ii) a “sophisticated investor” under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant’s certificate pursuant to the section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
  - (iii) a person associated with the Company under section 708(12) of the Corporations Act; or
  - (iv) a “professional investor” within the meaning of section 708(11)(a) or (b) of the Corporations Act, and, to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act, any offer made to you under this document is void and incapable of acceptance; and
- (b) you warrant and agree that you will not offer any of the GDRs sold to you pursuant to this Prospectus for resale in Australia within 12 months of those GDRs being sold unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

#### **NOTICE TO RESIDENTS OF SAUDI ARABIA**

This Prospectus may not be distributed in Saudi Arabia except in accordance with the requirements of, and to such persons permitted under the Offer of Securities Regulations issued by the Saudi Arabia Capital Market Authority (“**CMA**”).

The CMA does not make any representation as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the GDRs offered hereby should conduct their own due diligence on the accuracy of the information relating to the GDRs. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

#### **STABILISATION**

In connection with the Offering, the Stabilisation Manager, or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law and regulation, over-allot the GDRs or provide related services in any over-the-counter market or otherwise, with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market during the Stabilisation Period. However, the Stabilisation Manager is not required to enter into such transactions. Such stabilisation, if commenced, may be discontinued at any time without prior notice, and may only be undertaken during the Stabilisation Period.

In connection with the Offering, the Stabilisation Manager or any persons acting for the Stabilisation Manager, may, for stabilisation purposes, over-allot up to 5,000,000 GDRs. For the purposes of allowing the Stabilisation Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilisation Manager during the Stabilisation Period, the Selling Shareholder has granted the Managers the Over-Allotment Option pursuant to which the Stabilisation Manager, on behalf of the Managers, may require the Selling Shareholder to sell up to 5,000,000 additional GDRs at the Offer Price. The Over-Allotment Option is exercisable within 30 days of the announcement of the Offer Price in whole or in part time to time on one or more occasions only during the Stabilisation

Period for the purposes of meeting over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions upon written notice from the Stabilisation Manager, on behalf of the Managers to the Selling Shareholder. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Save as required by law or regulation, neither the Stabilisation Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

The Company is incorporated under the laws of Jersey and following the Offering intends to redomicile from Jersey to Cyprus in 2018. Basic Element Limited is incorporated under the laws of Jersey.

Most of the Company's directors and senior management of the Group as at the date of this Prospectus (the "**Senior Management**") named in this Prospectus reside, and after the expected redomiciliation to Cyprus will still reside, outside the United States and the United Kingdom. Most of the Company's assets and a substantial portion of the assets of its directors and Senior Management are located, and after the expected redomiciliation to Cyprus will still be located, outside the United States and the United Kingdom.

As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company, its directors or Senior Management or the Selling Shareholder that are located in jurisdictions outside the United States and the United Kingdom or enforce U.S. or U.K. court judgments obtained against the Company, its directors or Senior Management or the Selling Shareholder in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Under the terms of the deposit agreements between the Company and the Depositary (the "**Deposit Agreements**"), any dispute, controversy or cause of action against the Company and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein (including any dispute relating to the existence, validity or termination of the Deposit Agreements, or any non-contractual obligation arising therefrom), the Ordinary Shares or other deposited securities may be referred to and resolved by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"), as more fully described in the Deposit Agreements.

The Company's assets are primarily held by its Russian operating subsidiaries which are not parties to the Deposit Agreements, and thus no GDR holder (or shareholder in the Company) is likely to have recourse against Russian operating companies under the Deposit Agreements.

To the extent any investor is in a position to enforce any foreign judgment in a Russian court, judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless: (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered; and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

The Company is not aware of a treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom, the United States, Jersey or Cyprus and the Russian Federation. Although the Russian courts have recognised and enforced a number of foreign court judgements (including the judgement of an English court), the basis for this was a combination of the principle of reciprocity and, in the case of the enforcement of the English court judgement, the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. In the absence of any sufficiently established court practice, however, it is difficult to predict whether a Russian court would be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of any court judgment, or completely deprive investors of effective legal recourse for claims related to their investment in the GDRs.

The Russian Federation is party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the “**New York Convention**”). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural and legislative regulations and requirements). However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

The Arbitrazh Procedural Code of the Russian Federation (the “**Arbitrazh Procedural Code**”) sets out certain grounds for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change. Therefore, amongst other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts’ judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may be met with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or foreign arbitral award in the Russian Federation.

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus contains forward-looking statements which reflect the Group’s views with respect to its results of operations, financial condition, business strategy and its plans and objectives for future operations.

These forward-looking statements relate to the Group and the industries in which it operates. Statements that include the words “expect”, “intend”, “propose”, “plan”, “believe”, “estimate”, “project”, “anticipate”, “envisage”, “will”, “target”, “aim”, “may”, “might”, “should”, “would”, “could”, “continue” and similar statements of a future or forward-looking nature, or in each case their negative or other variations, or discussions of strategies, plans, objectives, goals, future events or intentions identify forward-looking statements.

These forward-looking statements all include matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the Group’s intentions, beliefs or current expectations concerning, amongst other things, its results of operations, financial condition, liquidity, prospects, growth, strategy and dividend policy and those of the industry in which the Group operates.

All forward-looking statements included in this Prospectus address matters that involve risks and uncertainties and other important factors beyond the Group’s control that could cause the Group’s actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group’s present and future business strategies and the environment in which the Group operates and will operate in the future. Forward-looking statements are not guarantees of future performance. These factors include but are not limited to those listed under the heading “*Risk Factors*”. The following include some but not all of the factors that could cause actual results or events to differ materially from the anticipated results or events.

Any forward-looking statements in this Prospectus reflect the Group’s current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group’s business, results of operations, financial condition, growth strategy and liquidity.

Any forward-looking statements speak only as at the date of this Prospectus. The Group undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise, unless required to do so by applicable law, the Prospectus Rules, the Listing Rules or the Disclosure Guidance and Transparency Rules. All subsequent written and oral forward-looking statements attributable to the Group, and those acting on behalf of the Group, are expressly qualified in their entirety by this section. Prospective investors should specifically consider the

factors identified in this Prospectus that could cause actual results to differ before making an investment decision.

## AVAILABLE INFORMATION

The Company will, for so long as any of the GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act (“**Restricted Securities**”), during any period in which it is neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Restricted Securities or to any prospective purchaser of such Restricted Securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of GDRs.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

The financial information set out in this Prospectus with respect to the Company and the Group has, except where expressly stated otherwise, and subject to rounding, been derived from the Group’s consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“**IFRS**”).

The consolidated financial information of the Group set out in this Prospectus as at and for the six months ended 30 June 2017 and 2016 has been derived from the unaudited consolidated interim condensed financial information of the Group as at and for the six months ended 30 June 2017 and 2016 (the “**Interim Financial Information**”), prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting (“**IAS 34**”). The Interim Financial Information as at and for the six months ended 30 June 2017 and included herein together with the related review report, is set forth elsewhere in this Prospectus. JSC KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such information. Their separate report included herein states that they did not audit and they do not express an audit opinion on the Interim Financial Information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The consolidated financial information of the Group set out in this Prospectus as at and for the years ended 31 December 2016, 2015 and 2014 has been derived from the audited consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2015 and 2014 (the “**Annual Financial Statements**”, and together with the Interim Financial Information, the “**Financial Statements**”). The Annual Financial Statements, together with the related independent auditor’s report, are set forth elsewhere in this Prospectus.

### Independent Auditors

The Annual Financial Statements have been audited and the Interim Financial Information has been reviewed, in each case by JSC KPMG (“**KPMG**”) of 10, Presnenskaya Naberezhnaya, Moscow, 123112, Russia. KPMG, an independent auditor, is a member of the “Russian Union of Auditors (Association)”, a self-regulated organisation of auditors.

KPMG has expressed an unqualified audit opinion with respect to the Annual Financial Statements and an unqualified review conclusion with respect to the Interim Financial Information.

### Presentation of Segment Information

In this Prospectus, the Company presents certain financial and operating information by segments. The Financial Statements include two segment reporting formats: business and operating (see Note 4 to each of the Interim Financial Information and the Annual Financial Statements).

In 2016, the Company changed its internal management reporting structure, which resulted in a revision of reportable segments and a restatement of comparative information for earlier periods.

In line with the Company’s current management and internal reporting structures, the Company’s management has identified five operating segments (the Metals Segment, the Power Segment, the Coal Segment, the Logistics Segment and the Other Segment (each as defined below)) that are reportable



under IFRS. These business units are managed separately and the results of their operations are reviewed regularly by the Company's management in order to make decisions on the resources to be allocated to each segment and to assess their performance.

In the Financial Statements and other reportings, in addition to operating segments, the Company reports on the basis of two major business segments: the En+ Segment (referenced in this Prospectus as the “**En+ Power**”) and RUSAL (each defined below). For the purposes of this Prospectus, the En+ Segment is referred to as the “En+ Power”. En+ Power predominantly consists of the Power Segment, and also includes the Coal Segment and the Logistics Segment, both of which support the operations of the Power Segment, and the Other Segment. The Other Segment includes Krasnoyarsk Metallurgical Plant LLC (“**KRAMZ**”) (an aluminium processing plant) and Strikeforce Mining and Resources PLC and its consolidated subsidiaries (“**SMR**”) (a molybdenum and ferromolybdenum producer). The Group's other (unallocated) operations that are not reportable separately due to their immateriality are included into En+ Power. RUSAL which also includes an equity investment in Norilsk Nickel, is equivalent to the Metals Segment.

The Company's management believes that the division of the results of the Group's operations into En+ Power and RUSAL enables investors and analysts to assess the part the Group's business (primarily power operations supported by coal and logistics businesses) that is under the Company's direct day-to-day operational management. The Company maintains strategic control in RUSAL through a 48.13% interest and contractual rights contained in the shareholders' agreement with non-controlling shareholders of RUSAL (including the right to propose for nomination for appointment the CEO of RUSAL, at least 50% of the board of directors and two independent directors) without having day-to-day control over its operations.

Throughout this Prospectus (unless stated otherwise), the following definitions are used:

- “**Group**” means the Company and its consolidated subsidiaries;
- “**En+ Segment**” means the Group's business segment, which comprises the Power Segment, the Coal Segment, the Logistics Segment, the Other Segment and unallocated assets, but excludes RUSAL, as described in Note 4 to each of the Interim Financial Information and the Annual Financial Statements. En+ Segment is referenced in this Prospectus as the “**En+ Power**”;
- “**En+ Power**” means, for the purposes of this Prospectus, the En+ Segment;
- “**Power Segment**” means the Group's power assets and operations that do not include those of RUSAL;
- “**Coal Segment**” means the Group's operations in the mining and sale of coal that do not include those of RUSAL;
- “**Logistics Segment**” means the Group's operations engaged in transportation services that do not include those of RUSAL;
- “**Other Segment**” means the operations of KRAMZ and SMR;
- “**Metals Segment**” means the Group's operations that are conducted by RUSAL; and
- “**RUSAL**” means United Company RUSAL Plc (“**UC RUSAL**”) and its consolidated subsidiaries.

#### **Non-IFRS Measures**

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. These include Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Profit, Covenant Net Debt/EBITDA, Free Cash Flow, Gross Profit Margin, Net Debt, Net Debt/Adjusted EBITDA, Net Profit Margin, Net Working Capital, Operating Profit Margin, Recurring Net Profit and Recurring Net Profit Margin.

Throughout this Prospectus (unless stated otherwise), the following definitions are used:

- “**Adjusted EBITDA**” means, for any period, the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment for the relevant period, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;

- “**Adjusted EBITDA Margin**” means, for any period, Adjusted EBITDA for the relevant period divided by total revenue for the relevant period and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Adjusted Net Profit**” means, for any period, RUSAL’s net profit for the relevant period adjusted for the net effect from share in the results of Norilsk Nickel, the net effect of embedded derivative financial instruments and the net effect of non-current assets impairment;
- “**Covenant Net Debt/EBITDA**” means RUSAL’s covenant net debt divided by covenant EBITDA, in each case as defined, reported and calculated in accordance with the terms of credit facility agreements of RUSAL;
- “**Free Cash Flow**” means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Gross Profit Margin**” means, for any period, gross profit or loss divided by revenues and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Net Debt**” means the sum of secured and unsecured long and short term debt (including borrowings, bonds, accrued interest and, for calculations in respect of En+ Power and the Group, deferred liability for acquisition of shares in Irkutskenergo) less total cash and cash equivalents as at the end of the relevant period, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Net Debt/Adjusted EBITDA**” means, for any period, En+ Power’s Net Debt divided by Adjusted EBITDA;
- “**Net Profit Margin**” means, for any period, net profit or loss for the relevant period divided by total revenue for the relevant period and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Net Working Capital**” means inventories plus short-term trade and other receivables (excluding dividend receivables from related parties) less trade and other payables (excluding short-term part of deferred liability for acquisition of shares in Irkutskenergo), in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Operating Profit Margin**” means, for any period, results from operating activities divided by revenues and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be;
- “**Recurring Net Profit**” means, for any period, Adjusted Net Profit for the relevant period less change in derivative instruments, foreign exchange translation and impairments for the relevant period attributable to RUSAL; and
- “**Recurring Net Profit Margin**” means, for any period, Recurring Net Profit for the relevant period divided by total revenues and expressed as a percentage for the relevant period attributable to RUSAL.

The Company has included these measures because it believes that they enhance an investor’s understanding of the Group’s financial performance. Further, the Company uses the non-IFRS measures disclosed in this Prospectus in the Group’s business operations to, among other things, evaluate the performance of operations, develop budgets and measure performance against those budgets. The Company also believes that these non-IFRS measures are commonly reported by comparable businesses and used by investors in comparing the performance of businesses. In addition, certain of the Group’s financing facilities contain financial covenants that are based on certain of these measures (see “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness*”).

The non-IFRS measures disclosed in this Prospectus are unaudited supplementary measures of the Group’s performance and liquidity that are not required by, or presented in accordance with, IFRS. These measures are not defined by IFRS and the Company’s use and definition of these metrics may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology. These non-IFRS measures have limitations and should not be considered in isolation, or as

substitutes for financial information as reported under IFRS. Accordingly, undue reliance should not be placed on the non-IFRS measures presented in this Prospectus. For a reconciliation of Adjusted EBITDA of the Group, En+ Power and RUSAL to results of operating activities of the Group, En+ Power and RUSAL, respectively, as well as RUSAL's Adjusted Net Profit and RUSAL's Recurring Net Profit to RUSAL's net profit, see "*Selected Consolidated Financial Information—Key Financial Ratios and Other Information*".

### **Currency**

Throughout this Prospectus, unless stated otherwise, the following definitions are used:

- “**£**” or “**pound sterling**” means the lawful currency for the time being of the United Kingdom;
- “**EUR**” or “**euro**” means the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended;
- “**hryvnia**” means the lawful currency for the time being of the Ukraine;
- “**renminbi**” or “**RMB**” means the lawful currency for the time being of the People's Republic of China;
- “**RUB**” or “**rouble**” means the lawful currency for the time being of the Russian Federation; and
- “**U.S.\$**”, “**U.S. Dollar**” or “**dollar**” means the lawful currency for the time being of the United States.

### **Exchange Rate Information**

The functional currency of each of the Group's entities varies (between the rouble, euro, dollar and hryvnia), depending on the subsidiary. The currency in which the Group's direct costs and other costs are denominated, likewise, varies depending on the subsidiary. However, the presentation currency of the Group is the dollar (the management considers the dollar to be the most appropriate presentation currency for the understanding and comparability of the Group's consolidated financial statements). As a result, fluctuations in the value of these functional currencies and, in particular, the value of the rouble against the dollar, may materially affect the results of the Group when translated into the dollar in the Group's consolidated financial statements (see "*Risk Factors—Risks Relating to The Group's Business and Industries of Operation—Risks Relating to Financial Condition—The Group is exposed to foreign currency fluctuations which may affect its financial results*").

The following table sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the dollar, based on the official exchange rate quoted by the CBR. Fluctuations in exchange rates between the rouble and the dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the

preparation of the Financial Statements and those used in relation to the other information presented in this Prospectus.

Year/Period	Exchange Rate			Period End
	High	Low	Average <sup>(1)</sup>	
	(rouble/dollar)			
2011	32.68	27.26	29.39	32.20
2012	34.04	28.95	31.09	30.37
2013	33.47	29.93	31.85	32.73
2014	67.79	32.66	38.42	56.26
2015	72.88	49.18	60.96	72.88
2016	83.59	60.27	67.03	60.66
First half of 2017	60.66	55.85	57.99	59.09
January 2017	60.66	59.15	59.96	60.16
February 2017	60.31	56.77	58.40	57.94
March 2017	59.22	56.38	58.11	56.38
April 2017	57.39	55.85	56.43	56.98
May 2017	58.54	56.07	57.17	56.52
June 2017	60.15	56.54	57.83	59.09
July 2017	60.74	58.93	59.67	59.54
August 2017	60.75	58.53	59.65	58.73
September 2017	58.55	57.00	57.75	58.02
October 2017	58.32	57.09	57.70	57.87
November 2017 (through 3 November 2017)	58.16	58.09	58.12	58.09

Source: [www.cbr.ru](http://www.cbr.ru).

Note:

- (1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

## References

In this Prospectus, all references to “United States” and “U.S.” are to the United States of America, its territories, its possessions and all areas subject to its jurisdiction, all references to “U.K.” are to the United Kingdom and all references to “European Union” and “E.U.” are to the European Union, being a political and economic union of 28 member states that are located primarily in Europe, and all such member states as at the date of this Prospectus. All references to “CIS” are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

## Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

## Industry Reports

All statistical and market information provided by SEEPX Energy Ltd. (“SEEPX”) presented in this Prospectus under the sections entitled “Prospectus Summary”, “Russian Power Industry Overview”, “Business” and “Operating and Financial Review” has been reproduced from the industry report dated 27 April 2017 prepared by SEEPX at the request of the Company (the “SEEPX Industry Report”).

SEEPX has given and not withdrawn its consent to the inclusion of information from the SEEPX Industry Report in this Prospectus, in the form and context in which it is included, and has authorised the contents of those parts of this Prospectus for the purposes of Rule 5.5.4R(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. SEEPX accepts responsibility for the information

included in this Prospectus from the SEEPX Industry Report and confirms that, having taken all reasonable care to ensure that such is the case, the information included in this Prospectus from the SEEPX Industry Report is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect its import. SEEPX is an analytical and research company specialising in, amongst other things, market research on the Russian, Ukrainian and Central Asian power industries. SEEPX has no material interest in the Company. The business address of SEEPX is 92 Statron Lane, Hornchurch, Essex, RM12 6LX, United Kingdom.

All statistical and market information provided by CRU International Limited (“CRU”) presented in this Prospectus under the sections entitled “*Prospectus Summary*”, “*Aluminium Industry*”, “*Business*” and “*Operating and Financial Review*” has been reproduced from the industry report dated 12 April 2017 prepared by CRU at the request of the Company (the “**CRU Industry Report**”).

CRU has given and not withdrawn its consent to the inclusion of information from the Industry Report in this Prospectus, in the form and context in which it is included, and has authorised the contents of those parts of this Prospectus for the purposes of Rule 5.5.4R(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. CRU accepts responsibility for the information included in this Prospectus from the CRU Industry Report and confirms that, having taken all reasonable care to ensure that such is the case, the information included in this Prospectus from the CRU Industry Report is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect its import. CRU is the leading provider of analysis, prices and consulting in the mining, metals and fertiliser markets. CRU has no material interest in the Company. The business address of CRU is Chancery House, 53-64 Chancery Lane, London WC2A 1QS, United Kingdom.

#### **Information Derived from Other Third Parties**

The Company has derived certain information and statistics in this Prospectus, including certain information and statistics concerning the Russian power industry, the Russian economy in general and related subjects from the CBR and the Federal Service for State Statistics of the Russian Federation (“**Rosstat**”). Such information is contained in this Prospectus under the headings “*Presentation of Financial and Other Information*”, “*Prospectus Summary*”, “*Risk Factors*”, “*Industry*”, “*Business*” and “*Operating and Financial Review*”. Where third-party information, data or statistics are set out, they have been accurately reproduced, and, as far as the Company is aware and is able to ascertain from relevant available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Neither the Company, the Selling Shareholder nor the Managers accept liability for the accuracy of any such information, and prospective investors are advised to use such information with caution.

Investors should keep in mind that none of the Company, the Selling Shareholder or the Managers have independently verified information obtained from third-party sources, including from industry and Russian governmental bodies. Furthermore, measures of the financial or operating performance of the Group’s competitors used in evaluating the Group’s comparative position may have been calculated in a different manner to the corresponding measures employed by the Group. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

The information and related data concerning Norilsk Nickel in this Prospectus include information and data that have been extracted from or reproduced based on publicly available information published by Norilsk Nickel. The Company believes that the sources of this information are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. The information has not been independently verified by the Company, the Selling Shareholder, the Managers or any other party involved in the Offering and no representation is given as to its accuracy. In addition, neither Norilsk Nickel nor its independent auditors have been involved in the preparation of this Prospectus. The Group does not incorporate by reference in this Prospectus any publicly available information relating to Norilsk Nickel except as specifically stated herein.

## USE OF PROCEEDS

The total net proceeds attributable to the GDRs will be approximately U.S.\$1,465 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.\$1,535 million, assuming that the Over-Allotment Option is exercised in full (in each case assuming full payment of the total discretionary fee to the Managers).

The total fees, expenses and commissions payable in connection with the Offering will be approximately U.S.\$35 million, assuming that the Over-Allotment Option is exercised in full (assuming full payment of the discretionary fee to the Managers). These amounts include, among others, fees for auditors, tax advisors and legal counsel, as well as selling commissions. All fees, expenses and commissions in connection with the Offering will be paid by the Company.

### **The Selling Shareholder**

The Company will not receive any of the proceeds from the sale of the GDRs that are offered by the Selling Shareholder.

The Selling Shareholder will receive all of the net proceeds attributable to the GDRs offered by it, which will be approximately U.S.\$500 million, assuming no exercise of the Over-Allotment Option, or approximately U.S.\$570 million, assuming that the Over-Allotment Option is exercised in full.

### **The Company**

The Company will receive all of the net proceeds attributable to the GDRs offered by it, which will be approximately U.S.\$965 million, assuming that the Over-Allotment Option is exercised in full (assuming full payment of the discretionary fee to the Managers).

### **Reason for the Offering**

The Offering is being conducted in order to (i) allow the Selling Shareholder to dispose of a portion of its shareholding (see “*Principal and Selling Shareholder—Arrangements between the Principal Shareholders and VTB*”) and (ii) allow the Group to raise funds to repay a portion of debt incurred by the Company. In particular, the Group intends to repay in full the loan provided to it by VTB under the VTB Facility. The outstanding amount of this loan was U.S.\$942 million as at 30 June 2017 (see “*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Loans and Borrowings—En+ Power—Loan agreement between GrandStroy and VTB guaranteed by the Company*”).

## DIVIDEND POLICY

Pursuant to its M&A, the Company may pay dividends out of any lawful source or, in respect of interim dividends, out of reserves of profit if it appears to the Board of Directors they are justified by the financial position of the Company. A dividend made in accordance with the Companies Law shall be debited to: (a) a share premium account, or a stated capital account, of the Company; or (b) any other account of the Company other than the capital redemption reserve or the nominal capital account. To the extent the Company declares and pays dividends, owners of the GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreements. The Company expects to pay dividends, if at all, in dollars. If dividends are not paid in dollars, except as otherwise described under “*Terms and Conditions of the Global Depositary Receipts*”, they will be converted into dollars by the Depositary and paid to holders of the GDRs net of currency conversion expenses.

The Company paid dividends in the amount of U.S.\$318 million in 2016, U.S.\$262 million in 2015 and U.S.\$203 million in 2014. On 25 July 2017, the Company declared interim dividends in the amount of U.S.\$35 million for the first half of 2017, which were paid in full in September 2017. On 28 September 2017, the Company declared dividends in the amount of U.S.\$144 million, which were fully paid in October 2017.

The Company has adopted a dividend policy to pay on at least a semi-annual basis dividends which will be equal to the sum of: (i) 100% of dividends received from RUSAL; and (ii) 75% of Free Cash Flow of En+ Power, subject to a minimum of U.S.\$250 million per annum (with U.S.\$125 million in December 2017). Any future decision to declare and pay dividends will be subject to applicable law and commercial considerations (including without limitation, applicable regulations, restrictions, the Group’s results of operations, financial condition, cash requirements, contractual restrictions and the Group’s future projects and plans). In addition, the Company’s ability to pay dividends depends significantly on the extent to which it receives dividends from its subsidiaries and there can be no assurance that its subsidiaries will pay dividends (see “*Risk Factors—Risks relating to the Securities and the Trading Market—The Company may elect not to pay dividends in the future*”).

The Company’s ability to pay dividends depends on the ability of its subsidiaries to pay dividends to it in accordance with the relevant legislation and contractual restrictions. The payment of dividends by those subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. In particular, the maximum dividend payable by the Company’s Russian subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to Russian laws (see “*Risk Factors—Risks relating to Financial Condition—The Company’s ability to meet its obligations depends to a large extent upon receipt of sufficient funds from its subsidiaries*”, “*Terms and Conditions of the Global Depositary Receipts*” and “*Description of Share Capital and Applicable Jersey Legislation*”).

## CAPITALISATION

The following table sets forth the Group's consolidated capitalisation as at 30 June 2017, derived from the Financial Statements included elsewhere in this Prospectus. This information should be read in conjunction with "Selected Consolidated Financial Information", "Operating and Financial Overview" and the Financial Statements included elsewhere in this Prospectus.

	As at 30 June 2017 (U.S.\$ millions)
<b>Current debt:</b>	
Secured bank loans . . . . .	1,217
Unsecured bank loans . . . . .	397
Accrued interest . . . . .	122
Bonds . . . . .	31
<b>Total current debt . . . . .</b>	<b><u>1,767</u></b>
<b>Non-current debt:</b>	
Secured bank loans . . . . .	10,147
Unsecured bank loans . . . . .	940
Bonds . . . . .	1,357
<b>Total non-current debt . . . . .</b>	<b><u>12,444</u></b>
<b>Total debt . . . . .</b>	<b><u>14,211</u></b>
<b>Less cash and cash equivalents . . . . .</b>	<b>722</b>
<b>Equity:</b>	
Share capital . . . . .	—
Additional paid-in capital . . . . .	9,193
Revaluation reserve . . . . .	2,540
Other reserves . . . . .	(70)
Foreign currency translation reserve . . . . .	(4,606)
Accumulated losses . . . . .	(6,311)
<b>Total equity attributable to shareholders of the Parent Company . . . . .</b>	<b>746</b>
Non-controlling interests . . . . .	1,911
<b>Total equity . . . . .</b>	<b><u>2,657</u></b>
<b>Total capitalisation<sup>(1)</sup> . . . . .</b>	<b><u>16,146</u></b>

Note:

(1) Total capitalisation is the sum of total debt and total equity less cash and cash equivalents.

On 25 July 2017, the Company declared interim dividends in the amount of U.S.\$35 million, which were paid in full in September 2017.

In August 2017, the board of directors of RUSAL approved the payment of interim dividends in the aggregate amount of U.S.\$299 million (of which U.S.\$144 million is attributable to the Company). The interim dividends were paid by RUSAL on 10 October 2017. In September 2017, the Company declared dividends in the amount of U.S.\$144 million, which were paid in full in October 2017.

In August 2017, RUSAL amended the terms of certain facility agreements with Sberbank and Gazprombank. The lenders agreed to amend the existing facilities: (i) to extend the final maturity of loans secured by the shareholding in Norilsk Nickel by three years to December 2024 (with respect to Sberbank) and to extend the final maturity of loans by two years to August 2022 (with respect to Gazprombank); (ii) to decrease the interest rate from a three-month LIBOR plus 4.75% to a three-month LIBOR plus 3.75% (with respect to Sberbank) and to decrease the interest rate from a three-month LIBOR plus 4.5% to a three-month LIBOR plus 3.5% (with respect to Gazprombank); and (iii) to amend certain financial covenants, undertakings and non-financial covenants in the existing agreements generally in line with the 2017 PXF Facility Agreement (as defined in this Prospectus).

In September 2017, RUSAL issued the second tranche of its RMB-denominated bond programme in the principal amount of RMB500 million at a rate of 5.5% per annum due 2020 (subject to put option rights of



bondholders in September 2019). The tranche is guaranteed by China United SME Guarantee Corporation. See—“*Operating and Financial Review—Indebtedness—Bonds—RMB-denominated bonds*”.

In October 2017, the Company declared interim dividends in the amount of U.S.\$125 million to holders of the Ordinary Shares and GDRs as at 30 November 2017. The dividends are expected to be paid by the Company in December 2017.

Except as described above, there have been no material changes in the consolidated capitalisation of the Group since 30 June 2017.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Group as at and for the six months ended 30 June 2017 and as at and for the years ended 31 December 2016, 2015 and 2014 as derived from the Financial Statements included elsewhere in this Prospectus. This section should be read in conjunction with the Financial Statements included in this Prospectus and the notes thereto, as well as the sections of this Prospectus entitled "Presentation of Financial and Other Information" and "Operating and Financial Review".

### The Group's Consolidated Statement of Comprehensive Income

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Revenues	5,841	4,748	9,776	10,529	11,917
Cost of sales	(3,909)	(3,463)	(6,850)	(7,184)	(8,718)
<b>Gross profit</b>	<b>1,932</b>	<b>1,285</b>	<b>2,926</b>	<b>3,345</b>	<b>3,199</b>
Distribution expenses	(318)	(239)	(523)	(442)	(571)
General and administrative expenses	(399)	(337)	(699)	(731)	(939)
(Impairment)/reversal of impairment of non-current assets	(85)	(59)	18	(143)	(368)
Other operating (expenses)/income, net	(66)	19	(49)	(59)	(222)
<b>Results from operating activities</b>	<b>1,064</b>	<b>669</b>	<b>1,673</b>	<b>1,970</b>	<b>1,099</b>
Share of profits of associates and joint ventures	297	439	847	368	521
Finance income	53	54	88	36	46
Finance costs	(773)	(724)	(1,241)	(1,629)	(2,170)
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	—	—	298	95	—
<b>Profit/(loss) before taxation</b>	<b>641</b>	<b>438</b>	<b>1,665</b>	<b>840</b>	<b>(504)</b>
Income tax expense	(93)	(121)	(304)	(260)	(120)
<b>Profit/(loss) for the period</b>	<b>548</b>	<b>317</b>	<b>1,361</b>	<b>580</b>	<b>(624)</b>
<b>Other comprehensive income</b>					
<i>Items that will never be reclassified subsequently to profit or loss:</i>					
Actuarial (loss)/gain on post retirement benefit plans	—	(2)	(2)	(9)	24
Revaluation of non-current assets	—	2,033	3,175	—	—
Taxation	—	(407)	(635)	—	—
	—	1,624	2,538	(9)	24
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation differences on foreign operations	4	359	284	(216)	(1,068)
Foreign currency translation differences for equity-accounted investees	122	476	675	(975)	(3,452)
Change in fair value of cash flow hedges	—	23	36	144	(81)
Items recycled from other comprehensive income on deconsolidation of subsidiaries	—	—	22	(95)	—
Share of other comprehensive income of associates	(28)	—	—	4	10
Unrealised gain/(loss) on available-for-sale assets	6	—	7	(4)	—
Taxation	—	—	—	(41)	(182)
	104	858	1,024	(1,183)	(4,773)
Other comprehensive income/(loss) for the period, net of tax	104	2,482	3,562	(1,192)	(4,749)
<b>Total comprehensive income/(loss) for the period</b>	<b>652</b>	<b>2,799</b>	<b>4,923</b>	<b>(612)</b>	<b>(5,373)</b>
<b>Net profit/(loss) attributable to:</b>					
Shareholders of the Company	279	137	689	166	(622)
Non-controlling interests	269	180	672	414	(2)
<b>Profit/(loss) for the period</b>	<b>548</b>	<b>317</b>	<b>1,361</b>	<b>580</b>	<b>(624)</b>
Total comprehensive income/(loss) for the period attributable to:					
Shareholders of the Company	332	1,731	3,170	(295)	(2,763)
Non-controlling interests	320	1,068	1,753	(317)	(2,610)
<b>Total comprehensive income/(loss) for the period</b>	<b>652</b>	<b>2,799</b>	<b>4,923</b>	<b>(612)</b>	<b>(5,373)</b>

## The Group's Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2017	2016	2015	2014
	(U.S.\$ millions)			
<b>ASSETS</b>				
<b>Non-current assets:</b>				
Property, plant and equipment . . . . .	9,446	9,355	5,186	5,668
Goodwill and intangible assets . . . . .	2,353	2,300	2,053	2,424
Interests in associates and joint ventures . . . . .	4,192	4,156	3,222	4,885
Long-term investments . . . . .	30	25	28	42
Trade and other receivables . . . . .	32	149	4	31
Deferred tax assets . . . . .	97	108	96	90
Derivative financial assets . . . . .	67	51	71	30
Other non-current assets . . . . .	12	7	11	45
<b>Total non-current assets . . . . .</b>	<b>16,229</b>	<b>16,151</b>	<b>10,671</b>	<b>13,215</b>
<b>Current assets:</b>				
Short-term investments . . . . .	42	38	34	74
Inventories . . . . .	2,197	2,034	1,922	2,135
Trade and other receivables . . . . .	1,455	1,401	1,157	914
Prepaid expenses and other current assets . . . . .	17	14	22	37
Derivative financial assets . . . . .	29	16	50	32
Cash and cash equivalents . . . . .	722	669	591	710
Assets held for sale . . . . .	7	7	36	1
<b>Total current assets . . . . .</b>	<b>4,469</b>	<b>4,179</b>	<b>3,812</b>	<b>3,903</b>
<b>TOTAL ASSETS . . . . .</b>	<b>20,698</b>	<b>20,330</b>	<b>14,483</b>	<b>17,118</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital . . . . .	—	—	—	—
Additional paid-in capital . . . . .	9,193	9,193	9,193	9,192
Revaluation reserve . . . . .	2,540	2,456	—	—
Other reserves . . . . .	(70)	(63)	(96)	(157)
Foreign currency translation reserve . . . . .	(4,606)	(4,683)	(5,078)	(4,555)
Accumulated losses . . . . .	(6,311)	(6,503)	(5,889)	(5,731)
<b>Total equity attributable to shareholders of the Company . . . . .</b>	<b>746</b>	<b>400</b>	<b>(1,870)</b>	<b>(1,251)</b>
Non-controlling interests . . . . .	1,911	1,785	873	1,429
<b>Total equity . . . . .</b>	<b>2,657</b>	<b>2,185</b>	<b>(997)</b>	<b>178</b>
<b>Non-current liabilities:</b>				
Loans and borrowings . . . . .	12,444	12,095	9,604	9,626
Deferred tax liabilities . . . . .	1,322	1,394	592	575
Provisions—non-current portion . . . . .	607	618	650	593
Derivative financial liabilities . . . . .	31	3	—	350
Other non-current liabilities . . . . .	113	177	88	66
<b>Total non-current liabilities . . . . .</b>	<b>14,517</b>	<b>14,287</b>	<b>10,934</b>	<b>11,210</b>
<b>Current liabilities:</b>				
Loans and borrowings . . . . .	1,767	2,110	2,724	3,484
Provisions—current portion . . . . .	79	64	97	137
Trade and other payables . . . . .	1,640	1,652	1,293	1,778
Derivative financial liabilities . . . . .	38	32	421	318
Liabilities held for sale . . . . .	—	—	11	13
<b>Total current liabilities . . . . .</b>	<b>3,524</b>	<b>3,858</b>	<b>4,546</b>	<b>5,730</b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>	<b>20,698</b>	<b>20,330</b>	<b>14,483</b>	<b>17,118</b>

## The Group's Selected Consolidated Statement of Cash Flow Data

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Cash flows from operating activities . . . . .	1,001	916	1,950	2,163	2,026
Cash flows (used in)/generated from investing activities . . . . .	(35)	(92)	(180)	97	(116)
Cash flows used in financing activities . . . . .	(920)	(545)	(1,704)	(2,258)	(1,869)
Net change in cash and cash equivalents . . . . .	46	279	66	2	41
Cash and cash equivalents at the beginning of the period, excluding restricted cash . . . . .	656	577	577	697	811
Effect of exchange rate changes on cash and cash equivalents .	3	56	13	(122)	(155)
Cash and cash equivalents at the end of the period, excluding restricted cash . . . . .	705	912	656	577	697

## Key Financial Ratios and Other Information

	As at or six months ended 30 June		As at or year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions, except for percentages)				
<b>Group</b>					
Adjusted EBITDA <sup>(1)</sup> . . . . .	1,513	1,051	2,311	2,732	2,168
Adjusted EBITDA Margin, % <sup>(2)</sup> . . . . .	25.9%	22.1%	23.6%	25.9%	18.2%
Gross Profit Margin, % <sup>(3)</sup> . . . . .	33.1%	27.1%	29.9%	31.8%	26.8%
Operating Profit Margin, % <sup>(4)</sup> . . . . .	18.2%	14.1%	17.1%	18.7%	9.2%
Net Profit Margin, % <sup>(5)</sup> . . . . .	9.4%	6.7%	13.9%	5.5%	(5.2)%
Net Debt <sup>(6)</sup> . . . . .	13,811	N/A	13,939	11,826	12,400
Net Working Capital <sup>(7)</sup> . . . . .	1,908	N/A	1,678	1,597	1,257
Free Cash Flow <sup>(8)</sup> . . . . .	303	292	298	1,081	532
<b>En+ Power</b>					
Adjusted EBITDA . . . . .	572	395	822	717	652
Adjusted EBITDA Margin, % . . . . .	35.8%	34.3%	33.1%	29.2%	19.0%
Gross Profit Margin, % . . . . .	43.2%	38.4%	40.8%	35.8%	31.5%
Operating Profit Margin, % . . . . .	28.0%	26.1%	24.4%	22.8%	4.5%
Net Profit Margin, % . . . . .	7.5%	4.9%	12.2%	5.8%	(16.2)%
Net Debt . . . . .	5,476	N/A	5,518	3,454	3,563
Net Debt/Adjusted EBITDA <sup>(9)</sup> . . . . .	5.5x <sup>(10)</sup>	N/A	6.7x	4.8x	5.5x
Net Working Capital . . . . .	(76)	N/A	(13)	6	(41)
Free Cash Flow . . . . .	124	117	187	96	(84)
<b>RUSAL</b>					
Adjusted EBITDA . . . . .	985	656	1,489	2,015	1,514
Adjusted EBITDA Margin, % . . . . .	20.7%	16.8%	18.7%	23.2%	16.2%
Gross Profit Margin, % . . . . .	27.0%	21.6%	24.0%	28.4%	22.8%
Operating Profit Margin, % . . . . .	13.9%	9.4%	13.4%	16.2%	10.1%
Net Profit Margin, % . . . . .	9.9%	6.7%	14.8%	6.4%	(1.0)%
Adjusted Net Profit <sup>(11)</sup> . . . . .	465	67	292	671	17
Recurring Net Profit <sup>(12)</sup> . . . . .	686	425	959	1,097	486
Recurring Net Profit Margin <sup>(13)</sup> . . . . .	14.40%	10.9%	12.0%	12.6%	5.2%
Net Debt . . . . .	8,335	N/A	8,421	8,372	8,837
Covenant Net Debt/EBITDA <sup>(14)</sup> . . . . .	3.1x	N/A	3.2x	2.7x	4.3x
Net Working Capital . . . . .	2,036	N/A	1,691	1,596	1,308
Free Cash Flow . . . . .	179	175	111	985	616

Notes:

- (1) Adjusted EBITDA for any period represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment for the relevant period, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.

- (2) Adjusted EBITDA Margin for any period represents Adjusted EBITDA for the relevant period divided by total revenues for the relevant period and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.
- (3) Gross Profit Margin for any period represents gross profit or loss for the relevant period divided by total revenues for the relevant period and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.
- (4) Operating Profit Margin represents results from operating activities divided by revenues and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.
- (5) Net Profit Margin for any period represents net profit or loss for the relevant period divided by total revenues for the relevant period and expressed as a percentage, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.
- (6) Net Debt represents the sum of secured and unsecured long-term and short-term debt (including borrowings, bonds, accrued interest and, for calculations in respect of En+ Power and the Group, respectively, deferred liability for acquisition of shares in Irkutskenergo and provision for guarantee for related parties) less total cash and cash equivalents as at the end of the relevant period, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.
- (7) Net Working Capital represents inventories plus short-term trade and other receivables (excluding dividend receivables from related parties) less trade and other payables (excluding short-term part of deferred liability for acquisition of shares in Irkutskenergo) as at the end of the relevant period, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.
- (8) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.
- (9) Net Debt/Adjusted EBITDA means, for any period, En+ Power's Net Debt divided by Adjusted EBITDA.
- (10) Net Debt/Adjusted EBITDA ratio as at 30 June 2017 is based on Adjusted EBITDA for the twelve months ended 30 June 2017, calculated as the sum of Adjusted EBITDA for 2016 and Adjusted EBITDA for the first half of 2017 less Adjusted EBITDA for the first half of 2016. In September 2017, the Group terminated a guarantee for a related party. Net Debt/Adjusted EBITDA ratio adjusted for exclusion of this guarantee is 5.4x.
- (11) Adjusted Net Profit for any period represents net profit for the relevant period adjusted for the net effect from share in the results of Norilsk Nickel, the net effect of embedded derivative financial instruments and the net effect of non-current assets impairment.
- (12) Recurring Net Profit represents Adjusted Net Profit for the relevant period plus RUSAL's effective share of Norilsk Nickel's profits, net of tax.
- (13) Recurring Net Profit Margin represents Recurring Net Profit for the relevant period divided by total revenues and expressed as a percentage for the relevant period attributable to RUSAL.
- (14) Covenant Net Debt/EBITDA means RUSAL's covenant net debt divided by covenant EBITDA, in each case as defined, reported and calculated in accordance with the terms of credit facility agreements of RUSAL. Starting from 24 May 2017, following the refinancing of the Combined PXF in 2017, RUSAL adopted the new methodology, which provides for Covenant Net Debt/EBITDA to be calculated as RUSAL's covenant net debt (adjusted for the amount of indebtedness secured by shares in Norilsk Nickel (or, if lower, the value of shares in Norilsk Nickel securing such indebtedness)) divided by covenant EBITDA net of the impact of shareholding in Norilsk Nickel (adjusted for dividends paid on shares in Norilsk Nickel), in each case as defined, reported and calculated in accordance with the terms of the credit facility agreements of RUSAL. Under the new methodology, RUSAL's Covenant Net Debt/EBITDA ratio for the six months ended 30 June 2017 was 1.7x.

The following table sets forth En+ Power's Adjusted EBITDA (before intersegmental eliminations) by segments for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions, except %)				
<b>En+ Power</b>					
Adjusted EBITDA <sup>(1)</sup> (Power Segment) . . . . .	565	367	794	719	673
Adjusted EBITDA (Coal Segment) . . . . .	14	13	26	12	38
Adjusted EBITDA (Logistics Segment) . . . . .	16	9	29	27	36
Adjusted EBITDA (Other Segment) . . . . .	(1)	4	11	(4)	21
Eliminations/unallocated . . . . .	(22)	2	(38)	(37)	(116)
<b>Adjusted EBITDA (En+ Power) . . . . .</b>	<b><u>572</u></b>	<b><u>395</u></b>	<b><u>822</u></b>	<b><u>717</u></b>	<b><u>652</u></b>

(1) Adjusted EBITDA for any period represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment for the relevant period.

The following table sets forth a reconciliation of the Group's Adjusted EBITDA to the Group's results from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Adjusted EBITDA</b>					
Results from operating activities . . . . .	1,064	669	1,673	1,970	1,099
Add:					
Amortisation and depreciation . . . . .	365	322	641	593	684
(Gain)/loss on disposal of property, plant and equipment . . . . .	(1)	1	15	26	17
Impairment of non-current assets . . . . .	85	59	(18)	143	368
<b>Adjusted EBITDA<sup>(1)</sup></b> . . . . .	<b><u>1,513</u></b>	<b><u>1,051</u></b>	<b><u>2,311</u></b>	<b><u>2,732</u></b>	<b><u>2,168</u></b>

(1) Adjusted EBITDA for any period represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment for the relevant period.

The following table sets forth a reconciliation of En+ Power's Adjusted EBITDA to En+ Power's results from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Adjusted EBITDA</b>					
Results from operating activities . . . . .	448	301	605	561	155
Add:					
Amortisation and depreciation . . . . .	122	91	188	136	225
Gain/(loss) on disposal of property, plant and equipment . . . . .	(2)	(1)	3	9	7
Impairment of non-current assets . . . . .	4	4	26	11	265
<b>Adjusted EBITDA<sup>(1)</sup></b> . . . . .	<b><u>572</u></b>	<b><u>395</u></b>	<b><u>822</u></b>	<b><u>717</u></b>	<b><u>652</u></b>

(1) Adjusted EBITDA for any period represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment for the relevant period, in each case attributable to En+ Power (before intragroup elimination).

The following table sets forth a reconciliation of RUSAL's Adjusted EBITDA to RUSAL's results from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Adjusted EBITDA</b>					
Results from operating activities . . . . .	660	368	1,068	1,409	942
Add:					
Amortisation and depreciation . . . . .	243	231	453	457	459
Loss on disposal of property, plant and equipment . . . . .	1	2	12	17	10
Impairment/(reversal) of non-current assets . . . . .	81	55	(44)	132	103
<b>Adjusted EBITDA<sup>(1)</sup></b> . . . . .	<b><u>985</u></b>	<b><u>656</u></b>	<b><u>1,489</u></b>	<b><u>2,015</u></b>	<b><u>1,514</u></b>

(1) Adjusted EBITDA for any period represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment for the relevant period, in each case attributable to RUSAL (before intragroup elimination).

The following table sets forth a reconciliation of RUSAL's Adjusted Net Profit and RUSAL's Recurring Net Profit to RUSAL's net profit for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Adjusted Net Profit</b>					
Net profit/(loss) for the period . . . . .	470	261	1,179	558	(91)
Adjusted for:					
Share of profits and other gains and losses attributable to Norilsk Nickel, net of tax effect . . . . .	(221)	(358)	(667)	(426)	(469)
Change in derivative financial instruments, net of tax (20.0%) . . .	135	109	122	342	474
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income . . .	—	—	(298)	(95)	—
Impairment/(reversal) of non-current assets, net of tax . . . . .	81	55	(44)	132	103
Net impairment of underlying net assets of joint ventures and associates . . . . .	—	—	—	160	—
<b>Adjusted Net Profit<sup>(1)</sup> . . . . .</b>	<b>465</b>	<b>67</b>	<b>292</b>	<b>671</b>	<b>17</b>
<b>Add back:</b>					
Share of profits of Norilsk Nickel, net of tax . . . . .	221	358	667	426	469
<b>Recurring Net Profit . . . . .</b>	<b>686</b>	<b>425</b>	<b>959</b>	<b>1,097</b>	<b>486</b>

(1) The Adjusted Net Profit and the Recurring Net Profits for 2016 as well as for 2015 do not include the result from disposal and deconsolidation of subsidiaries due to the fact that it was driven by one-off events that are unlikely to reoccur in the future.

The following table sets forth the calculation of Net Debt of the Group, En+ Power and RUSAL as at the dates indicated:

	As at 30 June	As at 31 December		
	2017	2016	2015	2014
	(U.S.\$ millions)			
<b>Group</b>				
Loans and borrowings . . . . .	14,211	14,205	12,328	13,110
Cash and cash equivalents . . . . .	(722)	(669)	(591)	(710)
Provision for guarantee . . . . .	110	108	89	—
Deferred obligations for Irkutskenergo shares . . . . .	212	295	—	—
<b>Net Debt . . . . .</b>	<b>13,811</b>	<b>13,939</b>	<b>11,826</b>	<b>12,400</b>
<b>En+ Power</b>				
Loans and borrowings . . . . .	5,257	5,240	3,448	3,703
Cash and cash equivalents . . . . .	(103)	(125)	(83)	(140)
Provision for guarantee . . . . .	110	108	89	—
Deferred obligations for Irkutskenergo shares . . . . .	212	295	—	—
<b>Net Debt . . . . .</b>	<b>5,476</b>	<b>5,518</b>	<b>3,454</b>	<b>3,563</b>
<b>RUSAL</b>				
Loans and borrowings . . . . .	8,954	8,965	8,880	9,407
Cash and cash equivalents . . . . .	(619)	(544)	(508)	(570)
<b>Net Debt . . . . .</b>	<b>8,335</b>	<b>8,421</b>	<b>8,372</b>	<b>8,837</b>

The following table sets forth the calculation of Net Working Capital of the Group, En+ Power and RUSAL as at the dates indicated:

	As at 30 June	As at 31 December		
	2017	2016	2015	2014
	(U.S.\$ millions)			
<b>Group</b>				
Inventories . . . . .	2,197	2,034	1,922	2,135
Short-term trade and other receivables . . . . .	1,455	1,401	1,157	914
Dividends receivable from related parties . . . . .	(316)	(311)	(189)	(14)
Trade and other payables . . . . .	(1,640)	(1,652)	(1,293)	(1,778)
Short-term part of deferred liability for acquisition of shares in Irkutskenergo . . . . .	212	206	—	—
<b>Net Working Capital</b> . . . . .	<b>1,908</b>	<b>1,678</b>	<b>1,597</b>	<b>1,257</b>
<b>En+ Power</b>				
Inventories . . . . .	114	108	85	137
Short-term trade and other receivables . . . . .	344	348	323	311
Dividends receivable from related parties . . . . .	—	—	—	—
Trade and other payables . . . . .	(746)	(675)	(402)	(489)
Short-term part of deferred liability for acquisition of shares in Irkutskenergo . . . . .	212	206	—	—
<b>Net Working Capital</b> . . . . .	<b>(76)</b>	<b>(13)</b>	<b>6</b>	<b>(41)</b>
<b>RUSAL</b>				
Inventories . . . . .	2,127	1,926	1,837	1,998
Short-term trade and other receivables . . . . .	1,223	1,130	899	686
Dividends receivable from related parties . . . . .	(316)	(311)	(189)	(14)
Trade and other payables . . . . .	(998)	(1,054)	(951)	(1,362)
<b>Net Working Capital</b> . . . . .	<b>2,036</b>	<b>1,691</b>	<b>1,596</b>	<b>1,308</b>

(1) Net Working Capital represents inventories plus short-term trade and other receivable (excluding dividend receivables from related parties) less trade and other payables (excluding short-term part of deferred liability for acquisition of shares in Irkutskenergo) as at the end of the relevant period, in each case attributable to the Group, En+ Power or RUSAL, as the case may be.

The following table sets forth a reconciliation of the Group's Free Cash Flow to the Group's cash flows from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Free Cash Flow</b>					
Cash flows generated from operating activities . . . . .	1,001	916	1,950	2,163	2,026
Adjusted for:					
Capital expenditures (acquisition of property, plant and equipment and acquisition of intangible assets) . . . . .	(379)	(244)	(851)	(691)	(864)
Payment for dams (including VAT) . . . . .	—	—	163	—	—
Acquisition of Ondskaya HPP (including VAT) . . . . .	—	—	—	—	64
Dividends from associates and joint ventures . . . . .	325	182	336	755	926
Interest received . . . . .	8	20	27	31	33
Interest paid . . . . .	(515)	(371)	(867)	(855)	(1,052)
Restructuring fees . . . . .	(36)	(14)	(14)	(2)	(149)
Settlement of derivative financial instruments . . . . .	(101)	(197)	(446)	(320)	(452)
<b>Free Cash Flow<sup>(1)</sup></b> . . . . .	<b>303</b>	<b>292</b>	<b>298</b>	<b>1,081</b>	<b>532</b>

(1) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.



The following table sets forth a reconciliation of En+ Power's Free Cash Flow to En+ Power's cash flows from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Free Cash Flow</b>					
Cash flows generated from operating activities . . . . .	432	319	705	596	626
Adjusted for:					
Capital expenditures (acquisition of property, plant and equipment and acquisition of intangible assets) . . . . .	(58)	(50)	(276)	(169)	(385)
Payment for dams (including VAT) . . . . .	—	—	163	—	—
Acquisition of Ondskaya HPP (including VAT) . . . . .	—	—	—	—	64
Dividends from associates and joint ventures . . . . .	—	2	—	—	—
Interest received . . . . .	4	6	10	10	5
Interest paid . . . . .	(254)	(160)	(415)	(339)	(375)
Restructuring fees . . . . .	—	—	—	(2)	(19)
<b>Free Cash Flow<sup>(1)</sup></b> . . . . .	<b>124</b>	<b>117</b>	<b>187</b>	<b>96</b>	<b>(84)</b>

(1) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.

The following table sets forth a reconciliation of RUSAL's Free Cash Flow to RUSAL's cash flows from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Reconciliation of Free Cash Flow</b>					
Cash flows generated from operating activities . . . . .	569	597	1,245	1,567	1,400
Adjusted for:					
Capital expenditures (acquisition of property, plant and equipment and acquisition of intangible assets) . . . . .	(321)	(194)	(575)	(522)	(479)
Dividends from associates and joint ventures . . . . .	325	180	336	755	926
Interest received . . . . .	4	14	17	21	28
Interest paid . . . . .	(261)	(211)	(452)	(516)	(677)
Restructuring fees . . . . .	(36)	(14)	(14)	—	(130)
Settlement of derivative financial instruments . . . . .	(101)	(197)	(446)	(320)	(452)
<b>Free Cash Flow<sup>(1)</sup></b> . . . . .	<b>179</b>	<b>175</b>	<b>111</b>	<b>985</b>	<b>616</b>

(1) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.

## OPERATING AND FINANCIAL REVIEW

*The following overview of the Group's financial condition and results of operations as at and for the six months ended 30 June 2017 and 2016 and as at and for the years ended 31 December 2016, 2015 and 2014 should be read in conjunction with the Financial Statements and related notes included elsewhere in this Prospectus.*

*The following operating and financial review includes forward-looking statements that reflect the current views of the Group's management and involve inherent risks and uncertainties. The actual results of the Group's operations could differ materially from those contained in such forward-looking statements due to the factors discussed below and elsewhere in this Prospectus, particularly in the section entitled "Risk Factors".*

*The selected consolidated financial information in this section has been derived from the Financial Statements, in each case without material adjustment, unless otherwise stated, as well as from internal data concerning the Group contained in the Company's management financial reports. The Financial Statements have been prepared in accordance with IFRS.*

### Overview

En+ Group plc is a leading international vertically integrated aluminium and power producer with core assets located in Russia. The Group is the world's largest privately-held hydro power generator and the largest aluminium producer outside of China. Based on its long-term average hydro power production, the Group covers almost all needs of its Siberian aluminium smelters by its own hydro power.

The Group operates through two major business segments: En+ Power and RUSAL. For the purposes of IFRS, the Group reports on the basis of five operating segments: the Metals Segment, the Power Segment, the Coal Segment, the Logistics Segment and the Other Segment. RUSAL which also includes an equity investment in Norilsk Nickel is equivalent to the Metals Segment. En+ Power predominantly consists of the Power Segment, and also includes both the Coal Segment and the Logistics Segment, both of which support the operations of the Power Segment and the Other Segment. The Other Segment comprises insignificant businesses in the context of the Group as a whole, and the Company may consider disposing of these non-core assets (see "Presentation of Financial and Other Information—Presentation of Segment Information").

The Company operationally manages the assets in En+ Power, the operating activities of which primarily include: (i) power and heat generation; (ii) power trading and supply and engineering services; as well as (iii) power transmission and distribution. The Group also strategically controls RUSAL through a 48.13% shareholding and contractual rights contained in a shareholders' agreement with the non-controlling shareholders of RUSAL (including the right to propose for nomination for appointment the CEO of RUSAL, at least 50% of the board of directors and two independent directors), while the Company does not exercise day-to-day management of RUSAL's operations (see "Business Operations—RUSAL—RUSAL Shareholders' Agreements").

The Group is the largest private power producer in Russia in terms of installed capacity, according to SEEPX. According to SEEPX, the Group is ranked as the largest private hydro power generation company globally, with 15.1 GW of total installed hydro power capacity in 2016. The Group operates generating assets with 19.7 GW of installed electricity capacity (including Ondskaya HPP) and with 17.0 kGcal/h of installed heat capacity. The Group held an 8.0% share of the total installed electricity capacity in Russia and a 37.6% share of the total installed electricity capacity of the Siberian IPS as at 31 December 2016, according to SEEPX. In 2016, 76.6% of the Group's installed electricity capacity was represented by HPPs, with the remaining 23.4% represented by CHPs (which are predominantly coal-fired) and a solar plant. The Group operates five HPPs, including three of the five largest HPPs in Russia and of the twenty largest HPPs globally, in each case in terms of installed electricity capacity. In 2016, the Group produced 69.5 TWh of electricity, which represented 6.6% of Russia's and 34.0% of the Siberian IPS's total electricity production according to SEEPX, and 27.4 million Gcal/h of heat.

The Group's power operations are predominantly located in Siberia, Russia, benefiting from the abundant water resources of the Angara and Yenisei river cascades. In addition, certain assets are situated in the European region of Russia, including the Nizhny Novgorod and Karelia Regions.

RUSAL is a low-cost, vertically integrated aluminium producer with core smelting operations located in Siberia, Russia. According to CRU, RUSAL is the world's largest producer of primary aluminium outside China and the second largest aluminium group globally. In 2016, RUSAL produced 3,685 thousand tonnes of aluminium, accounting for approximately 6.2% of global aluminium output. RUSAL's core aluminium

smelters are major consumers of the power produced by En+ Power. Currently, RUSAL operates 10 aluminium smelters, 7 alumina refineries (including QAL), a strategic investment in Norilsk Nickel and a 50% interest in the BEMO Project.

The Group's business model provides for the advanced, cost-efficient and stable production of power and aluminium, based on favourably located low-carbon assets, which are supported by both the logistics and distribution businesses which provide distinct cost advantages. The Group's CHP facilities, which are predominantly coal-fired, source all of the coal that is consumed by them from mines owned and operated by the Company. The customer base of En+ Power includes RUSAL's largest aluminium smelters. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The Company believes that the interconnection between RUSAL and En+ Power enable En+ Power to benefit from stable cash flows under its long-term supply agreements with RUSAL, which is the principal consumer of electricity in the region in which En+ Power principally operates, whilst allowing the core smelters of RUSAL to receive guaranteed access to low-carbon and low cost hydro generated electricity.

### **Basis of Consolidation**

The Financial Statements were prepared in accordance with IFRS. The Financial Statements of the Group, which comprises the Company and all its consolidated subsidiaries, include the historic assets, liabilities, revenues and expenses that were directly related to these entities during the relevant financial period.

Under IFRS, the subsidiaries of a group are consolidated into the parent company's financial statements if such parent company exercises control over such entities. The parent company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing control, potential voting rights that presently are exercisable are taken into account, either through shareholdings or contractual arrangements. The Company's management believes that its current 48.13% shareholding in RUSAL and the terms of the shareholders' agreements between RUSAL's principal shareholders enable the Company to retain control over RUSAL, and therefore RUSAL's results of operations are consolidated into the Group's consolidated financial statements. The terms of the shareholders' agreements include provisions entitling the Company to: (i) nominate at least 50% of RUSAL's board of directors and two independent directors; (ii) require Onexim Holdings Limited, one of the non-controlling shareholders, to vote in accordance with the Company's instructions at meetings of RUSAL's shareholders in relation to certain matters, including the appointment and removal of RUSAL's directors and the distribution of dividends; and (iii) appoint RUSAL's CEO (see "*Business—Business Operations—RUSAL—RUSAL Shareholders' Agreements*"). Thus, RUSAL's results of operations are recorded in full in the Group's consolidated financial statements without any adjustment in respect of RUSAL's other shareholders. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the shareholders of the Company. Non-controlling interests in the Group's results of operations are presented in the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year as between non-controlling interests and the shareholders of the Company.

During 2017, Onexim Holdings Limited decreased its shareholding in RUSAL from 17.02% as at 31 December 2016 to 6.0% as at the date of this Prospectus while SUAL Partners Limited increased its shareholding in RUSAL from 15.80% as at 31 December 2016 to 20.5% as at the date of this Prospectus. The rights and obligations under the Shareholders' Agreement between RUSAL's Major Shareholders shall be terminated in respect of Onexim Holdings Limited if it ceases to hold at least 5.00% of the shares in RUSAL (other than as a result of dilution). Despite such termination, in case of further disposal of shares in RUSAL by Onexim Holdings Limited, the Company's management believes that its current 48.13% shareholding in RUSAL, considering the size and dispersion of the shareholding of the other RUSAL vote holders and the terms of the Shareholders' Agreement between RUSAL's Major Shareholders, will enable the Company to retain control over RUSAL and, therefore, RUSAL's results of operations will continue to be consolidated into the Group's consolidated financial statements. The terms of the Shareholders' Agreement between RUSAL's Major Shareholders include provisions entitling the

Company to nominate a majority of the members of the governing bodies that direct the relevant activities of RUSAL.

See also “*Principal and Selling Shareholder—Conversion of Shareholding in RUSAL into the GDRs*”.

### **Segment Reporting**

The Financial Statements include two segment reporting formats: operating and business (see Note 4 to the Interim Financial Information and Note 4 to the Annual Financial Statements).

In line with the Company’s current management and internal reporting structures, the Company’s management has identified five operating segments (the Metals Segment, the Power Segment, the Coal Segment, the Logistics Segment, the Other Segment and certain unallocated assets and operations) that are reportable under IFRS. These business units are managed separately and the results of their operations are reviewed regularly by the Company’s management in order to make decisions regarding the resources to be allocated to each segment and to assess their performance.

In this review, the Company presents certain financial information primarily by two major business segments: En+ Power and RUSAL. En+ Power predominantly consists of the Power Segment, and also includes the Coal Segment and the Logistics Segment, both of which support the operations of the Power Segment, and the Other Segment. The Other Segment includes KRAMZ (an aluminium processing plant) and SMR (a molybdenum and ferromolybdenum producer). The Group’s other (unallocated) operations that are not reportable separately due to their immateriality are included into En+ Power. RUSAL, which also includes an equity investment in Norilsk Nickel, is equivalent to the Metals Segment.

The Company’s management believes that the division of the results of the Group’s operations into En+ Power and RUSAL enables investors and analysts to assess the part the Group’s business (primarily power operations supported by coal and logistics businesses), which is under the Company’s direct day-to-day operational management. The Company maintains strategic control in RUSAL through a 48.13% interest and contractual rights contained in the shareholders’ agreement with non-controlling shareholders of RUSAL (including the right to propose for nomination for appointment the CEO of RUSAL, at least 50% of the board of directors and two independent directors) without having day-to-day control over its operations (see also “*—Basis of Consolidation*”).

In its comparison of period-to-period results of operations, in order to analyse changes, developments and trends by reference to the results of its operations of both individual business divisions (i.e., En+ Power and RUSAL), the Group presents its results of operations on a consolidated basis after intersegmental eliminations. The amounts attributable to En+ Power and RUSAL are presented prior to intersegmental elimination between the two segments. All operations between entities within En+ Power are eliminated.

### **Key Factors Affecting the Results of Operations**

The Group’s operations have historically been influenced by the following key factors, which the Company’s management believes will continue to affect the Group’s business and results of operations in the future. Because the Company’s power operations and RUSAL in aggregate account for substantially all of the Group’s revenues, assets and liabilities, significant factors that affect the individual business, financial condition and results of operations of either of them are likely to have an impact on the Group’s results of operations on a consolidated basis.

#### **General Factors**

##### *Interdependence of En+ Power and RUSAL*

RUSAL’s core Siberian aluminium smelters are among the largest customers of En+ Power. En+ Power supplies electricity to RUSAL’s Bratsk, Irkutsk and Krasnoyarsk aluminium smelters under direct long-term power supply agreements. The Company’s management believes that one of the Group’s key competitive advantages in terms of creating value through vertical integration is its long-term power supply contracts that, on the one hand, secure a stable source of supply of electricity for RUSAL’s aluminium smelters and, on the other hand, provide a benefit for En+ Power by securing a base level of demand for its electricity. This, in turn, helps to ensure stable cash flows for the Group.

Aluminium smelting is an electricity intensive industry, dependent on high volumes of electricity for the production of aluminium. En+ Power has no single customer who consumes volumes of electricity comparable to those required by RUSAL’s aluminium smelters that En+ Power supplies. Similarly, there

are limited numbers of other power generation companies capable of assuring the volumes of electricity and capacity required by RUSAL's aluminium smelters. In addition, these aluminium smelters source a certain volume of electricity on the wholesale market, therefore also indirectly from En+ Power. Historically, aluminium smelters and HPPs were built as a single production complex.

In 2016, RUSAL consumed a total of 59.4 TWh of electricity in the Siberian IPS under CRU estimates, while En+ Power produced 67.4 TWh of electricity (56.3 TWh of which by HPPs) in Siberia. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The Company's management believes that the Group's key competitive advantage in terms of creating value through vertical integration lies in the close match of the electricity needs of RUSAL and the electricity production of En+ Power. The long-term power supply contracts secure a stable source of electricity supply for RUSAL's aluminium smelters, while providing a benefit for En+ Power through securing a base load demand for electricity. The Company estimates that even if these contracts did not exist, the volumes would be supplied to the wholesale market by En+ Power's HPPs (being the price takers and supplying to the market as much electricity as they are able to generate) and would be consumed by RUSAL's Siberian smelters (being one of the most cost efficient aluminium producers in the world).

Consequently, the relationship between En+ Power, on the one hand, and the aluminium smelters of RUSAL (through long-term supply agreements and through the wholesale market), on the other, is interdependent and complementary. Through day-to-day management of En+ Power and its strategic control of RUSAL, the Company has the ability to plan long-term capital expenditures for its power and aluminium businesses in Siberia.

In October 2016, En+ Power entered into new long-term power supply agreements with RUSAL effective from 1 November 2016 and 1 January 2017, replacing the previous arrangements that had been in place since November and December 2009. The parties renegotiated these long-term power supply contracts to reflect the price for electricity with reference to the wholesale market in Siberia. The renegotiated long-term contracts provide for the supply of electricity to RUSAL's aluminium smelters located in Bratsk, Irkutsk and Krasnoyarsk, generally at a rate 3.5% below market price (on a day-ahead market basis). The agreements also contain certain provisions relating to the volumes of electricity to be supplied each year. For example, in 2017, the Company's power subsidiaries are contracted to supply to RUSAL up to 37.6 TWh of electricity. The 3.5% discount does not apply to any electricity supplied to the aluminium smelters which is in excess of such annual maximum amounts. Also, these agreements do not include the sale of capacity. The Company estimates that if the renegotiated contracts had been in place for the full year ended 31 December 2016, the positive effect on En+ Power would have been approximately U.S.\$180 million for 2016, assuming: (i) the supply of electricity in the total amount of 37.6 TWh which En+ Power has contracted to sell to RUSAL in 2017; (ii) the weighted average price of electricity on the day-ahead market in the Siberian IPS in 2016 less 3.5% of discount; and (iii) the full liberalisation of the capacity market for HPPs in the Siberian IPS was in place from 1 January 2016 (which actually occurred with effect from 1 May 2016). The additional positive effect on En+ Power of approximately U.S.\$20 million, which is unrelated to the long-term agreements, is based on the assumption that the full liberalisation of the capacity market for HPPs in the Siberian IPS was in place from 1 January 2016 (which actually occurred with effect from 1 May 2016) (see "*Business—Business Operations—En+ Power—Power Segment—Power Supply Contracts with RUSAL*").

The prices under the previous long-term power supply agreements with subsidiaries of RUSAL were calculated through formulae linked to the LME aluminium price and the RUB/U.S.\$ rate. These formulae accounted for a variety of factors, which varied somewhat from contract to contract, such as generation costs and margin, day-ahead market prices and the aluminium price, and also set price floors. The agreements set forth maximum amounts of electricity to be supplied each year and the prices under the contracts did not apply to any electricity and capacity supplied to the smelters in excess of such maximum amounts. The price formulae under the previous long-term supply agreements predominantly led to prices that were usually below the prevailing day-ahead market prices in the Siberian IPS. As a result, En+ Power sold a substantial part of its electricity and capacity at prices below the prevailing day-ahead market prices.

The demand for electricity and capacity from the aluminium smelters of RUSAL located in Siberia, either under long-term power supply agreements or through the wholesale market, will likely impact the prices for electricity and the production volumes of En+ Power. If RUSAL smelters were to stop or substantially curtail their aluminium production, there would be a reduction in the aggregate demand for electricity and capacity. The Group's management believes that it is unlikely that RUSAL will stop or substantially curtail aluminium production at its Siberian smelters, as they are the most efficient smelters of RUSAL and within the first quartile of the cash cost curve globally. The Company believes that if RUSAL were to commission new projects in the future, through which additional demand for electricity was created, the installed capacity of power generation facilities of En+ Power would allow them to satisfy this increase in demand without significant capital expenditures (assuming sufficient water inflow) at least within a five-year horizon. In the past, RUSAL impacted En+ Power as a result of significant leverage. For example, RUSAL experienced financial difficulties in late 2008 through the end of 2009, and, as a result, its aluminium smelters failed to make substantial payments when due in respect of their power purchases. If prices for electricity decrease due to decreased demand, if RUSAL smelters purchase less electricity and capacity than expected under the Group's long-term power supply agreements (and other customers are not found to purchase electricity at similar prices) and if substantial arrears due from RUSAL build up, En+ Power's and, therefore, the Group's business and results of operations could be materially adversely affected.

The unregulated prices at which En+ Power sells the majority of its electricity and capacity may fluctuate significantly. It is possible that some of En+ Power's generating facilities may at times be required to sell their electricity output at low prices. While electricity consumption is proportionate to the aluminium produced, and so an increase in the volume of aluminium produced by a smelter will result in a corresponding increase in the electricity consumed by the smelter, lower prices for electricity will have a positive impact on RUSAL's cost of sales and an adverse effect on En+ Power's revenues. Historically, electricity prices have in general consistently increased in line with inflation, although, on average, the comparatively low electricity prices in Siberia remain a structurally competitive advantage for RUSAL. Prices on the Russian power market are denominated in roubles and are not linked to an exchange rate into dollars or any other foreign currency.

In light of the above, the Group may be in a situation where the increased electricity component in RUSAL's cost of sales translates into increased revenues and profit for En+ Power. The opposite trend may occur, whereby any decreased prices for electricity could be positive for RUSAL and adversely affect En+ Power's business. While on a consolidated basis the Group's results of operations are expected to generally remain unaffected, if a significant downturn occurs that results in a material decrease in demand for electricity from RUSAL, which, in turn, adversely affects prices for the electricity supplied by En+ Power, the Group's business, financial condition and results of operations could be adversely impacted (see *"Risk Factors—Risks Relating to The Group's Business and Industries of Operation—Risks Relating to Strategy—The interdependence of En+ Power and RUSAL affects the Group's business"*).

#### *Macroeconomic conditions*

The Group's business and results of operations are affected by the global economic environment (which affects RUSAL in particular) and Russian economic conditions (which affect En+ Power in particular).

The current level of growth in many countries is slow, and many markets which previously experienced very high levels of growth have exhibited slower levels of growth in recent years. In 2016, the global economic environment remained unstable, with global GDP growth slowing to 2.4%, as compared to 2.7% in both 2015 and 2014, according to World Bank. The slowdown has been attributed to slowing growth rates in emerging and developing economies, among other developments. In particular, China has been experiencing a decline in its rate of growth, which contributed to the decline in commodity prices generally, including prices for aluminium in particular. RUSAL is therefore subject to cyclical fluctuations in global economic conditions, and in particular those affecting aluminium end-use markets. The decline in RUSAL's sales was the main factor affecting the Group's results of operations during 2014-2016, as RUSAL was one of the principal contributors to the Group's consolidated results of operations during this period. The demand for RUSAL's products (mainly primary aluminium and alloys, as well as semi-finished products and foil) declined in 2014-2016, namely as a result of slower economic growth in the principal markets in which RUSAL sells its products, which, in turn, led to downward pressure on global prices for aluminium. However, in the first half of 2017, global demand for aluminium and the average LME aluminium price increased, leading to the increase in RUSAL's revenue in the first half of 2017 as

compared to the first half of 2016 (see “—Factors Affecting RUSAL’s Results of Operations—Demand for and Price of Aluminium”).

The global economy continues to be subject to a number of uncertainties, including mounting government deficits, the discontinuation of government stimulus programmes, deflation, continuous high levels of unemployment and concerns over the economic and political instability of the European Union (primarily resulting from the significant levels of sovereign debt of certain states of the European Union and uncertainty surrounding Brexit).

A substantial portion of the Group’s assets and customers, including all of En+ Power’s assets and almost all of its customers, are located in, have businesses related to, revenues derived from, and/or expenses incurred in, the Russian Federation. As a result, the Group generally, and in particular En+ Power, is affected by Russian economic conditions.

The following table sets forth certain Russian economic indicators for the periods indicated.

	Year ended 31 December		
	2016	2015	2014
Real GDP growth/(decline) (%) . . . . .	(0.2)	(2.8)	0.7
Inflation (%) . . . . .	5.4	12.9	11.4
Total nominal GDP (billions of RUB) . . . . .	85,880	83,232	79,199
GDP per capita (RUB) . . . . .	586,030	549,290	537,194
Electricity consumption (millions of MWh) . . . . .	1,027	1,008	1,014
Industrial production index . . . . .	1.1	(3.4)	1.7

Source: Rosstat, System Operator, Ministry of Energy.

The Russian economy is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market lead to sharp decreases in the Russian Government’s revenues, along with similarly sharp declines in the revenues of privately held Russian companies operating in the key commodity sectors, which, in turn, negatively impact the overall Russian economy. Throughout 2014 to 2016, commodity prices remained highly volatile, which, in turn, contributed to a significant depreciation of the rouble against both the dollar and the euro. In 2014-2015, the conditions of and outlook for the Russian economy deteriorated significantly, which was further exacerbated by geopolitical tensions relating to Ukraine (resulting in sanctions against certain Russian individuals and legal entities being imposed by the United States, the European Union and certain other countries). The recession of the Russian economy slowed down in 2016, and the economy showed signs of stabilisation. According to the Ministry of Economic Development of the Russian Federation, Russia’s GDP is expected to increase by over 2% in 2017 and by 1.5% in 2018-2020, assuming the level of global oil prices does not fall below U.S.\$40 per barrel.

According to the System Operator, electricity consumption in Russia decreased from 1,014 million MWh in 2014 to 1,008 million MWh in 2015, before increasing to 1,027 million MWh in 2016. The 0.6% decrease in electricity consumption in 2015 from 2014 is primarily explained by a higher average temperature during the winter months of 2015 in comparison to the winter months of 2014. The 2015 daily consumption peak was recorded on 26 January 2015 at 147,377 MWh, 4.7% lower than the figure recorded in respect of the equivalent indicator in 2014. The 1.9% increase in electricity consumption in 2016 in comparison to 2015 is primarily explained by the lower average temperatures in January and December of 2016 in comparison to January and December of 2015. In 2016, a peak consumption of 151,052 MWh was recorded on 20 December 2016, 5.1% higher than the figure recorded in respect of the equivalent indicator in 2015. While the trends in electricity consumption between 2014 and 2016 are primarily explained by weather conditions, it is important to note that significant economic growth or decline is also likely to affect the demand for electricity. For example, Russia’s GDP sharply decreased in the second half of 2008 as a result of the global economic and financial crisis, and decreased by 7.9% in 2009, according to Rosstat. The economic contraction caused a 4.7% reduction in electricity consumption in Russia in 2009 in comparison to 2008, according to the System Operator.

According to SEEPX, electricity consumption in the Siberian IPS remained stable (at 204 TWh per annum) in both 2014 and 2015. It increased to 207.2 TWh in 2016, primarily due to increased demand from industrial customers.

Certain of the Group's costs are linked to general pricing levels in Russia, such as the prices for supplies, materials, equipment and spare parts, as well as salary levels. While inflation in Russia may affect En+ Power's results of operations (because almost all of its cost of sales and general and administrative expenses are denominated in roubles), during the periods under review the growth of the Group's aggregate cost of sales and general and administrative expenses increased at a pace significantly slower than inflation. Generally, inflation in Russia had no material impact on RUSAL's revenues in the periods under review, primarily because the prices of its products and the raw materials which it used were mainly determined by global trends. While some of RUSAL's costs, in particular employee salaries, were affected by inflation, they have not historically represented a substantial percentage of production costs.

Any deterioration of either the global economy or the Russian economy could adversely affect the industries that use the Group's products, which, in turn, could lead to a decline in the demand for and, therefore the prices, of the Group's products, and could, in turn, have a material adverse effect on the Group's business and the results of its operations.

#### *Currency fluctuations*

The Financial Statements are presented in dollars, which is the functional currency of the Company and certain subsidiaries of the Group. The functional currency of each of the Group's significant subsidiaries is, in each case, the currency of the primary economy in which the key business processes of the relevant subsidiary are carried out, and include the dollar, rouble, hryvnia and euro along with other currencies.

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates prevalent 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 statement of comprehensive income.

The assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising on a given acquisition, are translated from their functional currencies to dollars using the relevant exchange rate at the reporting date. The income and expenses of foreign operations are translated into dollars using exchange rates that approximate to the relevant exchange rates that existed at the dates of the relevant transactions.

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.



The table below shows the average exchange rate of the rouble against the dollar and the euro for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
Average exchange rate (RUB/U.S.\$) . . . . .	57.99	70.26	67.03	60.96	38.42
As at period end (RUB/U.S.\$) . . . . .	59.09	64.26	60.66	72.88	56.26
Average exchange rate (RUB/EUR) . . . . .	62.72	78.37	74.23	67.78	50.82
As at period end (RUB/EUR) . . . . .	67.50	71.21	63.81	79.70	68.34

Source: CBR.

Any depreciation of the rouble therefore decreases the Group's costs expressed in dollars, whilst any appreciation of the rouble increases the Group's costs expressed in dollars. The rouble decreased in value by 10.0% in 2016, by 58.7% in 2015 and by 17% in 2014 (based on the average rate of the dollar against the rouble), which has consequently decreased the Group's operating expenses as reported in dollars for 2014 through 2016. In the first half of 2017, the rouble appreciated by 17.5% (based on the average rate of the dollar against the rouble) as compared to the first half of 2016, which has contributed to the increase in the Group's operating expenses as reported in dollars for the first half of 2017.

In the periods under review, a significant portion of the Group's loans and borrowings, 63.0% of which were attributable to RUSAL as at 30 June 2017, were denominated in dollars (along with certain other foreign currencies). RUSAL's borrowings are primarily denominated in currencies that match the cash flows generated by the underlying operations of RUSAL, primarily dollars (94% of RUSAL's total borrowings as at 30 June 2017) but also roubles, euros and renminbi (2% each of RUSAL's total borrowings as at 30 June 2017, respectively). This provides an economic hedge to RUSAL's obligations. In respect of other monetary assets and liabilities denominated in foreign currencies, RUSAL seeks to ensure 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 revenues and operating expenses of En+ Power are predominantly denominated in roubles. In response to a significant devaluation of the rouble in the period from 2014 through 2016, the Group applied efforts to limit En+ Power's exposure to foreign currency denominated debt, namely by converting or refinancing such debt into rouble-denominated debt, the portion of which held by En+ Power increased from 26% of the total loans and borrowings of En+ Power at 31 December 2014 to 71% of total loans and borrowings of En+ Power as at 30 June 2017.

As some of the dollar-denominated loans and borrowings of the Group are held by subsidiaries of the Group based in Russia, where the rouble is the functional currency, any dollar/rouble exchange rate fluctuations will result in foreign exchange rate gains and losses in the profit and loss accounts of such subsidiaries. These gains and losses are then consolidated into the Group's statement of comprehensive income. Accordingly, any future appreciation of the dollar against the rouble will result in foreign exchange losses being consolidated into the Group's results of operations. For the first half of 2017, the Group had a net foreign exchange gain of U.S.\$36 million, as opposed to net foreign exchange loss of U.S.\$108 for the first half of 2016. In turn, while the Group had a net foreign exchange gain of U.S.\$41 million for 2016, the Group's net foreign exchange losses for 2015 and 2014 were U.S.\$285 million and U.S.\$487 million, respectively. In addition, in 2015, the Group recorded a foreign currency translation gain, recycled from other comprehensive income on the deconsolidation of certain subsidiaries, in the amount of U.S.\$95 million, as a result of the combination of a number of one-off events that are unlikely to reoccur in the future. Such gains and losses may be not representative of the actual cash inflows or outflows of the Group.

#### *Cost of sales and other expenses*

The Group's cost of sales is comprised of the cost of sales incurred by its operating subsidiaries. For the first half of 2017 and 2016, the Group's cost of sales accounted for 66.9% and 72.9% of its revenues, respectively. For 2016, 2015 and 2014, the Group's cost of sales accounted for 70.1%, 68.2% and 73.2% of its revenues, respectively. Whilst almost all of En+ Power's costs are denominated in roubles, approximately 60% of RUSAL's costs are denominated in roubles (with the remainder denominated in dollars).

The principal components of En+ Power's cost of sales mainly include the cost of:

- raw materials and fuel, which primarily include the costs of natural gas and diesel used for the operation of equipment and plants;
- electricity and capacity that is purchased for resale on the retail market as a result of market mechanics;
- personnel expenses, which include the wages and salaries of employees (except management) engaged in production, repair and construction services and employee benefits;
- the depreciation and amortisation of property, plant, equipment and intangible assets; and
- electricity transportation. The costs of electricity transportation are incurred by: (i) the power trading companies of the Group, which supply electricity on the retail market, for the provision of electricity transmission and distribution to customers; and (ii) Irkutsk GridCo, for the provision of electricity transmission and distribution services to customers, procured from local grid companies in areas where Irkutsk GridCo does not own and operate a distribution network.

En+ Power's cost of sales are mainly rouble-denominated.

The principal components of RUSAL's cost of sales mainly include the costs of:

- raw materials (other than alumina and bauxite), including caustic soda, fuel oil, natural gas, fluoride, pitch and coke;
- energy, which includes costs incurred in purchasing electricity and heat (including intra-group);
- alumina, which is used in the production of aluminium;
- bauxite, which is used in the production of alumina;
- personnel expenses, which include the wages and salaries of employees (except management) engaged in production, repair and construction services and employee benefits; and
- depreciation and amortisation.

The Group's cost of sales increased by U.S.\$446 million, or 12.9%, to U.S.\$3,909 million in the first half of 2017 from U.S.\$3,463 million in the first half of 2016. The increase in the first half of 2017 was due to: (i) the increase in RUSAL's cost of sales by U.S.\$425 million, or 13.9%, from U.S.\$3,053 million in the first half of 2016 to U.S.\$3,478 million in the first half of 2017, which occurred as a result of the significant increase in railway transportation tariffs and other raw material costs in rouble terms in the first half of 2017; and (ii) the increase in En+ Power's cost of sales in dollar terms. The cost of sales of En+ Power increased in rouble terms by 5.7% in the first half of 2017 as compared to the first half of 2016, reflecting increased costs in the principal components underlying En+ Power's aggregate cost of sales.

The Group's cost of sales decreased by U.S.\$334 million, or 4.6%, to U.S.\$6,850 million in 2016 from U.S.\$7,184 million in 2015, which, in turn, decreased by U.S.\$1,534 million, or 17.6%, from U.S.\$8,718 million in 2014. The decrease in 2016 was primarily attributable to the decrease in RUSAL's cost of sales by U.S.\$145 million, or 2.3%, from U.S.\$6,215 million in 2015 to U.S.\$6,070 million in 2016, which occurred as a result of the continuing depreciation of the rouble and the hryvnia against the dollar (by 10.0% and 17.0%, respectively). The decrease in 2015 was primarily attributable to the decrease in RUSAL's cost of sales by U.S.\$1,008 million, or 14.0%, from U.S.\$7,223 million in 2014 to U.S.\$6,215 million in 2015, which occurred as a result of the continuing depreciation of the rouble and the hryvnia against the dollar (by 58.7% in 2014 and 83.3% in 2015). The decrease in 2015 was also attributable to the decrease in prices for certain raw materials, and the lower volumes of such raw materials purchased by the Group in 2015 as compared to 2014. While the cost of sales of En+ Power for certain raw materials increased in rouble terms in 2015 (albeit at a rate substantially lower than the rate of inflation in Russia in 2015), it decreased in dollar terms during the same period due to foreign currency translations from the functional currency of En+ Power to the presentation currency of the Group, due to a significant depreciation of the rouble against the dollar.

In addition to cost of sales described above, RUSAL's results of operations depend on transportation costs, which are recorded in its cost of sales (as part of the cost of raw materials) and relate mainly to the transportation of alumina and other materials to RUSAL's aluminium smelters. RUSAL's distribution costs are recorded as distribution expenses and relate to the transportation of finished aluminium products to RUSAL's customers.

Railway transportation is RUSAL's principal means of transporting materials, mainly alumina, to its smelters and end products to its customers. RUSAL also relies on certain key Russian ports to receive shipments of foreign sourced alumina and to export finished aluminium products.

Russian railway tariffs are currently regulated by the Russian Government (see also "*Business—Business Operations—RUSAL—Transportation and logistics*"). Following the adoption by the Russian Government of its current policy in 2013, annual rates for 2014 were kept at the 2013 level and annual rates for 2015, 2016 and 2017 were increased (largely in line with inflation). However, there can be no assurance that, in the future, increases in annual rates will be in line with inflation.

In addition, RUSAL's costs related to its shipments by rail may be increased as a result of any shortage of railcars and/or logistical problems resulting from the high demand for railcars. Increased demand could result in a shortage of available working rolling stock and an increase in the rate of the use (lease) of railcars. Furthermore, certain portions of the railway tracks, including rail sidings and branch lines laid from the main rail system directly to several of RUSAL's production facilities, are not owned by RUSAL or by Russian Railways.

In addition to its use of railway transportation, RUSAL transports materials, mainly alumina, from its overseas facilities to its Russian aluminium smelters, and distributes most of its upstream output to customers in markets outside Russia by sea. For sea transportation RUSAL uses a number of Russian ports, primarily Novorossiysk, St. Petersburg, Vanino, Vladivostok, Vostochny and Zarubino.

RUSAL charges all of its costs incurred in transporting its finished products by railway to ports for onward transportation overseas, to its end-customers. Any further transportation costs are incurred either by RUSAL or charged to customers, depending on the type of contract and its delivery terms. For costs borne by RUSAL, it negotiates annual freight service contracts for shipments by sea. The spot vessel market in 2014 through 2017 was characterised by price volatility.

The continued increase in transportation costs may adversely affect RUSAL's cost of sales and in combination with the increasing amount of other cost of sales, may adversely affect RUSAL's results of operation and its ability to compete successfully both in the Russian and export markets.

#### ***Factors affecting the results of operations of En+ Power***

In addition to the general factors discussed above, the factors significantly affecting the results of operations of En+ Power are discussed below. Because the power operations of En+ Power account for substantially all of the revenues, assets and liabilities attributable to En+ Power, any significant factors that affect the power business are likely also to have an impact on the results of operations and financial position of En+ Power. These factors include:

- weather and environmental conditions;
- the demand for and prices of electricity, heat and capacity;
- the regulatory environment in which En+ Power operates;
- tariffs; and
- the revaluation of property, plant and equipment.

#### ***Weather and environmental conditions***

The Company's sales of electricity and heat are influenced by the seasons of the year and the relative severity of the weather. Temperature fluctuations significantly affect the demand for electricity and heat and, consequently, have a significant impact on the results of operations of En+ Power. Demand for electricity and heat is usually higher when temperatures are low. Demand for electricity and heat is usually higher during the period from November through March, due to the longer nights and colder weather, and lower during the period from April through September, due to the longer days and warmer weather. For example, in the third quarter of 2016, the Power Segment's heat production decreased by 75.5% as compared to the first quarter of 2016, mainly due to the lower seasonal demand experienced in this period, which is attributable to higher temperatures during the third quarter as compared to the first quarter.

Demand for electricity and heat may fluctuate from year to year as a result of changes in global or regional weather patterns. For example, the Company's heat production decreased by 9% in January 2017 as compared to January 2016, mainly due to decreased demand for heat attributable to the higher temperatures in January 2017 as compared to January 2016, while the increase of heat production by 21.6% in January 2016 as compared to January 2015 is explained mainly by the lower temperatures in January 2016 as compared to January 2015. Electricity production by En+ Power is significantly impacted by water inflow levels to its plants, which, when sufficient, allow En+ Power to increase the (lower-cost) production of its HPPs and decrease the (higher-cost) production of its CHPs.

The table below sets forth the monthly average temperatures in the capital cities of Irkutsk and Krasnoyarsk regions in 2016:

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
(°C)												
Irkutsk . . . . .	-22.95	-13.52	-5.45	+3.55	+9.10	+16.33	+19.58	+15.91	+9.42	-2.54	-10.44	-11.72
Krasnoyarsk . . . . .	-24.54	-10.82	-6.31	+4.13	+8.85	+17.98	+19.46	+15.65	+8.91	-3.69	-11.53	-9.77

The table below sets forth the water inflow in the Siberian IPS from 2011-2016:

	2011	2012	2013	2014	2015	2016
(m <sup>3</sup> /s)						
Krasnoyarsk HPP . . . . .	2,609	2,143	3,297	2,532	2,479	2,880
Irkutsk HPP cascade . . . . .	2,581	2,803	2,919	2,200	2,193	2,738

Water inflows, which are influenced by weather conditions, are an important factor affecting the results of the Group's power operations. Electricity production by the Group's HPPs depends on the rate of water inflows available. For example, lower water inflows in 2014 and 2015 resulted in a decrease in electricity production by the Company's HPPs (although this decreased hydro power generation resulted in increased prices for electricity in the Siberian IPS and the Company was, therefore, able to partially offset such decrease through an increase in the electricity production of its CHPs). Further, as the operating costs of CHPs are higher than the operating costs of HPPs, if lower water inflows result in higher output from En+ Power's CHPs, this is likely to result in higher cost of sales for En+ Power, though this may, in some instances be offset to some extent by the cost benefits of operating in the combined cycle.

The table below sets forth the monthly output of electricity and heat by the Company's generation facilities in 2016:

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
(GWh)												
<b>Electricity</b> . . . . .												
<b>HPP</b>	3,925	3,593	3,908	3,913	4,796	4,862	5,191	5,553	5,556	5,791	4,685	4,546
<b>CHP</b>	1,926	1,507	1,372	1,071	695	423	362	410	503	1,170	1,615	1,731
(million Gcal)												
<b>Heat</b> . . . . .												
<b>CHP</b>	4.5	3.4	2.9	2.0	1.4	0.8	0.8	0.8	1.0	2.6	3.4	3.8

The impact of fluctuations in temperatures is particularly important given the combined heat and power production cycles of the Company's CHPs. The production of electricity and heat in the combined cycle provides greater efficiency in terms of fuel costs than production in the condensing cycle, as it allows the simultaneous generation of both heat and electricity in a single process. Furthermore, fluctuations in temperatures result in changes to the structure of electricity supply on the day-ahead market. For example, in lower temperatures, more CHPs are loaded due to the benefits of combined cycle operations, whereas the working capacity of HPPs is limited by water conditions. As the cost of electricity production from CHPs is higher than from HPPs, this puts upward pressure on electricity prices generally.

The highest revenues from heat sales are generated in the period from October to March, a result of seasonal fluctuations in demand for electricity and heat, as well as weather conditions. Electricity sales are also subject to seasonality, though to a lesser extent, with the highest revenue period also running from October through to March. This seasonality factor affects both fuel consumption and energy purchases.

Furthermore, equipment repair and maintenance costs tend to grow in the period from April to September. In accordance with the Group's accounting policies, the seasonality of these operations does not have an impact on the Group's accounting treatment of operating income and expenses.

### *Demand for and prices of electricity, heat and capacity*

En+ Power's total revenues from sales of electricity, capacity and heat (including to RUSAL under direct long-term and short-term power supply agreements) accounted for 74.8% and 73.8% in the first half of 2017 and 2016, respectively, and 71.9%, 72.3% and 70.0% in 2016, 2015 and 2014, respectively. En+ Power's revenues from sales of electricity and heat to third parties accounted for 51.2% and 57.0% in the first half of 2017 and 2016, respectively, and 55.0%, 61.2% and 56.4% in 2016, 2015 and 2014, respectively. As the Company's power operations derive the largest proportion of their revenue from sales of electricity and heat, fluctuations in the price and demand for these products have a material impact on En+ Power's results of operations.

From 1 January 2011 until the present, all of En+ Power's produced electricity (except for its produced electricity that is sold to residential consumers) has been supplied to wholesale consumers at unregulated prices. Unregulated prices can fluctuate significantly, particularly in response to short-term movements in the balance of supply and demand. Such fluctuations are, in turn, caused by a number of factors, including changes in electricity demand, the cyclical nature of annual electricity consumption, variability of water inflows (where such variability causes changes in supply structures), changes in unloaded working capacity volumes and variability in temperatures. For example, the weighted average price on the day-ahead market in the Siberian IPS increased from RUB788.7 per MWh in 2014 to RUB905.6 per MWh in 2015, primarily as a result of the decrease in the power production by Siberian HPPs during this period, which in turn was due to lower water inflows at the reservoirs used by the Siberian HPPs.

Price formation on the day-ahead market is marginal, which means that a single price is set by the most expensive generator that satisfies supply and demand (with such single price applying to all wholesale market participants). Naturally, any decrease to a power plant's marginal cost to produce power will result in a higher profit potential for such plant. Therefore, the key factors that impact the day-ahead power prices are cost of fuel and efficiency. See "*Russian Power Industry Overview—Historical power prices and price forecast outlook—Day-ahead market prices*".

The table below sets forth the highest, lowest and weighted average daily prices of electricity on the day-ahead market in the Siberian IPS during the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
			(RUB/MWh)		
Highest price . . . . .	1,111.3	1,226.9	1,226.9	1,324.5	1,233.1
Lowest price . . . . .	347.4	196.9	47.1	268.0	353.1
Weighted average daily price . . . . .	861.5	896.0	854.0	905.6	788.7

Source: Association "NP Market Council".

In the first half of 2017, the weighted average daily price on the day-ahead market in the Siberian IPS decreased as compared to the first half of 2016 primarily as a result of higher water inflows and correspondingly higher production by the region's HPPs. In line with this trend, the Group's Siberian HPPs increased their production by 8.8% to 27.2 TWh in the first half of 2017 (from 25.0 TWh in the first half of 2016), while the Group's Siberian CHPs decreased their production by 6.6% to 5.7 TWh in the first half of 2017 (from 6.1 TWh in the first half of 2016).

The weighted average daily price on the day-ahead market in the Siberian IPS was lower in 2016 as compared to 2015, predominantly due to higher water inflows and correspondingly higher production by the region's HPPs. In line with this trend, the Group's Siberian HPPs increased their production by 8.1% to 56.3 TWh in 2016 (from 52.1 TWh in 2015), while the Group's Siberian CHPs decreased their production by 2.7% to 11 TWh in 2016 (from 11.3 TWh in 2015).

The weighted average daily price on the day-ahead market in the Siberian IPS was higher in 2015 as compared to 2014, predominantly due to lower water inflows and correspondingly lower production by the region's HPPs. Lower water inflows in the Siberian IPS resulted in increased electricity production by CHPs in the condensing cycle, which therefore increased their share in the overall power supply. The increased production of electricity by CHPs which have higher production costs than HPPs caused electricity prices in 2015 to rise above the weighted average daily prices observed in 2014. This resulted in a steady increase in prices from May to August, contrary to the typical cyclical summer decline in prices (as a result of the seasonal declines in demand ordinarily expected in these months), and higher prices during

the summer months of 2015 on the Siberian day-ahead market for electricity produced in condensing cycles. In line with this trend, Irkutskenergo’s CHPs increased their production by 5.6% to 11.3 TWh in 2015 (from 10.7 TWh in 2014), following increases in production in the condensing cycle during this period.

Heat is sold by En+ Power under regulated tariffs, which are established by regional authorities. While the demand for heat that is to be used in production processes by industrial corporate customers is relatively stable throughout the year, the demand for heat that is used for heating purposes varies significantly, and is highly dependent on weather conditions (see “—*Weather and environmental conditions*”).

Capacity is treated as a separate economic product to electricity. The interim capacity market in Russia was launched on 1 July 2008 and since then an increasing amount of capacity has been sold separately from electricity on the unregulated wholesale capacity market. From 1 May 2014 until 31 December 2015, HPPs in the Siberian IPS were allowed to sell up to 65% of their capacity at unregulated prices, (which are determined as a result of a competitive capacity selection process). With effect from 1 January 2016, this threshold increased to up to 80%, and with effect from 1 May 2016, the threshold was again increased to up to 100%. The table below sets forth the prices established following the competitive capacity selection in the second price zone for the periods indicated:

	Year ended 31 December							
	2014	2015	2016	2017	2018	2019	2020	2021
	(RUB/MW per month)							
Price for capacity (in real terms) <sup>(1)</sup> . . . . .	112,635	181,767	189,191	181,761	185,739	190,281	190,512	225,340

Source: System Operator.

Note:

- (1) Capacity prices are linked to CPI minus 1%. According to Russian Government decree No. 1065 dated 2 September 2017, effective from 1 January 2018, prices are to be indexed CPI minus 0.1%.

For further details regarding the capacity market, see “*Industry and Market Overview—Overview of the Wholesale Electricity and Capacity Market—Capacity Market*”.

Any significant fluctuations in the demand for and prices of electricity, heat and capacity in the future may adversely affect business and results of operations of En+ Power (see “*Risk Factors—Risks Relating to the Group’s Business and Industries of Operation—Risks Relating to Power Operations—Certain operations on the power market are subject to tariff regulation*” and “—*Unregulated prices for electricity and capacity may fluctuate and be subject to limitations*”).

### Regulatory environment

As a result of the recent regulatory reform of Russian power market, the industry has changed dramatically. In addition to structural changes, Russia’s power market has undergone a transition from a model based on electricity tariff regulation to a predominantly market-based price formation model. Between 2006 and 2011, Russia’s power and capacity markets went through a process of the gradual liberalisation of prices and tradable volumes. While the most significant amendments to the regulatory structure governing the Russian power market have already occurred and the market has been operating under the new rules for over five years, the Russian authorities continue to revise the rules to advance the process of deregulation. For example, in 2016, the Russian Government accelerated their transition of the electricity capacity market in the Siberian IPS to allow HPPs to sell their full capacity at unregulated prices, a transition which had been initially anticipated to occur in 2017. The faster development was conditioned by the limited growth of unregulated prices for electricity and capacity in the Buryatia Region during a certain period of 2016. Although the Company has benefited from increased sales due to this particular event, the impact that future significant regulatory initiatives relating to the power industry could have on the Company’s business and results of operations, is not certain.

### Tariffs

Under current regulation, electricity and capacity are sold on the wholesale market at unregulated prices (except for electricity sold for residential consumption). In 2016, 13.0% of the electricity produced by the Power Segment was supplied to residential consumers under established tariffs, which represented 7.8% of the Power Segment’s total revenues. The regulated electricity price is set by federal and regional tariff

authorities on an annual basis, with reference to forecasted levels of inflation and increases in fuel prices. Unregulated prices on the wholesale market have historically been higher than the regulated tariffs approved by the authorities.

Heat tariffs are regulated and set by regional authorities within the framework governed by the FAS. Currently, tariffs are determined according to a “cost-plus” methodology, meaning that heat tariffs are intended to cover a producer’s costs and to provide an additional allowance for certain profits. Under this methodology, it has been argued that there is little incentive for any industry player to improve their operating efficiency and reduce operating costs, since any such reduction would be offset by a reduction in the relevant regulated tariff. CHPs that produce both heat and electricity allow En+ Power to balance both the profitability and margins for each product in aggregate and, therefore, to mitigate the effect of the current tariff levels, which do not sufficiently cover all of the expenses associated with stand-alone heat production.

Russian electricity transmission and distribution companies are also subject to tariff regulation. At present, the tariffs in this sub-sector of the Russian power industry are determined on the basis of economically justified expenses (see “*Russian Industry Regulation—Pricing on Electricity and Capacity Markets—Transmission and distribution*”). Irkutsk GridCo, a consolidated subsidiary of the Company, is engaged in the transmission and distribution of electricity and therefore is subject to tariff regulation.

The table below sets forth regulated tariffs and unregulated prices for the Company's power operations during the periods indicated:

		Six months ended 30 June		Year ended 31 December		
		2017	2016	2016	2015	2014
<b>Irkutskenergo</b>						
Wholesale weighted average day-ahead electricity price . . . . .	<i>RUB/MWh</i>	847	900	805	835	690
Wholesale weighted average regulated electricity price . . . . .	<i>RUB/MWh</i>	31	59	52	32	21
Wholesale weighted average balancing electricity price . . . . .	<i>RUB/MWh</i>	568	722	599	685	592
Wholesale weighted average free bilateral contracts . . . . .	<i>RUB/MWh</i>	770	503	507	451	393
Retail market average electricity tariff	<i>RUB/MWh</i>	1,641	1,590	1,587	1,510	1,256
Weighted average regulated contracts capacity tariff . . . . .	<i>RUB/MW per month</i>	62,830	68,644	65,922	61,096	91,371
Weighted average KOM capacity tariff . . . . .	<i>RUB/MW per month</i>	191,113	166,779	179,672	141,555	84,160
Weighted average free bilateral capacity tariff . . . . .	<i>RUB/MW per month</i>		40,449	42,453	39,585	63,116
Average heat price set for CHPs . . . . .	<i>RUB/Gcal</i>	934	872	902	841	795
<b>Irkutsk GridCo</b>						
Transmission:						
High Voltage . . . . .	<i>RUB/MWh</i>	419	352	385	325	298
Distribution:						
Medium Voltage 1 . . . . .	<i>RUB/MWh</i>	818	676	746	624	573
Medium Voltage 2 . . . . .	<i>RUB/MWh</i>	1,035	846	940	781	717
Low Voltage . . . . .	<i>RUB/MWh</i>	1,201	991	1,096	916	840
<b>Krasnoyarsk HPP</b>						
Wholesale weighted average day-ahead electricity price . . . . .	<i>RUB/MWh</i>	886	794	736	1,060	666
Wholesale weighted average regulated electricity price . . . . .	<i>RUB/MWh</i>	21	17	19	17	16
Wholesale weighted average balancing electricity price . . . . .	<i>RUB/MWh</i>	682	488	603	651	445
Wholesale weighted average free bilateral contracts . . . . .	<i>RUB/MWh</i>	702	0	770	804	103
Weighted average regulated contracts capacity tariff . . . . .	<i>RUB/MW per month</i>	28,174	26,143	27,337	25,321	24,558
Weighted average KOM capacity tariff . . . . .	<i>RUB/MW per month</i>	192,045	174,050	176,199	105,704	50,589
Weighted average free bilateral capacity tariff . . . . .	<i>RUB/MW per month</i>	—	—	—	—	24,558
<b>Avtozavodskaya CHP</b>						
Wholesale weighted average day-ahead electricity price . . . . .	<i>RUB/MWh</i>	1,297	1,246	1,414	1,324	1,261
Wholesale weighted average regulated electricity price . . . . .	<i>RUB/MWh</i>	1,101	1,059	1,079	1,058	1,057
Wholesale weighted average balancing electricity price . . . . .	<i>RUB/MWh</i>	1,024	1,115	1,160	1,873	1,565
Retail market average electricity tariff	<i>RUB/MWh</i>	3,251	2,892	2,961	2,738	2,789
Weighted average regulated contracts capacity tariff . . . . .	<i>RUB/MW per month</i>	124,575	114,882	119,669	114,511	114,065
Weighted average KOM capacity tariff . . . . .	<i>RUB/MW per month</i>	117,100	113,316	111,997	126,975	142,137

While the predominant portion of the Russian power market has been liberalised, En+ Power continues to supply a portion of the electricity and heat it produces under regulated tariffs. The Russian Government has intervened in the regulatory process a number of times in the past in order to attempt to contain increases in electricity prices. Furthermore, social and political considerations may affect tariff decisions, thereby causing significant delays in tariff determinations and tariff increases that may be lower than necessary to compensate Russian power companies for cost increases (see “Risk Factors—Risks Relating to The Group's Business and Industries of Operation—Risks Relating to Power Operations—Certain operations on the power market are subject to tariff regulation”).



### *Revaluation of property, plant and equipment*

Until 1 January 2016, all of the Group's items of property, plant and equipment were measured at cost value less accumulated depreciation and impairment losses. Most of the hydro assets have long and useful lives (for example, dams can be operational for up to 100 years) and their performance does not deteriorate significantly during such period. Taking into consideration the anticipated completion of the Russian power sector reform and the fact that hydro power is one of the most efficient sectors of the electric power industry, the Group's management believes that its hydro power assets were significantly undervalued prior to 1 January 2016.

On 1 January 2016, the Group identified hydro assets as a separate class of assets and consequently changed its accounting policy for these assets, moving from the cost model to the revaluation model, in order to provide investors with more accurate information regarding the Group's financial position. The opening balance of equity was not adjusted and comparatives were not restated.

Hydro assets are a class of property, plant and equipment with a unique nature and use (i.e., in HPP electricity production). Since 1 January 2016, hydro assets have been measured at revalued amounts, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made based on periodic valuations by an external independent appraiser.

The fair value of hydro assets was estimated at U.S.\$2,230 million as at 1 January 2016, with an equity effect of U.S.\$2,033 million and a revaluation loss of U.S.\$4 million recognised in the statement of profit or loss and other comprehensive income. As at 31 December 2016, as a result of the independent valuation analysis the fair value of hydro assets was estimated in the amount of U.S.\$3,919 million with an additional equity effect of U.S.\$1,142 million and an additional revaluation loss of U.S.\$2 million recognised in the statement of profit or loss and other comprehensive income. Primarily as a result of such revaluation, the Group's total equity improved from negative U.S.\$997 million as at 31 December 2015 to U.S.\$2,185 million as at 31 December 2016 and U.S.\$2,657 million as at 30 June 2017. According to the cost model, the net book value of hydro assets at the date of valuation amounted to U.S.\$201 million as at 1 January 2016 and U.S.\$402 million as at 31 December 2016 (see Note 12(g) to the Annual Financial Statements).

### *Factors affecting RUSAL's results of operations*

In addition to the general factors discussed above, factors significantly affecting results of operations of RUSAL include the following:

- the demand for and the price of aluminium; and
- RUSAL's investment in Norilsk Nickel.

### *Demand for and price of aluminium*

The price at which RUSAL can sell its products is one of the primary determinants of its revenue. RUSAL's prices are largely determined by prices set in the international market. RUSAL's future profitability and overall performance, therefore, is strongly affected by the price of primary aluminium that is set in the international market, as quoted on the LME.

In the first quarter of 2014, the aluminium price fell to its lowest level in almost five years; however, positive market price dynamics were supported by growing demand and ex-China deficit helped the sector recover in the middle of 2014. In the fourth quarter of 2014, the slump in global oil prices coupled with a strengthening of the dollar depressed most commodities' prices, with the LME price for aluminium declining back to levels below U.S.\$1,900 per tonne. The overall result in 2014 was that, after a few challenging years, RUSAL observed steady progress across its key performance metrics in 2014 due to the growth in demand for primary aluminium reaching to 55.2 million tonnes. In 2015, the aluminium market was impacted by two significant global trends, the continuing reduction in crude oil prices and the negativity surrounding the Chinese economy. In the fourth quarter of 2015, LME aluminium price reached an average of U.S.\$1,495 per tonne which is the lowest level since the second half of 2009. Despite this global market turbulence, global aluminium demand grew by 5.6% in 2015 year-on-year to 56.4 million tonnes. With aluminium prices reaching multi-year lows, there was a 3.5% decrease in the LME aluminium price to U.S.\$1,604 per tonne in 2016 compared to U.S.\$1,663 per tonne in 2015. Global aluminium demand grew by 5.5% in 2016 year-on-year to 59.7 million tonnes, as a result of strong demand in China,

Europe, other Asia and North America. In the first half of 2017, global demand for aluminium continued to grow by 5.7% year-on-year to 31.7 million tonnes as a result of strong demand in China, Europe, Asia (excluding China), North America and India. As a result, the average LME aluminium price increased to U.S.\$1,880 per tonne in the first half of 2017, representing a 21.8% increase from U.S.\$1,543 per tonne in the first half of 2016. The Group estimates that global demand for aluminium will increase by 5.9% year-on-year to 63.3 million tonnes in 2017, which reflects a 4.3% increase of demand to 29.5 million tonnes globally (excluding China) and a 7.4% increase of demand to 33.8 million tonnes in China in 2017. In the nine months of 2017, global demand for aluminium continued to grow by 5.9% year-on-year to 47.8 million tonnes as a result of strong demand in China, Europe, Asia (excluding China), North America and India. As a result of market expectations of widespread capacity shutdowns during winter in China, the robust demand for aluminium, coupled with significant production cost inflation, the LME aluminium price increased to U.S.\$2,164 per tonne in September 2017, its highest level since December 2012.

RUSAL does not earn a substantial portion of its revenue from alumina sales. RUSAL produces more alumina than it currently requires for its aluminium production and intends to sell this excess and any other alumina not used by the Group to third parties to produce aluminium.

Revenue from aluminium sales to all markets (including the Russian Federation) is closely linked to movements in the LME price for aluminium. RUSAL's average realised price per tonne of aluminium has generally been higher than the average price quoted on the LME, due to its production of value-added products ("VAPs") and the inclusion of certain alloys in RUSAL's products. Factors affecting the amount of premium charged for a particular product include the product type, the geographic market in which the product is sold, the quantity of the product ordered, the terms of delivery and payment for the product and current market trends affecting the product. In addition, in some cases RUSAL includes a charge for transportation services (reflecting its transportation costs) in the final price it charges to customers.

Currently, RUSAL does not hedge its full exposure to aluminium prices, although it may consider such hedging in the future. However, RUSAL hedges sales of aluminium from time to time. The objective of RUSAL's operational hedging of its sales is to achieve the average LME official cash price for the relevant month of production or to fix a favourable level of LME. After RUSAL has entered into an agreement for physical sale of aluminium, it may hedge the physical sale forward on the LME depending on the actual pricing period for the agreed contract. At a suitable time in the future, it unwinds the forward-long hedge by selling the cash average of production.

The demand/supply balance for aluminium and, consequently, prices of aluminium (whether trending upwards or downwards) will continue to have a key impact on RUSAL's results of operations. RUSAL has no current plans to restart any mothballed aluminium capacity, regardless of LME prices. The optimisation of production capacity is a long term way to help ensure that the industry does not face another overproduction crisis, and RUSAL is committed to maintaining a stable aluminium output.

#### *Investment in Norilsk Nickel*

RUSAL holds a 27.82% shareholding in Norilsk Nickel, the world's second largest nickel producer, the world's largest palladium producer and one of the world's leading producers of platinum and copper in terms of production in 2016. Norilsk Nickel is the lowest nickel cash cost producer globally, firmly positioned on the first quartile of the global cost curve.

The market value of the Company's stake in Norilsk Nickel was U.S.\$6,012 million based on the MOEX price as at 30 June 2017, U.S.\$7,348 million as at 31 December 2016, U.S.\$5,542 million as at 31 December 2015 and U.S.\$6,388 million as at 31 December 2014. The decrease in the market value of shares of Norilsk Nickel as at 30 June 2017 compared to 31 December 2016 and in 2015 compared to 2014 was caused by the deterioration of the market environment and pressure on commodity markets. These factors were offset by the improved performance of Norilsk Nickel in 2016.

RUSAL's results are materially affected by its share in the profits (or losses) of its associates, in particular in relation to its investment in Norilsk Nickel. RUSAL's share in Norilsk Nickel's profits was U.S.\$244 million in the first half of 2017, U.S.\$688 million in 2016, U.S.\$486 million in 2015 and U.S.\$515 million in 2014. The amount of RUSAL's profit derived from its investment in Norilsk Nickel is primarily dependent on the amount of dividends paid by Norilsk Nickel, which are determined on the basis of the ratio of Norilsk Nickel's Net Debt to Norilsk Nickel's EBITDA.

According to the Norilsk Nickel shareholders' agreement, to which RUSAL is a party, starting from 2017 the annual dividends payable by Norilsk Nickel shall be determined on the basis of the ratio of Norilsk

Nickel's Net Debt as at 31 December of the preceding year to Norilsk Nickel's EBITDA for the preceding calendar year as follows: (i) 60% of EBITDA if the ratio is 1.8x and less; (ii) 30% of EBITDA if the ratio is 2.2x and more; and (iii) if the ratio falls between 1.8x and 2.2x, the percentage of EBITDA to be paid as dividends shall be calculated as follows:  $X\% = 60\% - (\text{Net Debt}/\text{EBITDA} - 1.8)/0.4 * 30\%$ . The minimum amount of the annual dividends payable to its shareholders by Norilsk Nickel in 2017 shall not be less than U.S.\$1.3 billion. In addition, earnings received by Norilsk Nickel from the sale of 100% of the shares in Norilsk Nickel Africa (Pty) Limited (reduced by the amount of expenses associated with the sale and taxes) shall be paid as a dividend by Norilsk Nickel in 2017, or if respective earnings are received by Norilsk Nickel at such time that their distribution as dividends in 2017 is no longer possible, on the next nearest possible date for payment of dividends. Starting from 2018, the minimum amount of the annual dividends payable by Norilsk Nickel shall not be less than U.S.\$1 billion.

Norilsk Nickel produced 103 thousand tonnes and 236 thousand tonnes of nickel in the first half of 2017 and 2016, respectively. In comparison with prior periods, there was a planned reduction in production mainly due to the ongoing programme of reconfiguration of metallurgical production facilities.

### Operating and Financial Review of the Group

The following table sets forth selected data from the Group's consolidated statement of comprehensive income for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Revenues</b> . . . . .	5,841	4,748	9,776	10,529	11,917
Cost of sales . . . . .	(3,909)	(3,463)	(6,850)	(7,184)	(8,718)
<b>Gross profit</b> . . . . .	<b>1,932</b>	<b>1,285</b>	<b>2,926</b>	<b>3,345</b>	<b>3,199</b>
Distribution expenses . . . . .	(318)	(239)	(523)	(442)	(571)
General and administrative expenses . . . . .	(399)	(337)	(699)	(731)	(939)
(Impairment)/reversal of impairment of non-current assets . . . . .	(85)	(59)	18	(143)	(368)
Other operating (expenses)/income, net . . . . .	(66)	19	(49)	(59)	(222)
<b>Results from operating activities</b> . . . . .	<b>1,064</b>	<b>669</b>	<b>1,673</b>	<b>1,970</b>	<b>1,099</b>
Share of profits of associates and joint ventures . . . . .	297	439	847	368	521
Finance income . . . . .	53	54	88	36	46
Finance costs . . . . .	(773)	(724)	(1,241)	(1,629)	(2,170)
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income . . . . .	—	—	298	95	—
<b>Profit/(loss) before taxation</b> . . . . .	<b>641</b>	<b>438</b>	<b>1,665</b>	<b>840</b>	<b>(504)</b>
Income tax expense . . . . .	(93)	(121)	(304)	(260)	(120)
<b>Profit/(loss) for the period</b> . . . . .	<b>548</b>	<b>317</b>	<b>1,361</b>	<b>580</b>	<b>(624)</b>

*Results of operations for the six months ended 30 June 2017 and 2016*

*Revenues*

The following table sets forth the Group's revenue by business segments for the periods indicated:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(U.S.\$ millions)</b>	
RUSAL .....	4,764	3,896
En+ Power .....	1,599	1,152
<b>Business segment revenues</b> .....	<b>6,363</b>	<b>5,048</b>
Elimination of intersegmental revenues .....	(522)	(300)
<b>Total revenues</b> .....	<b><u>5,841</u></b>	<b><u>4,748</u></b>

The Group's revenues are mainly attributable to sales of RUSAL. In the first half of 2017 and 2016, RUSAL's revenues (before intersegmental elimination) accounted for 74.9% and 77.2% of business segments' revenues, respectively. In the first half of 2017 and 2016, En+ Power's revenues (before intersegmental elimination) accounted for 25.1% and 22.8% of the business segments' revenues, respectively.

The Group's revenues increased by U.S.\$1,093 million, or 23.0%, from U.S.\$4,748 million for the first half of 2016 to U.S.\$5,841 million for the first half of 2017. The increase was due to the increase in RUSAL's revenue following a 21.8% growth in the average LME aluminium price, from U.S.\$1,543 per tonne in the first half of 2016 to U.S.\$1,880 per tonne in the first half of 2017, while the average realised premiums to the LME price decreased by 2.4%.

The following table sets forth the Group's revenues from sales, broken down by each product sold by the Group, for the periods indicated:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(U.S.\$ millions)</b>	
Sales of primary aluminium and alloys .....	3,929	3,174
Sales of electricity .....	675	549
Sales of alumina and bauxite .....	371	313
Sales of semi-finished products and foil .....	243	198
Sales of heat .....	244	197
Sales of ferromolybdenum .....	32	25
Other revenues .....	347	292
<b>Total revenues</b> .....	<b><u>5,841</u></b>	<b><u>4,748</u></b>

*Cost of sales*

Cost of sales of En+ Power and RUSAL are those costs incurred directly by the sale and production of the principal products and services of both groups of companies. For En+ Power, cost of sales primarily includes the cost of raw materials, fuel, electricity and capacity purchased for resale, as well as personnel expenses. For RUSAL, the cost of sales mainly consists of the cost of alumina, bauxite and other materials, energy, purchases of primary aluminium, personnel costs and depreciation and amortisation.

The Group's cost of sales increased by U.S.\$446 million, or 12.9%, from U.S.\$3,463 million for the first half of 2016 to U.S.\$3,909 million for the first half of 2017. The increase was primarily attributable to: (i) the increase in the cost of sales of RUSAL in dollar terms, primarily as a result of a significant increase in railway transportation tariffs and other raw material costs in rouble terms in the first half of 2017; and (ii) the increase in the cost of sales of En+ Power in dollar terms.

### *Gross profit*

For the reasons described above, the Group's gross profit increased by U.S.\$647 million, or 50.4%, to U.S.\$1,932 million for the first half of 2017 from U.S.\$1,285 million for the first half of 2016.

Gross profit attributable to En+ Power increased by U.S.\$248 million, or 56.1%, from U.S.\$442 million for the first half of 2016 to U.S.\$690 million for the first half of 2017. Gross profit attributable to RUSAL increased by U.S.\$443 million, or 52.6%, from U.S.\$843 million for the first half of 2016 to U.S.\$1,286 million for the first half of 2017.

The Group's gross profit margin increased from 27.1% in the first half of 2016 to 33.1% in the first half of 2017.

### *Distribution expenses*

The key contributor to the Group's distribution expenses is RUSAL, which accounted for 66.0% and 67.8% of the Group's distribution expenses for the first half of 2017 and 2016, respectively. A substantial portion of the Group's distribution expenses consists of transportation costs, which include all expenses incurred in the transportation of products and raw materials by railway and/or road transport and shipping and handling costs. An additional component of distribution expenses includes employee salaries (including contributions to social funds).

The Group's distribution expenses increased by U.S.\$79 million, or 33.1%, from U.S.\$239 million for the first half of 2016 to U.S.\$318 million for the first half of 2017. The increase was primarily attributable to the increase in distribution expenses of both En+ Power and RUSAL due to the growth of the transportation tariffs and volume of finished goods transported.

### *General and administrative expenses*

The Group's general and administrative expenses consist of costs directly incurred by operating subsidiaries and primarily include the salaries and wages of administrative personnel, consulting, legal, audit and other professional services and other expenses.

The Group's general and administrative expenses increased by U.S.\$62 million, or 18.4%, from U.S.\$337 million for the first half of 2016 to U.S.\$399 million for the first half of 2017. The increase was primarily attributable to the increase in the general and administrative expenses of RUSAL and En+ Power mainly resulting from the significant appreciation of the rouble against the dollar in the first half of 2017 as compared to the first half of 2016.

### *Impairment of non-current assets*

For the first half of 2017, the Group had impairment of non-current assets of U.S.\$85 million, an increase of U.S.\$26 million, or 44.1%, as compared to U.S.\$59 million for the first half of 2016. The increase was primarily due to a higher impairment charge of U.S.\$81 million incurred in relation to the property, plant and equipment of RUSAL for the first half of 2017.

### *Net other operating (expenses)/income*

For the first half of 2017, the Group had net other operating expenses of U.S.\$66 million as compared to net other operating income of U.S.\$19 million for the first half of 2016. The net other operating expenses are primarily explained by net other operating expenses of both RUSAL and En+ Power for the first half of 2017 as compared to U.S.\$1 million of net other operating expenses of RUSAL and U.S.\$20 million of net other operating income of En+ Power for the first half of 2016. The net other operating expenses in the first half of 2017 are mainly attributable to penalties of U.S.\$22 million relating to the amount paid by RUSAL with respect to a legal claim from a Swedish electricity supplier and impairment created with regard to accounts receivable of U.S.\$15 million.

### *Results from operating activities*

For the reasons described above, the Group's results from operating activities increased by U.S.\$395 million, or 59.0%, to U.S.\$1,064 million for the first half of 2017 from U.S.\$669 million for the first half of 2016.

### Adjusted EBITDA and Adjusted EBITDA Margin

The following table sets forth the Group's Adjusted EBITDA and Adjusted EBITDA Margin broken down by segments (before inter-segment elimination) for the periods indicated:

	Six months ended 30 June	
	2017	2016
	(U.S.\$ millions, except %)	
<b>RUSAL</b>		
Adjusted EBITDA <sup>(1)</sup> . . . . .	985	656
<b>En+ Power</b>		
Adjusted EBITDA (Power) . . . . .	565	367
Adjusted EBITDA (Coal) . . . . .	14	13
Adjusted EBITDA (Logistics) . . . . .	16	9
Adjusted EBITDA (Other) . . . . .	(1)	4
Eliminations/unallocated . . . . .	(22)	2
<b>Adjusted EBITDA (En+ Power)</b> . . . . .	<b>572</b>	<b>395</b>
<b>Consolidation adjustment</b> . . . . .	<b>(44)</b>	<b>—</b>
<b>Adjusted EBITDA (the Group)</b> . . . . .	<b>1,513</b>	<b>1,051</b>
Adjusted EBITDA Margin <sup>(2)</sup> (RUSAL) . . . . .	20.7%	16.8%
Adjusted EBITDA Margin (En+ Power) . . . . .	35.8%	34.3%
Adjusted EBITDA Margin (Power) . . . . .	41.2%	37.6%
Adjusted EBITDA Margin (Coal) . . . . .	8.8%	11.5%
Adjusted EBITDA Margin (Logistics) . . . . .	27.6%	20.9%
Adjusted EBITDA Margin (Other) . . . . .	N/A	3.5%
<b>Adjusted EBITDA Margin (Group)</b> . . . . .	<b>25.9%</b>	<b>22.1%</b>

Notes:

- (1) Adjusted EBITDA represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment, in each case attributable to the Group or the relevant segment, as the case may be.
- (2) Adjusted EBITDA Margin represents Adjusted EBITDA divided by revenue, in each case attributable to the Group or the relevant segment, as the case may be.

#### The Group

The Group's Adjusted EBITDA increased by U.S.\$462 million, or 44.0%, to U.S.\$1,513 million for the first half of 2017 from U.S.\$1,051 million for the first half of 2016. The increase was mainly due to the increase in the Adjusted EBITDA of RUSAL and the Power segment.

#### RUSAL

In the first half of 2017, RUSAL's Adjusted EBITDA (before intersegmental elimination) increased by U.S.\$329 million, or 50.2%, to U.S.\$985 million for the first half of 2017 from U.S.\$656 million for the first half of 2016. The increase in RUSAL's Adjusted EBITDA in the first half of 2017 as compared to the first half of 2016 is attributable to the same factors that influenced RUSAL's operating results that primarily include the significant growth of LME aluminium price in the first half of 2017 and increased sales volume of primary aluminium and alloys which offset the increased cash costs. The share of RUSAL's Adjusted EBITDA increased from 62.4% of the Group's Adjusted EBITDA in the first half of 2016 to 65.1% of the Group's Adjusted EBITDA in the first half of 2017.

#### En+ Power

In the first half of 2017, En+ Power's Adjusted EBITDA (before intersegmental elimination) increased by U.S.\$177 million, or 44.8%, to U.S.\$572 million for the first half of 2017 from U.S.\$395 million for the first half of 2016. The increase of Adjusted EBITDA of En+ Power in the first half of 2017 as compared to the first half of 2016 was mainly attributable to the increase in results from operating activities. The increase in results from operating activities was due to increased revenues in rouble terms, caused by larger portions of electricity and capacity sold at unregulated prices and higher average weighted prices for electricity. The

share of En+ Power's Adjusted EBITDA marginally increased from 37.6% of the Group's Adjusted EBITDA for the first half of 2016 to 37.8% of the Group's Adjusted EBITDA for the first half of 2017.

As the power operations account for substantially all of revenues, assets and liabilities attributable to En+ Power and are therefore a predominant contributor to the Adjusted EBITDA of En+ Power, the low cost operations of HPPs positively affect the overall Adjusted EBITDA of En+ Power. In particular, the proportion of HPPs' contribution to the Adjusted EBITDA of En+ Power was 83.7% in the first half of 2017 and 69.9% in the first half of 2016.

The following table sets forth the Power Segment's Adjusted EBITDA and Adjusted EBITDA Margin broken down by business operations (before inter-segment elimination) for the periods indicated:

	Six months ended 30 June	
	2017	2016
	(U.S.\$ millions, except %)	
<b>The Power Segment</b>		
Adjusted EBITDA <sup>(1)</sup> (HPPs) . . . . .	479	276
Adjusted EBITDA (Transmission and distribution) . . . . .	40	30
Adjusted EBITDA (CHPs) . . . . .	39	35
Adjusted EBITDA (Retail) . . . . .	3	6
Adjusted EBITDA (Unallocated) . . . . .	5	20
<b>Adjusted EBITDA (Power Segment) . . . . .</b>	<b>565</b>	<b>367</b>
Adjusted EBITDA Margin <sup>(2)</sup> (HPPs) . . . . .	83.9%	79.6%
Adjusted EBITDA Margin (Transmission and distribution) . . . . .	22.4%	23.9%
Adjusted EBITDA Margin (CHPs) . . . . .	10.1%	10.9%
Adjusted EBITDA Margin (Retail) . . . . .	0.7%	1.6%
Adjusted EBITDA Margin (Unallocated) . . . . .	N/A	N/A
Adjusted EBITDA Margin (Power Segment) . . . . .	41.2%	37.6%
Adjusted EBITDA Margin (Power Segment), adjusted for purchase and sale of electricity on the wholesale market as part of retail operations . . . . .	50.5%	50.9%

Notes:

- (1) Adjusted EBITDA represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment, in each case attributable to the Group's Power Segment and relevant business operations, as the case may be.
- (2) Adjusted EBITDA Margin represents Adjusted EBITDA divided by revenue, in each case attributable to the Group's Power Segment and relevant business operations, as the case may be.

The Power Segment's Adjusted EBITDA Margin is impacted by its operations on the retail electricity market. Due to market mechanics, the Power Segment's retail companies are required to purchase electricity on the wholesale market on market terms. These purchases are not recognised as intercompany operations for the Group, which results in an increase in the Group's reported revenue and a decrease in the Group's reported Adjusted EBITDA Margin. If these intercompany operations were to be eliminated, Power Segment's Adjusted EBITDA Margin would have been 50.5% for the first half of 2017 and 50.9% for the first half of 2016.

#### *Share of profits of associates and joint ventures*

The Group has a number of associates and joint ventures which are accounted for in the Financial Statements under the equity method (see Note 14 to the Annual Financial Statements and Note 10 to the Interim Financial Information). The principal associates and joint ventures include Norilsk Nickel, Queensland Alumina Limited and the BEMO Project (see "*Business—Business Operations—RUSAL—BEMO Project*").

The Group's share of the profits of the associates and joint ventures decreased by U.S.\$142 million, or 32.3%, to U.S.\$297 million for the first half of 2017 from U.S.\$439 million for the first half of 2016. The Group's share in the results of associates and joint ventures resulted primarily from the profit of U.S.\$244 million for the first half of 2017 as compared to the profit of U.S.\$370 million for the first half of 2016, from the Group's investment in Norilsk Nickel.

### *Finance income*

The Group's finance income primarily consists of interest income on interest-bearing assets.

The Group's finance income marginally decreased by U.S.\$1 million, or 1.9%, to U.S.\$53 million for the first half of 2017 from U.S.\$54 million for the first half of 2016.

### *Finance costs*

The Group's finance costs primarily consist of interest expense on interest-bearing liabilities, net foreign exchange loss and change in the fair value of derivative financial instruments.

The Group's finance costs increased by U.S.\$49 million, or 6.8%, from U.S.\$724 million for the first half of 2016 to U.S.\$773 million for the first half of 2017. This increase was primarily a result of: (i) a significant increase in interest expense on bank and company loans, bonds and other bank charges driven by the increase of the Group's loans and borrowings due to new loans taken for the acquisition of the shares in Irkutskenergo and placement of RUSAL's bonds on the market; (ii) a negative change in fair value of RUSAL's derivative financial instruments to U.S.\$138 million for the first half of 2017 from U.S.\$119 million for the first half of 2016 as a result of improvement of the LME aluminium price and other commodities prices during the half under review that negatively affected the fair value of respective hedging instruments; and (iii) a U.S.\$144 million decrease in net foreign exchange loss due to the strengthening of the rouble against the dollar during the first half of 2017 as compared to the first half of 2016.

### *Profit before taxation*

For the reasons described above, the Group had profit before taxation of U.S.\$641 million for the first half of 2017 as compared to profit before taxation of U.S.\$438 million for the first half of 2016. For the first half of 2017, En+ Power generated profit before taxation of U.S.\$187 million as compared to profit before taxation of U.S.\$143 million for the first half of 2016. The improved results of operations of En+ Power are mainly explained by enhanced results from the operating activities. For the first half of 2017, RUSAL generated profit before taxation of U.S.\$498 million as compared to profit before taxation of U.S.\$295 million for the first half of 2016. The improved results of operations of RUSAL are mainly explained by the enhanced results from the operating activities.

### *Income tax expense*

The applicable tax rates for the first half of 2017 were the same as for the first half of 2016, except for Italy where the tax rate was 30.4% in 2016 compared to 27.9% in 2017.

The Group's income tax expense decreased by U.S.\$28 million, or 23.1%, to U.S.\$93 million for the first half of 2017 from U.S.\$121 million for the first half of 2016 as a result of an increase of U.S.\$61 million in deferred tax income of En+ Power and an increase of En+ Power's current tax expense by \$39 million.

### *Profit for the period*

For the reasons described above, the Group had profit of U.S.\$548 million for the first half of 2017 as compared to profit of U.S.\$317 million for the first half of 2016.

### ***Results of operations for the years ended 31 December 2016, 2015 and 2014***

#### *Revenues*

The following table sets forth the Group's revenue by business segments for the years indicated:

	Year ended 31 December		
	2016	2015	2014
	(U.S.\$ millions)		
RUSAL . . . . .	7,983	8,680	9,357
En+ Power . . . . .	2,482	2,459	3,426
<b>Business segment revenues . . . . .</b>	<b>10,465</b>	<b>11,139</b>	<b>12,783</b>
Elimination of intersegmental revenues . . . . .	(689)	(610)	(866)
<b>Total revenues . . . . .</b>	<b>9,776</b>	<b>10,529</b>	<b>11,917</b>



The Group's revenues are mainly attributable to RUSAL's operations. In 2016, 2015 and 2014, RUSAL's revenues (before intersegmental elimination) accounted for 76.3%, 77.9% and 73.2% of the Group's revenues, respectively. In 2016, 2015 and 2014, En+ Power's revenues (before intersegmental elimination) accounted for 23.7%, 22.1% and 26.8% of the Group's revenues, respectively. In the year ended 31 December 2016, 22% of the Group's total revenue, or U.S.\$2,151 million were priced in Russian roubles, while 78% of the Group's total revenue, or U.S.\$7,625 million, were either denominated in dollars and other foreign currencies or linked to the respective dollar LME price.

The Group's revenues decreased by U.S.\$753 million, or 7.2%, from U.S.\$10,529 million for 2015 to U.S.\$9,776 million for 2016. The decrease was due to the decrease in RUSAL's revenue following a 3.5% decline in the average LME aluminium price, from U.S.\$1,663 per tonne in 2015 to U.S.\$1,604 per tonne in 2016, along with a 43.4% drop in the average realised premiums to the LME Price between 2015 and 2016.

The Group's revenues decreased by U.S.\$1,388 million, or 11.6%, from U.S.\$11,917 million for 2014 to U.S.\$10,529 million for 2015. The decline was due to: (i) the decrease in revenues of En+ Power in dollar terms as a result of a foreign currency translation from functional currency to presentation currency as a result of the significant devaluation of the rouble against the dollar (nonetheless, revenues of En+ Power in rouble terms increased by 13.9% in 2015 compared to 2014, which was mainly due to an increase in the proportion of electricity sold on the unregulated market, weighted average prices for electricity on the day-ahead market and liberalisation of the capacity market up to 80%); and (ii) the decrease in revenues of RUSAL as a result of lower prices of primary aluminium and alloys, which was partially offset by an increase in the volume of sales.

The following table sets forth the Group's revenues from sales, broken down by each product sold by the Group, for the years indicated:

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(U.S.\$ millions)		
Sales of primary aluminium and alloys . . . . .	6,487	7,163	7,608
Sales of electricity . . . . .	1,200	1,170	1,565
Sales of alumina and bauxite . . . . .	655	617	612
Sales of semi-finished products and foil . . . . .	417	450	584
Sales of heat . . . . .	345	344	541
Sales of ferromolybdenum . . . . .	51	51	83
Other revenues . . . . .	621	734	924
<b>Total revenues . . . . .</b>	<b><u>9,776</u></b>	<b><u>10,529</u></b>	<b><u>11,917</u></b>

The following table sets forth the Group's revenue generated from external customers, broken down by region, for the years indicated. The geographical location of customers has been determined according to the location at which the services were provided or the goods delivered.

	Year ended 31 December		
	2016	2015	2014
	(U.S.\$ millions)		
Russia . . . . .	3,371	3,431	4,219
United States . . . . .	1,193	637	892
Netherlands . . . . .	664	1,754	1,631
Turkey . . . . .	634	836	979
Japan . . . . .	610	584	871
Poland . . . . .	377	404	267
South Korea . . . . .	313	411	530
Greece . . . . .	260	254	272
Italy . . . . .	244	228	219
Germany . . . . .	200	142	181
Sweden . . . . .	182	220	182
Norway . . . . .	179	103	226
France . . . . .	178	189	179
Switzerland . . . . .	52	6	10
China . . . . .	24	78	91
Other countries . . . . .	1,295	1,252	1,168
<b>Total revenue . . . . .</b>	<b>9,776</b>	<b>10,529</b>	<b>11,917</b>

Given that RUSAL's operations represent the majority of the Group's revenue, the geographical breakdown primarily reflects the location of RUSAL's customers. The assets and operations of En+ Power, as well as consumers of electricity and heat are situated in Russia. In 2016, 2015 and 2014, 54.6%, 55.0% and 63.1% respectively, of the sales in Russia, were attributable to En+ Power.

#### *Cost of sales*

Cost of sales of En+ Power and RUSAL are those costs incurred directly by the sale and production of the principal products and services of both groups of companies. For En+ Power, cost of sales primarily includes the cost of raw materials, fuel, electricity and capacity purchased for resale, as well as personnel expenses. For RUSAL, the cost of sales mainly consists of the cost of energy, alumina, bauxite, other raw materials, personnel expenses, depreciation and amortisation.

The Group's cost of sales decreased by U.S.\$334 million, or 4.6%, from U.S.\$7,184 million for 2015 to U.S.\$6,850 million for 2016. The decrease was primarily attributable to the decrease in the cost of sales of RUSAL in U.S. Dollar terms, primarily as a result of: (i) the continuing depreciation of the rouble and the hryvnia against the dollar; (ii) the decrease in prices of certain raw materials; (iii) the volume of certain raw materials purchased; and (iv) the decrease in the cost of sales of En+ Power in dollar terms (as a result of the influence of the aforementioned depreciation of the rouble against the dollar on En+ Power's foreign currency translations). The cost of sales of En+ Power increased in rouble terms by 2.4% in 2016 as compared to 2015, reflecting increased costs in the principal components underlying En+ Power's aggregate cost of sales, while this increase in cost of sales in rouble terms was at a rate lower than the rate of inflation in Russia.

The Group's cost of sales decreased by U.S.\$1,534 million, or 17.6%, from U.S.\$8,718 million for 2014 to U.S.\$7,184 million for 2015. The decline was primarily attributable to: (i) the decrease in the cost of sales of RUSAL in U.S. Dollar terms, as a result of the continuing depreciation of the rouble and the hryvnia against the dollar, as well as the decrease in prices of certain raw materials, and the volume of certain raw materials purchased; and (ii) the decrease in the cost of sales of En+ Power in dollar terms due to foreign currency translation from functional currency to presentation currency due to the significant devaluation of the rouble against the dollar. En+ Power's cost of sales, increased in rouble terms by 6.7% in 2015 as compared to 2014 due to growth in the principal components of cost of sales (such as raw materials, fuel, electricity and capacity purchased for resale, as well as personnel expenses), while this increase in cost of sales in rouble terms was at a rate lower than the rate of inflation in Russia.

### *Gross profit*

For the reasons described above, the Group's gross profit decreased by U.S.\$419 million, or 12.5%, to U.S.\$2,926 million for 2016 from U.S.\$3,345 million for 2015 which, in turn, increased by U.S.\$146 million, or 4.6%, from U.S.\$3,199 million for 2014.

Gross profit attributable to En+ Power increased by U.S.\$132 million, or 15.0%, from U.S.\$881 million for 2015 to U.S.\$1,013 million for 2016. In turn, gross profit attributable to RUSAL decreased by U.S.\$552 million, or 22.4%, from U.S.\$2,465 million for 2015 to U.S.\$1,913 million for 2016. While gross profit attributable to En+ Power decreased by U.S.\$198 million, or 18.4%, from U.S.\$1,079 million for 2014 to U.S.\$881 million for 2015, gross profit attributable to RUSAL increased by U.S.\$331 million, or 15.5%, from U.S.\$2,134 million for 2014 to U.S.\$2,465 million for 2015.

The Group's gross profit margin increased from 26.8% in 2014 to 31.8% in 2015, and decreased from 31.8% in 2015 to 29.9% in 2016.

### *Distribution expenses*

The key contributor to the Group's distribution expenses is RUSAL, which accounted for 63.3%, 76.0% and 70.4% of the Group's distribution expenses for 2016, 2015 and 2014, respectively. A substantial portion of the Group's distribution expenses consists of transportation costs, which include all expenses incurred in the transportation of products and raw materials by railway and/or road transport and shipping and handling costs. An additional component of distribution expenses includes employee salaries (including contributions to social funds).

The Group's distribution expenses increased by U.S.\$81 million, or 18.3%, from U.S.\$442 million for 2015 to U.S.\$523 million for 2016. The increase was primarily attributable to the increase in En+ Power's distribution expenses, due to increases in sales and transportation volumes and railway tariffs, which was further influenced by the aforementioned depreciation of the rouble against the dollar.

The Group's distribution expenses decreased by U.S.\$129 million, or 22.6%, from U.S.\$571 million for 2014 to U.S.\$442 million for 2015. The decrease was primarily attributable to: (i) the decrease in distribution expenses of RUSAL, due to the decrease in railroad transportation tariffs, as well as the significant depreciation of the rouble against the dollar; and (ii) the decrease in distribution expenses of En+ Power in dollar terms caused by the foreign currency translation from functional currency to presentation currency, pursuant to the significant devaluation of the rouble against the dollar, while distribution expenses of En+ Power, in rouble terms, remained relatively stable.

### *General and administrative expenses*

The Group's general and administrative expenses consist of costs directly incurred by operating subsidiaries and primarily include the salaries and wages of administrative personnel, consulting, legal, audit and other professional services and other expenses.

The Group's general and administrative expenses decreased by U.S.\$32 million, or 4.4%, from U.S.\$731 million for 2015 to U.S.\$699 million for 2016. The decrease was primarily attributable to: (i) depreciation of the rouble against the dollar; and (ii) the reduction of En+ Power's general and administrative expenses savings (consulting, legal, audit and other professional services).

The Group's general and administrative expenses decreased by U.S.\$208 million, or 22.2%, from U.S.\$939 million for 2014 to U.S.\$731 million for 2015. The decrease was primarily attributable to: (i) the decrease in dollar terms in general and administrative expenses of RUSAL, primarily caused by the depreciation of the rouble against the dollar; and (ii) the decrease in dollar terms in general and administrative expenses of En+ Power due to: (a) the significant devaluation of the rouble against the dollar; and (b) the decrease in rouble terms in expenses relating to consulting, legal, audit and other professional services.

### *Reversal of impairment/(impairment) of non-current assets*

For 2016, the reversal of impairment of non-current assets comprises the net results of: (i) a reversal by RUSAL of an impairment charge on its property, plant and equipment of U.S.\$113 million; (ii) the impairment by RUSAL of certain non-current assets, valued at U.S.\$69 million; (iii) an impairment by En+ Power of certain non-core assets of U.S.\$20 million; and (iv) an impairment by En+ Segment on its hydro assets of U.S.\$6 million.

For 2015, the Group had impairment of non-current assets of U.S.\$143 million, a decrease of U.S.\$225 million, or 61.1%, as compared to U.S.\$368 million for 2014. The decrease was primarily due to a higher impairment charge of U.S.\$344 million incurred in relation to the property, plant and equipment of RUSAL and En+ Power in 2014. Impairment of non-current assets attributable to En+ Power decreased by U.S.\$254 million from U.S.\$265 million for 2014 to U.S.\$11 million for 2015. This significant decrease was primarily a result of impairment loss on the property, plant and equipment of coal assets and Irkutsk GridCo in 2014.

#### *Net other operating expenses*

For 2016, the Group's net other operating expenses decreased by U.S.\$10 million, or 16.9%, from U.S.\$59 million for 2015 to U.S.\$49 million for 2016. The decrease was primarily due to: (i) a U.S.\$11 million decrease in the Group's recorded loss on disposal of property, plant and equipment; and (ii) a U.S.\$24 million decrease in the Group's recorded impairment of accounts receivable, in each case for 2016 as compared to the amounts for 2015.

For 2015, the Group's net other operating expenses decreased by U.S.\$163 million, or 73.4%, from U.S.\$222 million for 2014 to U.S.\$59 million for 2015. The decrease was primarily attributable to the overall decrease in the net other operating expenses denominated in roubles, as a result of the significant devaluation of the rouble against the dollar and changes to the provision charges.

#### *Results from operating activities*

For the reasons described above, the Group's results from operating activities decreased by U.S.\$297 million, or 15.1%, to U.S.\$1,673 million for 2016 from U.S.\$1,970 million for 2015 which, in turn, increased by U.S.\$871 million, or 79.3%, from U.S.\$1,099 million for 2014.

While results from operating activities attributable to En+ Power increased by U.S.\$44 million, or 7.8%, from U.S.\$561 million for 2015 to U.S.\$605 million for 2016, results from operating activities attributable to RUSAL decreased by U.S.\$341 million, or 24.2%, from U.S.\$1,409 million for 2015 to U.S.\$1,068 million for 2016.

The Group's operating profit margin increased from 9.2% in 2014 to 18.7% in 2015, and decreased from 18.7% in 2015 to 17.1% in 2016.

While results from operating activities attributable to En+ Power increased by U.S.\$406 million, or 261.9%, from U.S.\$155 million for 2014 to U.S.\$561 million for 2015, results from operating activities attributable to RUSAL increased by U.S.\$467 million, or 49.6%, from U.S.\$942 million for 2014 to U.S.\$1,409 million for 2015.

### Adjusted EBITDA and Adjusted EBITDA Margin

The following table sets forth the Group's Adjusted EBITDA and Adjusted EBITDA Margin broken down by segments (before inter-segment elimination) for the years indicated:

	Year ended 31 December		
	2016	2015	2014
	(U.S.\$ millions, except %)		
<b>RUSAL</b>			
Adjusted EBITDA <sup>(1)</sup> . . . . .	1,489	2,015	1,514
<b>En+ Power</b>			
Adjusted EBITDA (Power) . . . . .	794	719	673
Adjusted EBITDA (Coal) . . . . .	26	12	38
Adjusted EBITDA (Logistics) . . . . .	29	27	36
Adjusted EBITDA (Other) . . . . .	11	(4)	21
Unallocated . . . . .	(38)	(37)	(116)
<b>Adjusted EBITDA (En+ Power)</b> . . . . .	<b>822</b>	<b>717</b>	<b>652</b>
<b>Consolidation adjustment</b> . . . . .	<b>—</b>	<b>—</b>	<b>2</b>
<b>Adjusted EBITDA</b> . . . . .	<b>2,311</b>	<b>2,732</b>	<b>2,168</b>
Adjusted EBITDA Margin <sup>(2)</sup> (RUSAL) . . . . .	18.7%	23.2%	16.2%
Adjusted EBITDA Margin (En+ Power) . . . . .	33.1%	29.2%	19.0%
Adjusted EBITDA Margin (Power) . . . . .	38.2%	34.7%	23.6%
Adjusted EBITDA Margin (Coal) . . . . .	10.0%	4.9%	10.7%
Adjusted EBITDA Margin (Logistics) . . . . .	21.8%	25.5%	27.9%
Adjusted EBITDA Margin (Other) . . . . .	4.5%	N/A	5.2%
<b>Adjusted EBITDA Margin (Group)</b> . . . . .	<b>23.6%</b>	<b>25.9%</b>	<b>18.2%</b>

Notes:

- (1) Adjusted EBITDA represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment, in each case attributable to the Group or the relevant segment, as the case may be.
- (2) Adjusted EBITDA Margin represents Adjusted EBITDA divided by revenue, in each case attributable to the Group or the relevant segment, as the case may be.

### The Group

In 2016, the Group's Adjusted EBITDA decreased by U.S.\$421 million, or 15.4%, to U.S.\$2,311 million for 2016 from U.S.\$2,732 million for 2015 which, in turn, increased by U.S.\$564 million, or 26.0%, from U.S.\$2,168 million for 2014. The decrease in 2016 as compared to 2015 was due to the decrease in the Adjusted EBITDA of RUSAL.

### RUSAL

In 2016, RUSAL's Adjusted EBITDA (before intersegmental elimination) decreased by U.S.\$526 million, or 26.1%, to U.S.\$1,489 million for 2016 from U.S.\$2,015 million for 2015 which, in turn, increased by U.S.\$501 million, or 33.1%, from U.S.\$1,514 million for 2014. The decrease in RUSAL's Adjusted EBITDA in 2016 as compared to 2015 can be attributed to the same factors which influenced RUSAL's operating results and its reversal of (impairment) of non-current assets for the same period. The increase in RUSAL's Adjusted EBITDA in 2015 as compared to the preceding year can primarily be explained by the growth in results from operating activities, as well as favourable currency movements which decreased the operating costs denominated in roubles and hryvnia, which in turn mitigated the effect of decreased aluminium prices. During the periods under review, the share of RUSAL's Adjusted EBITDA increased from 69.8% of the Group's Adjusted EBITDA in 2014 to 73.8% of the Group's Adjusted EBITDA in 2015 and decreased to 64.4% of the Group's Adjusted EBITDA in 2016.

### En+ Power

In 2016, En+ Power's Adjusted EBITDA (before intersegmental elimination) increased by U.S.\$105 million, or 14.6%, to U.S.\$822 million for 2016 from U.S.\$717 million for 2015 which, in turn, increased by U.S.\$65 million, or 10.0%, from U.S.\$652 million for 2014. The increases of Adjusted

EBITDA of En+ Power in 2016 and 2015 from the preceding years were mainly attributable to the increases in results from operating activities. The increases in results from operating activities were due to increased revenues in rouble terms, caused by larger portions of electricity and capacity sold at unregulated prices, higher average weighted prices for electricity and capacity, as well as favourable currency movements, which in turn decreased operating costs denominated in roubles. During the periods under review, the share of En+ Power's Adjusted EBITDA decreased from 30.2% of the Group's Adjusted EBITDA in 2014 to 26.2% of the Group's Adjusted EBITDA in 2015 and increased to 35.6% of the Group's Adjusted EBITDA in 2016.

As the power operations account for substantially all of revenues, assets and liabilities attributable to En+ Power and are therefore a predominant contributor to the Adjusted EBITDA of En+ Power, the low cost operations of HPPs positively affect the overall Adjusted EBITDA of En+ Power. In particular, the proportion of HPPs' contribution to the Adjusted EBITDA of En+ Power was 77.6% in 2016 and 80.3% in 2015.

The following table sets forth the Power Segment's Adjusted EBITDA and Adjusted EBITDA Margin broken down by business operations (before inter-segment elimination) for the years indicated:

	Year ended 31 December	
	2016	2015
	(U.S.\$ millions, except %)	
<b>The Power Segment</b>		
Adjusted EBITDA <sup>(1)</sup> (HPPs) . . . . .	638	576
Adjusted EBITDA (Transmission and distribution) . . . . .	73	77
Adjusted EBITDA (CHPs) . . . . .	44	52
Adjusted EBITDA (Retail) . . . . .	14	8
Adjusted EBITDA (Unallocated) . . . . .	25	6
<b>Adjusted EBITDA (Power Segment) . . . . .</b>	<b>794</b>	<b>719</b>
Adjusted EBITDA Margin <sup>(2)</sup> (HPPs) . . . . .	81.0%	74.5%
Adjusted EBITDA Margin (Transmission and distribution) . . . . .	26.0%	27.0%
Adjusted EBITDA Margin (CHPs) . . . . .	6.9%	7.9%
Adjusted EBITDA Margin (Retail) . . . . .	1.9%	1.0%
Adjusted EBITDA Margin (Unallocated) . . . . .	N/A	N/A
Adjusted EBITDA Margin (Power Segment) . . . . .	38.2%	34.7%
Adjusted EBITDA Margin (Power Segment), adjusted for purchase and sale of electricity on the wholesale market as part of retail operations . . . . .	49.9%	45.4%

Notes:

- (1) Adjusted EBITDA represents the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/loss on disposal of property, plant and equipment, in each case attributable to the Group's Power Segment and relevant business operations, as the case may be.
- (2) Adjusted EBITDA Margin represents Adjusted EBITDA divided by revenue, in each case attributable to the Group's Power Segment and relevant business operations, as the case may be.

The Power Segment's Adjusted EBITDA Margin is impacted by its operations on the retail electricity market. Due to market mechanics, the Power Segment's retail companies are required to purchase electricity on the wholesale market on market terms. These purchases are not recognised as intercompany operations for the Group, which results in an increase in the Group's reported revenue and a decrease in the Group's reported Adjusted EBITDA Margin. If these intercompany operations were to be eliminated, Power Segment's Adjusted EBITDA Margin would have been 49.9% for 2016 and 45.4% for 2015.

#### *Share of profits of associates and joint ventures*

The Group has a number of associates and joint ventures which are accounted for in the Financial Statements under the equity method (see Note 14 to the Annual Financial Statements). The principal associates and joint ventures include Norilsk Nickel, Queensland Alumina Limited and the BEMO Project (see "*Business—Business Operations—RUSAL—BEMO Project*").

The Group's share of the profits of the associates and joint ventures increased by U.S.\$479 million, or 130.2%, to U.S.\$847 million for 2016 from U.S.\$368 million for 2015 which, in turn, decreased by U.S.\$153 million, or 29.4%, from U.S.\$521 million for 2014. The Group's share in the results of associates and joint ventures resulted primarily from the profit of U.S.\$688 million in 2016, U.S.\$486 million in 2015 and U.S.\$515 million in 2014, from the Group's investment in Norilsk Nickel.

The deviation in profit in 2016 as compared to 2015 can primarily be attributed to: (i) higher profit from the Group's investment in Norilsk Nickel; (ii) a neutral impact from the operations of Queensland Alumina Limited (as compared to a loss of U.S.\$293 million in 2015); (iii) lower profit from the BEMO Project of US\$40 million in 2016 as compared to U.S.\$176 million in 2015; and (iv) the reversal of a provision for a guarantee relating to the BEMO Project (which has been reflected in the Group's reported share of profits arising from the BEMO Project in the amount of U.S.\$100 million).

The decrease in profit in 2015 in comparison to 2014 was mainly due: (i) to the loss from continuing operations of Queensland Alumina Limited in 2015; and (ii) lower profit from the Group's investment in Norilsk Nickel, both of which were partially offset by a significant increase in the profit from the BEMO Project. The increase in profit from the BEMO Project was caused by the partial reversal of a previously recognised impairment relating to property, plant and equipment.

#### *Finance income*

The Group's finance income primarily consists of interest income on interest-bearing assets.

The Group's finance income increased by U.S.\$52 million, or 144.4%, to U.S.\$88 million for 2016 from U.S.\$36 million for 2015 as a result of net foreign exchange gain in the amount of U.S.\$41 million.

The Group's finance income decreased by U.S.\$10 million, or 21.7%, to U.S.\$36 million for 2015 from U.S.\$46 million for 2014 primarily due to the decrease in the interest income on time deposits at several subsidiaries of RUSAL.

#### *Finance costs*

The Group's finance costs primarily consist of interest expense on interest-bearing liabilities, net foreign exchange loss and change in the fair value of derivative financial instruments.

The Group's finance costs decreased by U.S.\$388 million, or 23.8%, from U.S.\$1,629 million for 2015 to U.S.\$1,241 million for 2016 as a result of: (i) a change in the fair value of RUSAL's derivative financial instruments (which recorded a loss of U.S.\$157 million in 2016 as compared to a loss of U.S.\$352 million in 2015); and (ii) a deviation in net foreign exchange income/loss (which recorded a gain of U.S.\$41 million in 2016 as compared to a loss of U.S.\$285 million in 2015).

The Group's finance costs decreased by U.S.\$541 million, or 24.9%, from U.S.\$2,170 million for 2014 to U.S.\$1,629 million for 2015 primarily as a result of: (i) the significant decrease in finance costs of En+ Power, caused primarily by the decrease in net foreign exchange loss, which is explained by the revaluation of dollar-denominated loans and borrowings attributable to Russian subsidiaries of En+ Power, resulting from the significant devaluation of the rouble against the dollar; and (ii) the decrease in finance costs of RUSAL, due to the decrease in interest expenses and bank charges payable by RUSAL due to the decrease in loans and borrowings, as well as the decrease in net loss from the change in the fair value of derivative financial instruments in line with the market trend, as a result of significant depreciation of the rouble against the dollar which led to the revaluation of certain cross-currency transactions. The decrease in the Group's finance costs was partially offset by the increase in RUSAL's net foreign exchange loss.

#### *Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income*

For 2016, the Group recorded results from the disposal and deconsolidation of its subsidiaries, including items recycled from other comprehensive income in the amount of U.S.\$298 million, as a result of the sale by RUSAL of its 100% shareholding in Alumina Partners of Jamaica ("Alpart"). In July 2016, RUSAL entered into an agreement to sell its shareholding in Alpart to JIUQUAN IRON & STEEL (GROUP) Co. Ltd., a Chinese state-owned industrial group, for a cash consideration of U.S.\$299 million. RUSAL received the consideration in full in November 2016.

For 2015, the Group recorded results from the disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income in the amount of U.S.\$95 million, caused by a combination of

the following events: (i) the deconsolidation of ZALK, RUSAL's subsidiary in Ukraine, following de-privatisation by Ukraine through court proceedings, which contributed a U.S.\$155 million gain; and (ii) the liquidation of one of RUSAL's intermediary holding subsidiaries in light of structure optimisation, which contributed a U.S.\$60 million loss.

For 2014, the Group had no results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income. The results for 2015 and 2016 reflected one-off events that are unlikely to reoccur in the future.

#### *Profit/(loss) before taxation*

For the reasons described above, the Group had profit before taxation of U.S.\$1,665 million for 2016 as compared to profit before taxation of U.S.\$840 million for 2015 and a loss before taxation of U.S.\$504 million for 2014. For 2016, En+ Power generated profit before taxation of U.S.\$431 million compared to profit before taxation of U.S.\$197 million for 2015 and a loss before taxation of U.S.\$673 million for 2014. The improved results of operations of En+ Power are mainly explained by enhanced results from the operating activities, significant decrease in finance costs and increase in financial income. For 2016, RUSAL generated profit before taxation of U.S.\$1,354 million as compared to profit before taxation of U.S.\$763 million and U.S.\$147 million for 2014. The improved results of operations of RUSAL are mainly explained by the aforementioned decrease in finance costs and increase in the share of profits of associates and joint ventures, as well as the results from the disposal and deconsolidation of subsidiaries.

#### *Income tax expense*

Income tax expense comprises both current and deferred income tax. Pursuant to the rules and regulations of Jersey, the Company was not required to pay any income tax in these jurisdictions. The Company's applicable tax rate was 0% in Jersey. 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%; Cyprus of 12.5%; Guinea of 0%; China of 25%; Kazakhstan of 20%; Australia of 30%; Jamaica of 25%; Ireland of 12.5% and Sweden of 22%. For the Group's subsidiaries domiciled in Switzerland the applicable tax rate for the year is the corporate income tax rate in the Canton of Zug, Switzerland, which differs depending on the company's tax status. The rate consists of a federal income tax and a 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 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 years ended 31 December 2015 and 31 December 2014.

The Group's income tax expense increased by U.S.\$44 million, or 16.9%, to U.S.\$304 million for 2016 from U.S.\$260 million for 2015 as a result of higher profit before taxation in 2016 as compared to 2015.

The Group's income tax expense increased by U.S.\$140 million, or 116.7%, to U.S.\$260 million for 2015 from U.S.\$120 million for 2014 as a result of profit before taxation in 2015 as compared to a loss before taxation in 2014.

#### *Profit/(loss) for the year*

For the reasons described above, the Group had profit for the year of U.S.\$1,361 million for 2016 as compared to profit for the year of U.S.\$580 million for 2015 and a loss of U.S.\$624 million for 2014. In 2016 and 2015, En+ Power and RUSAL were profitable in comparison to 2014, when both business segments made losses.

### **Operating and Financial Review by Segment**

The following operating and financial review concentrates on discussion and analysis of results of the operations of the Group's business segments: En+ Power and RUSAL. En+ Power predominantly consists of the Power Segment, and also includes the Coal Segment and the Logistics Segment, both of which support the operations of the Power Segment, and the Other Segment. The Other Segment includes KRAMZ (an aluminium processing plant) and SMR (a molybdenum and ferromolybdenum producer). The Group's other (unallocated) operations that are not reportable separately due to their immateriality are included into En+ Power. RUSAL, which also includes an equity investment in Norilsk Nickel, is equivalent to the Metals Segment.



The Company's management believes that the division of the results of the Group's operations into En+ Power and RUSAL enables investors and analysts to assess the part the Group's business (primarily power operations supported by coal and logistics businesses) which is under the Company's direct day-to-day operational management. The Company maintains strategic control in RUSAL through a 48.13% interest and contractual rights contained in the shareholders' agreement with non-controlling shareholders of RUSAL (including the right to propose for nomination for appointment the CEO of RUSAL, at least 50% of the board of directors and two independent directors) without having day-to-day control over its operations (see also "*Basis of Consolidation*").

In its comparison of period-to-period results of operations, the Group presents its results of operations on a consolidated basis after intersegmental eliminations, in order to analyse changes, developments and trends by reference to the individual segment's results of operations (En+ Power and RUSAL). Amounts attributable to En+ Power and RUSAL are presented prior to intersegmental eliminations between the two segments. All operations between entities within En+ Power are eliminated.

### *En+ Power*

The En+ Power includes assets and operations involved in production and supply of electricity and heat, as well as supporting the coal and operations of logistics segments. For reporting purposes, En+ Power also includes insignificant operations of KRAMZ and SMR.

### *Selected financial data*

The following table sets forth selected data of En+ Power (before intersegmental elimination) for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Revenues</b> . . . . .	1,599	1,152	2,482	2,459	3,426
Cost of sales . . . . .	(909)	(710)	(1,469)	(1,578)	(2,347)
<b>Gross profit</b> . . . . .	<b>690</b>	<b>442</b>	<b>1,013</b>	<b>881</b>	<b>1,079</b>
Distribution expenses . . . . .	(108)	(77)	(192)	(107)	(170)
General and administrative expenses . . . . .	(107)	(80)	(178)	(198)	(337)
Impairment of non-current assets . . . . .	(4)	(4)	(26)	(11)	(265)
Other operating (expenses)/income, net . . . . .	(23)	20	(12)	(4)	(152)
<b>Results from operating activities</b> . . . . .	<b>448</b>	<b>301</b>	<b>605</b>	<b>561</b>	<b>155</b>
Share of profits of associates and joint ventures . . . . .	—	—	(1)	—	(15)
Dividend income . . . . .	—	—	120	120	—
Finance income . . . . .	21	40	69	13	16
Finance costs . . . . .	(282)	(198)	(362)	(497)	(829)
<b>Profit/(loss) before taxation</b> . . . . .	<b>187</b>	<b>143</b>	<b>431</b>	<b>197</b>	<b>(673)</b>
Income tax expense . . . . .	(67)	(87)	(129)	(55)	118
<b>Profit/(loss) for the period</b> . . . . .	<b>120</b>	<b>56</b>	<b>302</b>	<b>142</b>	<b>(555)</b>

*Selected operating data*

The following table sets forth En+ Power's key operating data for the periods indicated:

		Six months ended 30 June		Year ended 31 December		
		2017	2016	2016	2015	2014
<b>Production volumes</b>						
Electricity <sup>(1)</sup> . . . . .	<i>GWh</i>	33,917	32,169	69,498	65,507	75,369
HPPs . . . . .	<i>GWh</i>	27,347	25,175	56,714	52,421	62,891
CHPs . . . . .	<i>GWh</i>	6,570	6,994	12,784	13,086	12,478
Heat . . . . .	<i>Gcal</i>	14,611,560	14,959,702	27,362,622	26,409,464	27,710,179
<b>Transmission and distribution<sup>(2)</sup></b>						
Power transmission and distribution . . . .	<i>GWh</i>	23,366	22,184	43,905	45,595	45,708
<b>Purchase volumes</b>						
Electricity . . . . .	<i>GWh</i>	11,132	9,990	20,732	22,112	22,589
Capacity . . . . .	<i>MW/year</i>	10,476	8,465	15,308	14,643	19,703
<b>Sales volumes<sup>(2)</sup></b>						
Electricity . . . . .	<i>GWh</i>	41,883	38,805	83,732	80,239	84,706
Capacity . . . . .	<i>MWh/year</i>	85,910	84,882	171,395	169,965	165,413
Heat . . . . .	<i>Gcal</i>	12,809,967	13,075,906	23,928,657	23,326,265	24,579,039
Power transmission . . . .	<i>GWh</i>	15,436	15,158	30,578	30,937	30,588
<b>Revenues<sup>(2)</sup></b>						
Electricity . . . . .	<i>U.S.\$ million</i>	974	670	1,431	1,428	1,848
Heat . . . . .	<i>U.S.\$ million</i>	222	180	352	350	550
Other . . . . .	<i>U.S.\$ million</i>	403	302	699	681	1,028
<b>Total</b> . . . . .	<i>U.S.\$ million</i>	<b>1,599</b>	<b>1,152</b>	<b>2,482</b>	<b>2,459</b>	<b>3,426</b>

Notes:

- (1) Including generation of Ondskaya HPP of 191 MWh in the first half of 2017, 178 MWh in the first half of 2016, 396 MWh in 2016, 297 MWh in 2015. Ondskaya HPP was acquired in October 2014 and leased by RUSAL. For 2014, including Bratsk HPP production of 6.2 MWh which was supplied directly to RUSAL under the lease agreement with regard to certain facilities.
- (2) Presents 100% results for the Group's consolidated subsidiaries, including not wholly-owned by the Group.

**En+ Power's results of operations for the six months ended 30 June 2017 and 2016**

**Revenues**

The following table sets forth components of En+ Power's revenues (before intersegmental elimination) for the periods indicated:

	Six months ended 30 June	
	2017	2016
	(U.S.\$ millions)	
Sales of electricity . . . . .	716	513
—day-ahead market . . . . .	177	174
—regulated contracts . . . . .	4	4
—balancing market . . . . .	24	18
—free bilateral contracts . . . . .	219	90
—retail . . . . .	292	227
Sales of capacity . . . . .	258	157
—regulated contracts . . . . .	10	6
—KOM . . . . .	248	140
—free bilateral contracts . . . . .	—	11
Sales of heat . . . . .	222	180
Sales of semi-finished products . . . . .	108	90
Sales of ferromolybdenum . . . . .	32	25
Other revenues . . . . .	263	187
<b>Total . . . . .</b>	<b><u>1,599</u></b>	<b><u>1,152</u></b>

The following table sets forth En+ Power's sales volumes of electricity, capacity, heat and power transmission for the periods indicated:

		Six months ended 30 June	
		2017	2016
<b>Sales volumes<sup>(1)</sup></b>			
Electricity . . . . .	<i>GWh</i>	41,883	38,805
—day-ahead market . . . . .	<i>GWh</i>	11,734	13,634
—regulated contracts . . . . .	<i>GWh</i>	1,833	1,832
—balancing market . . . . .	<i>GWh</i>	2,330	1,720
—free bilateral contracts . . . . .	<i>GWh</i>	16,795	12,539
—retail . . . . .	<i>GWh</i>	9,192	9,079
Capacity . . . . .	<i>MW/year</i>	85,910	84,882
—regulated contracts . . . . .	<i>MW/year</i>	9,960	7,739
—KOM . . . . .	<i>MW/year</i>	75,950	58,897
—free bilateral contracts . . . . .	<i>MW/year</i>	—	18,245
Heat . . . . .	<i>Gcal</i>	12,809,967	13,075,906
Power transmission . . . . .	<i>GWh</i>	15,436	15,158

Note:

(1) Presents 100% results for the Group's consolidated subsidiaries, including not wholly-owned by the Group.

En+ Power's revenues increased by U.S.\$447 million, or 38.8%, to U.S.\$1,599 million for the first half of 2017 from U.S.\$1,152 million for the first half of 2016. En+ Power's revenues in rouble terms increased by 14.5% in the first half of 2017 as compared to the first half of 2016 primarily due to the conclusion of the new long-term power supply contracts between En+ Power and RUSAL, increased generation volumes and 100% capacity price liberalization.

Electricity generation increased from 32.2 TWh in the first half of 2016 to 33.9 TWh in the first half of 2017, in line with consumption and demand. The HPPs generated 27.3 TWh of electricity, or 80.6% of total electricity generated by En+ Power in the first half of 2017 and 25.2 TWh of electricity, or 78.3% of total electricity generated by En+ Power in 2016. The increased share of HPPs in generation can be primarily explained by higher water inflows at the reservoirs of HPPs of En+ Power.

En+ Power sells electricity to RUSAL pursuant to long-term and short-term sales agreements. In aggregate, for the first half of 2017 and 2016, the amount sold under the sales agreements with RUSAL was U.S.\$328 million and U.S.\$142 million, respectively.

Irkutsk GridCo also occasionally enters into miscellaneous electricity and capacity transmission contracts with RUSAL. For the first half of 2017 and 2016, the sales under the miscellaneous electricity and capacity transmission contracts were U.S.\$77 million and U.S.\$54 million, respectively.

In October 2016, En+ Power entered into new long-term power supply agreements with RUSAL effective from 1 November 2016 and 1 January 2017, replacing previous arrangements that had been in place since November and December 2009. The long-term contracts, as renegotiated, provide for the supply of electricity to RUSAL's aluminium smelters located in Bratsk, Irkutsk and Krasnoyarsk, generally at a rate 3.5% below market price (on a day-ahead market basis). Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The 3.5% discount does not apply to any electricity supplied to the aluminium smelters which is in excess of such annual maximum amounts. Also, these agreements do not include the sale of capacity.

#### *Cost of sales*

The following table sets forth components of En+ Power's cost of sales (before intersegmental elimination) for the years indicated:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(U.S.\$ millions)</b>	
Electricity and capacity purchased for resale . . . . .	214	175
Personnel expenses . . . . .	182	143
Depreciation, depletion and amortisation . . . . .	121	88
Cost of raw materials and fuel . . . . .	77	63
Aluminium . . . . .	74	59
Electricity transportation costs . . . . .	93	50
Gas . . . . .	42	31
Other . . . . .	106	101
<b>Total cost of sales . . . . .</b>	<b><u>909</u></b>	<b><u>710</u></b>

For the first half of 2017, En+ Power's cost of sales was U.S.\$909 million, an increase of U.S.\$199 million, or 28.0%, as compared to U.S.\$710 million for the first half of 2016. The increase is explained by a 5.7% growth of all cost of sales items in rouble terms in the first half of 2017 as compared to the first half of 2016, reflecting increased costs in the principal components underlying En+ Power's aggregate cost of sales.

#### *Gross profit*

For the reasons discussed above, En+ Power's gross profit increased by U.S.\$248 million, or 56.1%, to U.S.\$690 million for the first half of 2017 from U.S.\$442 million for the first half of 2016. En+ Power's Gross Profit Margin improved from 38.4% for the first half of 2016 to 43.2% for the first half of 2017.

#### *Distribution expenses*

The distribution expenses of En+ Power primarily consist of transportation costs and personnel expenses.

The distribution expenses of En+ Power increased by U.S.\$31 million, or 40.3%, from U.S.\$77 million for the first half of 2016 to U.S.\$108 million for the first half of 2017. The increase was primarily attributable to an increase in sales and transportation volumes and in railway tariffs.

### *General and administrative expenses*

The general and administrative expenses of En+ Power consist mainly of the salaries and wages of administrative personnel and professional services costs, including costs incurred by consulting, legal, audit advisers.

For the first half of 2017, the general and administrative expenses of En+ Power were U.S.\$107 million, an increase of U.S.\$27 million, or 33.8%, as compared to U.S.\$80 million for the first half of 2016. The increase was primarily attributable to a foreign currency translation from functional currency to presentation currency, due to the appreciation of the rouble against the dollar, as well as due to an increase in rouble terms by 10.4% mainly to the increase in property tax caused by acquisition of dams and growth of water tax.

### *Impairment of non-current assets*

For the first half of 2017 and 2016, En+ Power recorded impairment of non-current assets of U.S.\$4 million.

### *Net other operating expenses*

For the first half of 2017, net other operating expenses of En+ Power were U.S.\$23 million, compared to net other operating income of U.S.\$20 million for the first half of 2016. This change was mainly due to increase in bad debt provision for account receivables.

### *Results from operating activities*

For the reasons described above, the results from operating activities of En+ Power increased by U.S.\$147 million, or 48.8%, to U.S.\$448 million for the first half of 2017 from U.S.\$301 million for the first half of 2016. The operating profit margin improved from 26.1% in the first half of 2016 to 28.0% in the first half of 2017.

### *Finance income*

The finance income of En+ Power decreased by U.S.\$19 million, or 47.5%, to U.S.\$21 million for the first half of 2017 from U.S.\$40 million for the first half of 2016 as a result of: (i) a decrease in income from payables discounting related to the purchase of Irkutskenergo shares from Inter RAO; and (ii) a net foreign exchange gain of U.S.\$13 million in the first half of 2017 as compared to foreign exchange gain of U.S.\$nil million in the first half of 2016 as a result of revaluation of the dollar-denominated loans.

### *Finance costs*

The finance costs of En+ Power increased by U.S.\$84 million, or 42.4%, to U.S.\$282 million for the first half of 2017 from U.S.\$198 million for the first half of 2016 primarily due to increase in interest expenses to U.S.\$268 million for the first half of 2017 from U.S.\$198 million for the first half of 2016 as a result of the increase in the debt portfolio in the first half of 2017 as compared to the first half of 2016.

### *Profit before taxation*

Due to the reasons described above, En+ Power had profit before taxation of U.S.\$187 million for the first half of 2017 compared to profit before taxation of U.S.\$143 million for the first half of 2016. The improved results of operations of En+ Power during this period are primarily explained by enhanced results from operating activities.

### *Income tax expense*

Income tax expense is comprised of a current and deferred income tax expense, or benefit. The income tax expense of En+ Power decreased by U.S.\$20 million, or 23.0%, to U.S.\$67 million for the first half of 2017 from U.S.\$87 million for the first half of 2016. The current tax expense increased by U.S.\$39 million during this period as a result of the higher profit before taxation for the first half of 2017. In the first half of 2017, deferred tax income increased by U.S.\$61 million.

*Profit for the period*

For the reasons described above, in the first half of 2017 En+ Power had profit for the period of U.S.\$120 million, compared to profit for the period of U.S.\$56 million for the first half of 2016. The Net Profit Margin of En+ Power improved from 4.9% for the first half of 2016 to 7.5% for the first half of 2017.

***En+ Power's results of operations for the years ended 31 December 2016, 2015 and 2014***

*Revenues*

The following table sets forth components of En+ Power's revenues (before intersegmental elimination) for the years indicated:

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(U.S.\$ millions)		
Sales of electricity . . . . .	1,087	1,125	1,571
—day-ahead market . . . . .	346	403	595
—regulated contracts . . . . .	8	9	13
—balancing market . . . . .	38	53	58
—free bilateral contracts . . . . .	226	185	187
—retail . . . . .	469	475	718
Sales of capacity . . . . .	344	303	277
—regulated contracts . . . . .	15	21	39
—KOM . . . . .	305	271	225
—free bilateral contracts . . . . .	24	11	13
Sales of heat . . . . .	352	350	550
Sales of semi-finished products . . . . .	187	201	322
Sales of ferromolybdenum . . . . .	51	51	83
Other revenues . . . . .	461	429	623
<b>Total . . . . .</b>	<b><u>2,482</u></b>	<b><u>2,459</u></b>	<b><u>3,426</u></b>

The following table sets forth En+ Power's sales volumes of electricity, capacity, heat and power transmission for the periods indicated:

		<b>Year ended 31 December</b>		
		<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Sales volumes<sup>(1)</sup></b>				
Electricity . . . . .	<i>GWh</i>	83,732	80,239	84,706
—day-ahead market . . . . .	<i>GWh</i>	28,636	28,213	32,298
—regulated contracts . . . . .	<i>GWh</i>	4,468	5,367	4,841
—balancing market . . . . .	<i>GWh</i>	4,088	4,428	3,576
—free bilateral contracts . . . . .	<i>GWh</i>	28,760	24,903	25,441
—retail . . . . .	<i>GWh</i>	17,780	17,327	18,550
Capacity . . . . .	<i>MW/year</i>	171,395	169,965	165,413
—regulated contracts . . . . .	<i>MW/year</i>	18,039	27,826	26,539
—KOM . . . . .	<i>MW/year</i>	116,115	126,155	122,525
—free bilateral contracts . . . . .	<i>MW/year</i>	37,241	15,984	16,349
Heat . . . . .	<i>Gcal</i>	23,928,657	23,326,265	24,579,039
Power transmission . . . . .	<i>GWh</i>	30,578	30,937	30,588

Note:

(1) Presents 100% results for the Group's consolidated subsidiaries, including not wholly-owned by the Group.

En+ Power's revenues increased by U.S.\$23 million, or 0.9%, to U.S.\$2,482 million for 2016 from U.S.\$2,459 million for 2015 which, in turn, decreased by U.S.\$967 million, or 28.2%, from U.S.\$3,426 million for 2014. En+ Power's revenues in rouble terms increased by 11.0% in 2016, as compared to 2015. The decrease in En+ Power's revenues in dollar terms in 2015 as compared to 2014 was mainly due to a foreign currency translation from functional currency to presentation currency, due to the

significant devaluation of the rouble against the dollar. In 2015, En+ Power's revenues in rouble terms increased by 13.9%, as compared to 2014.

In comparison to the preceding year, in both 2016 and 2015, En+ Power's revenues, in rouble terms, increased primarily as a result of an increase in the proportion of electricity and capacity sold at unregulated prices, as well as an increase in weighted average prices for electricity and capacity and the increase in heat tariffs. Both increases were partially offset by a decrease in the sales volumes of electricity and heat, due to lower consumption as a result of higher temperatures during the winter months in 2015 as compared to 2014.

En+ Power's electricity generation decreased from 75.4 TWh in 2014 to 65.5 TWh in 2015 and then increased to 69.5 TWh in 2016, in line with consumption and demand. The HPPs generated 62.9 TWh of electricity or 83.4% of total electricity generated by En+ Power in 2014, 52.4 TWh of electricity or 80.0% of total electricity generated by En+ Power in 2015, and 56.7 TWh of electricity or 81.6% of total electricity generated by En+ Power in 2016. The decreased share of HPPs in generation can be primarily explained by lower water inflows during 2014-2015 at the reservoirs of HPPs of En+ Power. The decreased hydro power generation by the Siberian HPPs resulted in increased prices for electricity in the Siberian IPS. While En+ Power was able to partially offset the decrease in electricity production from its HPPs through an increase in electricity production from its CHPs, electricity production from CHPs is less cost-efficient than from HPPs.

In 2014, the weighted average sale price for electricity to RUSAL was RUB283 per MWh as compared to RUB451 per MWh in 2015 and RUB525 per MWh in 2016.

En+ Power sells electricity to RUSAL pursuant to long-term and short-term sales agreements. In aggregate, for 2016, 2015 and 2014, the amount sold under the sales agreements with RUSAL were U.S.\$339 million, U.S.\$302 million and U.S.\$332 million, respectively.

Irkutsk GridCo also, from time to time, enters into miscellaneous electricity and capacity transmission contracts with RUSAL. For 2016, 2015 and 2014, the sales under the miscellaneous electricity and capacity transmission contracts were U.S.\$124 million, U.S.\$115 million and U.S.\$168 million, respectively.

In October 2016, En+ Power entered into new long-term power supply agreements with RUSAL effective from 1 November 2016 and 1 January 2017, replacing previous arrangements that had been in place since November and December 2009. In November 2014, the long-term power supply agreement for the Krasnoyarsk aluminium smelter was suspended. The parties renegotiated these long-term power supply contracts to reflect the price for electricity with reference to the wholesale market in Siberia. The long-term contracts, as renegotiated, provide for the supply of electricity to RUSAL's aluminium smelters located in Bratsk, Irkutsk and Krasnoyarsk, generally at a rate 3.5% below market price (on a day-ahead market basis). The agreements also provide for volumes of electricity to be supplied each year. For example, in 2017, the Company's power subsidiaries are contracted to supply to RUSAL up to 37.6 TWh of electricity, which is equivalent to 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in 2016. The 3.5% discount does not apply to any electricity supplied to the aluminium smelters which is in excess of such annual maximum amounts. Also, these agreements do not include the sale of capacity. The Company estimates that if the renegotiated contracts had been in place for the full year ended 31 December 2016, the positive effect on En+ Power would have been approximately U.S.\$180 million for 2016, assuming: (i) the supply of electricity in the total amount of 37.6 TWh which En+ Power has contracted to sell to RUSAL in 2017; (ii) the weighted average price of electricity on the day-ahead market in the Siberian IPS in 2016 less 3.5% of discount; and (iii) the full liberalisation of the capacity market for HPPs in the Siberian IPS was in place from 1 January 2016 (which actually occurred with effect from 1 May 2016). The additional positive effect on En+ Power of approximately U.S.\$20 million, which is unrelated to the long-term agreements, is based on the assumption that the full liberalisation of the capacity market for HPPs in the Siberian IPS was in place from 1 January 2016 (which actually occurred with effect from 1 May 2016).

### Cost of sales

The following table sets forth components of En+ Power's cost of sales (before intersegmental elimination) for the years indicated:

	Year ended 31 December		
	2016	2015	2014
	(U.S.\$ millions)		
Electricity and capacity purchased for resale . . . . .	344	366	516
Personnel expenses . . . . .	296	309	468
Depreciation, depletion and amortisation . . . . .	183	134	220
Cost of raw materials and fuel . . . . .	140	152	198
Aluminium . . . . .	124	145	223
Electricity transportation costs . . . . .	115	114	197
Gas . . . . .	67	68	115
Other . . . . .	200	290	410
<b>Total cost of sales . . . . .</b>	<b><u>1,469</u></b>	<b><u>1,578</u></b>	<b><u>2,347</u></b>

For 2016, En+ Power's cost of sales was U.S.\$1,469 million, a decrease of U.S.\$109 million, or 6.9%, as compared to U.S.\$1,578 million for 2015. While En+ Power's cost of sales decreased in dollar terms, due to foreign currency translation from functional currency to presentation currency and the significant devaluation of the rouble against the dollar, in rouble terms, En+ Power's cost of sales for 2016 (before foreign currency translations) actually increased by 2.4% as compared to 2015, due to the growth in principal components of cost of sales (such as depreciation, electricity and capacity purchased for resale, raw materials and fuel). The increase in the cost of raw materials and fuel in 2016 was primarily due to the increased production by CHPs during this period in rouble terms.

For 2015, En+ Power's cost of sales was U.S.\$1,578 million, a decrease of U.S.\$769 million, or 32.8%, compared to U.S.\$2,347 million for 2014. While cost of sales of En+ Power decreased in dollar terms due to a foreign currency translation from functional currency to presentation currency pursuant to the significant devaluation of the rouble against the dollar, in rouble terms, cost of sales for 2015 increased by 6.7% as compared to 2014 due to growth in the principal components of cost of sales (such as the raw materials for maintenance and repair, fuel, and electricity and capacity purchased for resale) at a rate lower than the rate of inflation in Russia. The increase in raw materials and fuel is primarily due to the increased production by CHPs, as a result of the lower production by HPPs, resulting from reduced water inflow at reservoirs.

### Gross profit

For the reasons discussed above, En+ Power's gross profit increased by U.S.\$132 million, or 15.0%, to U.S.\$1,013 million for 2016 from U.S.\$881 million for 2015 which, in turn, decreased by U.S.\$198 million, or 18.4%, from U.S.\$1,079 million for 2014. While the gross profit increased in 2016 as compared to 2015, cost of sales decreased by 6.9% and revenue increased by 0.9%, which resulted in the increase in the gross profit margin from 35.8% in 2015 to 40.8% in 2016. While the gross profit decreased in 2015 as compared to 2014, cost of sales decreased at a higher pace (32.8%) than revenue (28.2%), which resulted in the increase in the gross profit margin from 31.5% in 2014 to 35.8% in 2015.

### Distribution expenses

The distribution expenses of En+ Power primarily consist of transportation costs, which accounted for 72.7%, 53.1% and 62.3% of distribution expenses of En+ Power for 2016, 2015 and 2014, respectively, as well as personnel expenses, which accounted for 14.7%, 26.7% and 21.5% of distribution expenses of En+ Power for 2016, 2015 and 2014, respectively.

The distribution expenses of En+ Power increased by U.S.\$85 million, or 79.4%, from U.S.\$107 million for 2015 to U.S.\$192 million for 2016. The increase was primarily attributable to an increase in sales and transportation volumes and in railway tariffs.

The distribution expenses of En+ Power decreased by U.S.\$63 million, or 37.1%, from U.S.\$170 million for 2014 to U.S.\$107 million for 2015. The decrease in dollar terms was primarily attributable to a foreign currency translation from functional currency to presentation currency because of the significant devaluation of the rouble against the dollar.



### *General and administrative expenses*

The general and administrative expenses of En+ Power consist mainly of the salaries and wages of administrative personnel and professional services costs, including costs incurred by consulting, legal, audit advisers. For 2016, the general and administrative expenses of En+ Power were U.S.\$178 million, a decrease of U.S.\$20, or 10.1%, as compared to U.S.\$198 million for 2015. The decrease was primarily attributable to a foreign currency translation from functional currency to presentation currency, due to the significant devaluation of the rouble against the dollar, as well as a 1.1% decrease in rouble terms.

For 2015, the general and administrative expenses of En+ Power were U.S.\$198 million, a decrease of U.S.\$139 million, or 41.2%, as compared to U.S.\$337 million for 2014. The decrease in dollar terms was primarily attributable to a foreign currency translation from functional currency to presentation currency, pursuant to the significant devaluation of the rouble against the dollar, as well as a 6.8% decrease in rouble terms.

### *Impairment of non-current assets*

For 2016, En+ Power had impairment of non-current assets of U.S.\$26 million, an increase of U.S.\$15 million, or 136.4%, as compared to U.S.\$11 million for 2015. The increase was mainly due to an impairment of certain non-core assets of U.S.\$20 million.

For 2015, En+ Power had impairment of non-current assets of U.S.\$11 million, a decrease of U.S.\$254 million from U.S.\$265 million for 2014. The decrease was primarily due to impairment of property, plant and equipment of both coal assets and Irkutsk GridCo of U.S.\$248 million in 2014, following the impairment testing.

### *Net other operating (expenses)/income*

For 2016, net other operating expenses of En+ Power were U.S.\$12 million, compared to U.S.\$4 million of net other operating expenses for 2015. This change was mainly due to the reversal of a provision related to the delayed payment of rent to RusHydro in the amount of U.S.\$17 million in 2015.

For 2015, En+ Power had net other operating expenses of U.S.\$4 million, compared to net other operating expenses of U.S.\$152 million for 2014. This change was mainly due to a decrease to the provision for trade receivables and the reversal of a provision for legal claims. In 2014, the Group created provisions of U.S.\$27 million in relation to the operating dam lease. In 2015, following a court decision the provision in the amount of U.S.\$17 million was reversed.

### *Results from operating activities*

For the reasons described above, the results from operating activities of En+ Power increased by U.S.\$44 million, or 7.8%, to U.S.\$605 million for 2016 from U.S.\$561 million for 2015 which, in turn, increased by U.S.\$406 million from U.S.\$155 million for 2014. The operating profit margin improved from 4.5% in 2014 to 22.8% in 2015 and 24.4% in 2016.

### *Dividends received*

En+ Power received dividends of U.S.\$120 million in 2016, U.S.\$120 million in 2015 and nil in 2014. The dividends received represent payments by RUSAL to En+ Power which holds the 48.13% interest in RUSAL. Following the consolidation under IFRS, the amount of dividends is eliminated and therefore, there is no separate line item in the face of the Financial Statements.

### *Finance income*

The finance income of En+ Power increased by U.S.\$56 million, or 430.8%, to U.S.\$69 million for 2016 from U.S.\$13 million for 2015 primarily as a result of net foreign exchange gain in the amount of U.S.\$41 million in 2016 as compared to net foreign exchange loss in 2015 and, to a lesser extent, as interest on bank deposits.

The finance income of En+ Power decreased by U.S.\$3 million, or 18.8%, to U.S.\$13 million for 2015 from U.S.\$16 million for 2014. The decrease in dollar terms was primarily attributable to a foreign currency translation from functional currency to presentation currency, due to the significant devaluation of the rouble against the dollar.

### *Finance costs*

The finance costs of En+ Power decreased by U.S.\$135 million, or 27.2%, to U.S.\$362 million for 2016 from U.S.\$497 million for 2015, primarily due to net foreign exchange losses in 2015. The finance costs of En+ Power decreased by U.S.\$332 million, or 40.0%, to U.S.\$497 million for 2015 from U.S.\$829 million for 2014. The decrease in dollar terms is mainly due to a foreign currency translation from functional currency to presentation currency, which was partially offset by the increase of interest expenses. The decrease in net foreign exchange loss which was driven by a continuing depreciation of the rouble against the dollar and the resulting revaluation of outstanding loans and borrowings denominated in dollars, while the functional currency is the rouble. The increase in interest expenses was mainly due to the increase in the Group's debt portfolio, which was a result of new loans received for purchase of shares in Irkutskenergo and previously leased dams.

### *Profit/(Loss) before taxation*

Due to the reasons set out above, En+ Power had profit before taxation of U.S.\$431 million for 2016 compared to profit before taxation of U.S.\$197 million for 2015 and a loss before taxation of U.S.\$673 million for 2014. The improved results of operations of En+ Power during this period can primarily be explained by enhanced results from operating activities, the increase in finance income and the significant decrease in finance costs.

### *Income tax expense*

Income tax expense is comprised of a current and deferred income tax expense, or benefit. The income tax expense of En+ Power increased by U.S.\$74 million, or 134.5%, to U.S.\$129 million for 2016 from U.S.\$55 million for 2015 as a result of higher profit before tax in 2016 as compared to 2015. The current tax expense increased by U.S.\$71 million during this period, as a result of the higher profit before tax in 2016 as compared to 2015. The deferred tax benefit decreased by U.S.\$3 million during this period.

The En+ Power had an income tax expense of U.S.\$55 million in 2015 as compared to an income tax benefit of U.S.\$118 million for 2014. The current tax expense increased by U.S.\$98 million as a result of profit before tax in 2015, compared to a loss in 2014. The deferred tax benefit decreased by U.S.\$75 million due to the utilisation of losses carried forward, which were previously considered unrecoverable.

### *Profit/(loss) for the year*

For the reasons described above, in 2016 En+ Power had profit for the year of U.S.\$302 million, compared to profit for the year of U.S.\$142 million for 2015 and a loss of U.S.\$555 million for 2014. The Net Profit Margin of En+ Power improved from negative 16.2% in 2014 to positive 5.8% in 2015 and further improved to positive 12.2% in 2016.

## **RUSAL**

RUSAL is the second largest aluminium producer globally with a high degree of vertical integration and operations throughout all major stages of aluminium production, from the mining of raw materials to the sale of value-added products to end users. With competitive mining and refinery operations covering the major material consumption needs of RUSAL's production facilities, and the historically low energy and low cost smelting operations located in Siberia, RUSAL has one of the lowest costs of production in the industry globally, according to CRU.

In the first half of 2017 and 2016, RUSAL accounted for 74.9% and 77.2% of the business segments' revenues (before adjustments), respectively. As at 30 June 2017, 31 December 2016, 2015 and 2014, the assets of RUSAL accounted for 58.9%, 58.0%, 67.2% and 68.4% of the Group's total assets (before adjustments), respectively.

### Selected financial data

The following table sets forth selected data of RUSAL (before intersegmental elimination) for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Revenues</b> . . . . .	4,764	3,896	7,983	8,680	9,357
Cost of sales . . . . .	(3,478)	(3,053)	(6,070)	(6,215)	(7,223)
<b>Gross profit</b> . . . . .	<b>1,286</b>	<b>843</b>	<b>1,913</b>	<b>2,465</b>	<b>2,134</b>
Distribution expenses . . . . .	(210)	(162)	(331)	(336)	(402)
General and administrative expenses . . . . .	(292)	(257)	(521)	(533)	(605)
(Impairment)/reversal of impairment of non-current assets . . . . .	(81)	(55)	44	(132)	(103)
Other operating (expenses)/income, net . . . . .	(43)	(1)	(37)	(55)	(82)
<b>Results from operating activities</b> . . . . .	<b>660</b>	<b>368</b>	<b>1,068</b>	<b>1,409</b>	<b>942</b>
Share of profits of associates and joint ventures . . . . .	297	439	848	368	536
Finance income . . . . .	32	14	19	23	30
Finance costs . . . . .	(491)	(526)	(879)	(1,132)	(1,361)
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income . . . . .	—	—	298	95	—
<b>Profit before tax</b> . . . . .	<b>498</b>	<b>295</b>	<b>1,354</b>	<b>763</b>	<b>147</b>
Income tax expense . . . . .	(28)	(34)	(175)	(205)	(238)
<b>Profit/(loss) for the period</b> . . . . .	<b>470</b>	<b>261</b>	<b>1,179</b>	<b>558</b>	<b>(91)</b>

### Selected operating data

The following table sets forth RUSAL's key operating data for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
<b>Production</b> (in thousands of tonnes)					
Aluminium . . . . .	1,831	1,835	3,685	3,645	3,601
Alumina . . . . .	3,817	3,724	7,528	7,402	7,253
Bauxite . . . . .	5,959	6,135	12,187	12,112	12,108
<b>Sales</b> (in thousands of tonnes)					
Sales of primary aluminium and alloys . . . . .	1,987	1,915	3,818	3,638	3,525
Sales of alumina . . . . .	1,024	1,131	2,267	1,722	1,743
Average sales price of primary aluminium and alloys (U.S.\$ per tonne) . . . . .	2,016	1,689	1,732	2,001	2,219
Average sales price of alumina (U.S.\$ per tonne) . . . . .	355	266	274	346	326
<b>Quoted prices</b> (U.S.\$ per tonne)					
Average aluminium price <sup>(1)</sup> . . . . .	1,880	1,543	1,604	1,663	1,866
Average alumina price <sup>(2)</sup> . . . . .	318	286	253	303	330
<b>Other</b>					
Average premiums over aluminium price on LME <sup>(3)</sup> . . . . .	163	167	159	281	380

Notes:

- (1) Aluminium price per tonne quoted on the LME representing the average of the daily closing official prices for each period.
- (2) The average alumina price per tonne is based on the daily closing spot prices of alumina according to Non-ferrous Alumina Index Australia per tonne.
- (3) Average premiums over LME prices realised by RUSAL based on management accounts.

***RUSAL's results of operations for the six months ended 30 June 2017 and 2016***

***Revenues***

The following table sets forth components of RUSAL's revenues (before intersegmental elimination) for the periods indicated:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(U.S.\$ millions)</b>	
Sales of primary aluminium and alloys . . . . .	4,005	3,234
Sales of alumina . . . . .	364	301
Sales of foil and other aluminium products . . . . .	141	113
Other revenue . . . . .	254	248
<b>Total revenues . . . . .</b>	<b><u>4,764</u></b>	<b><u>3,896</u></b>

RUSAL's revenues increased by U.S.\$868 million, or 22.3%, to U.S.\$4,764 million for the first half of 2017 from U.S.\$3,896 million for the first half of 2016. The increase in total revenue was primarily due to the higher prices of primary aluminium and alloys, as well as increased sales volumes of primary aluminium and alloys. The sales of primary aluminium and alloys accounted for 84.1% and 83.0% of RUSAL's revenues for the first half of 2017 and 2016, respectively.

Revenues from sales of primary aluminium and alloys increased by U.S.\$771 million, or 23.8%, to U.S.\$4,005 million for the first half of 2017 from U.S.\$3,234 million in the first half of 2016. The increase in the first half of 2017 as compared to the first half of 2016 was primarily due to a 19.4% increase in the weighted-average realised aluminum price per tonne (to an average of U.S.\$2,016 per tonne in the first half of 2017 from U.S.\$1,689 per tonne in the first half of 2016) driven by an increase in the LME aluminium price (to an average of U.S.\$1,880 per tonne in the first half of 2017 from U.S.\$1,543 per tonne in the first half of 2016), as well as a 3.8% growth of sales volumes of primary aluminium and alloys. The increase in revenues was partially offset by a 2.4% decrease in premiums above the LME prices in the different geographical segments (to an average of U.S.\$163 per tonne from U.S.\$167 per tonne in the first half of 2017 and the first half of 2016, respectively).

Revenue from sales of alumina increased by U.S.\$63 million, or 20.9%, to U.S.\$364 million for the first half of 2017, compared to U.S.\$301 million for the first half of 2016. The increase was mostly attributable to a 33.5% growth in the average sales price for alumina, which was partially offset by a 9.5% decline in alumina sales volume.

Revenue from sales of foil and other aluminium products increased by U.S.\$28 million, or 24.8%, to U.S.\$141 million for the first half of 2017 from U.S.\$113 million for the first half of 2016. The increase was primarily attributable to a 19.4% increase in sales volumes.

Revenue from other sales, including sales of bauxite and energy, increased by U.S.\$6 million, or 2.4%, to U.S.\$254 million for the first half of 2017 from U.S.\$248 million for the first half of 2016. The increase was primarily attributable to an increase in sales of other materials (such as soda, corundum and building materials).

## Cost of sales

The following table sets forth components of RUSAL's cost of sales (before intersegmental elimination) for the periods indicated:

	Six months ended 30 June	
	2017	2016
	(U.S.\$ millions)	
Cost of alumina . . . . .	475	458
Cost of bauxite . . . . .	180	136
Cost of other raw materials and other costs . . . . .	1,136	925
Purchases of primary aluminium from joint ventures . . . . .	132	112
Energy costs . . . . .	1,049	795
Depreciation and amortisation . . . . .	234	221
Personnel expenses . . . . .	286	257
Repair and maintenance . . . . .	29	27
Net change in provisions for inventories . . . . .	(3)	(3)
Change in finished goods . . . . .	(40)	125
<b>Total cost of sales . . . . .</b>	<b><u>3,478</u></b>	<b><u>3,053</u></b>

For the first half of 2017, RUSAL's cost of sales increased by U.S.\$425 million, or 13.9%, to U.S.\$3,478 million from U.S.\$3,053 million for the first half of 2016. The increase was primarily driven by an increase in volumes of primary aluminium and alloys sold, as well as a significant increase in electricity prices, railway transportation tariffs and other raw material costs in rouble terms in the first half of 2017.

For the first half of 2017, cost of alumina increased by U.S.\$17 million, or 3.7%, to U.S.\$475 million from U.S.\$458 million for the first half of 2016. The increase was primarily a result of a 14.3% increase in alumina purchase price, as well as a 3.8% increase in the aggregate volume of sales of primary aluminium and alloys.

For the first half of 2017, cost of bauxite increased by U.S.\$44 million, or 32.4%, to U.S.\$180 million from U.S.\$136 million for the first half of 2016 primarily as a result of an increase in the purchase volume and a slight increase in the purchase price.

Cost of other raw materials (other than alumina and bauxite) and other costs increased by U.S.\$211 million, or 22.8%, to U.S.\$1,136 million for the first half of 2017 from U.S.\$925 million for the first half of 2016 due to a higher raw materials purchase price (such as raw pitch coke, which increased by 88.2%, raw petroleum coke, which increased by 15.0%, pitch, which increased by 50.0% and soda, which increased by 50.1%).

For the first half of 2017, purchases of primary aluminium from joint ventures increased by U.S.\$20 million, or 17.9%, to U.S.\$132 million from U.S.\$112 million in the first half of 2016 due to the further increase of production capacity at the Boguchansk aluminium smelter (the BEMO Project) which commenced aluminium production at the end of 2015. RUSAL purchases aluminium from the Boguchansk aluminium smelter under a long-term purchase commitment for further export.

For the first half of 2017, energy costs increased by U.S.\$254 million, or 31.9%, to U.S.\$1,049 million from U.S.\$795 million for the first half of 2016 primarily due to a 21.2% appreciation of the rouble against the dollar in the first half of 2017 as compared to the first half of 2016, as well as the effect of the new long-term agreement between En+ Power and RUSAL and the overall increase in weighted average prices for electricity on the day-ahead market in the Siberian IPS. RUSAL's energy costs attributable to the related parties—companies under common control (comprising En+ Power) increased by U.S.\$206 million, or 99.0%, to U.S.\$414 million for the first half of 2017 from U.S.\$208 million for the first half of 2016 which reflects the new long-term agreement between En+ Power and RUSAL, while energy costs attributable to the related parties—associates and joint ventures (comprising the Boguchansk HPP (the BEMO Project)) decreased to U.S.\$8 million for the first half of 2017 from U.S.\$105 million for the first half of 2016.

En+ Power sells electricity to RUSAL pursuant to long-term and short-term sales agreements. In aggregate, for the first half of 2017 and 2016, the amount sold under the sales agreements with En+ Power was U.S.\$328 million and U.S.\$142 million, respectively.

Irkutsk GridCo also, from time to time, enters into miscellaneous electricity and capacity transmission contracts with RUSAL, a consolidated subsidiary of En+ Power. For the first half of 2017 and 2016, the sales under the miscellaneous electricity and capacity transmission contracts were U.S.\$77 million and U.S.\$54 million, respectively.

In October 2016, En+ Power entered into new long-term power supply agreements with RUSAL effective from 1 November 2016 and 1 January 2017, replacing previous arrangements that had been in place since November and December 2009. The long-term contracts, as renegotiated, provide for the supply of electricity to RUSAL's aluminium smelters located in Bratsk, Irkutsk and Krasnoyarsk, generally at a rate 3.5% below market price (on a day-ahead market basis). Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The 3.5% discount does not apply to any electricity supplied to the aluminium smelters which is in excess of such annual maximum amounts. Also, these agreements do not include the sale of capacity.

For the first half of 2017, personnel expenses increased by U.S.\$29 million, or 11.3%, to U.S.\$286 million from U.S.\$257 million for the first half of 2016 primarily as a result of a 21.2% appreciation of the rouble against the dollar in the first half of 2017 as compared to the first half of 2016.

The finished goods mainly consist of primary aluminium and alloys. The dynamic of change between the periods under review was driven by the fluctuations of primary aluminium and alloys physical inventory between the reporting periods: 7.0% increase for the first half of 2017 as compared to 12.0% decrease for the first half of 2016.

#### *Gross profit*

For the reasons discussed above, RUSAL's gross profit increased by U.S.\$443 million, or 52.6%, to U.S.\$1,286 million for the first half of 2017 from U.S.\$843 million for the first half of 2016. The gross profit margin improved from 21.6% for the first half of 2016 to 27.0% for the first half of 2017.

#### *Distribution expenses*

The distribution expenses of RUSAL increased by U.S.\$48 million, or 29.6%, to U.S.\$210 million for the first half of 2017 from U.S.\$162 million for the first half of 2016. The increase was primarily attributable to the increase in transportation tariffs in rouble terms and a 17.5% appreciation of the rouble against the dollar in the first half of 2017 as compared to the first half of 2016.

#### *General and administrative expenses*

For the first half of 2017, general and administrative expenses of RUSAL increased by U.S.\$35 million, or 13.6%, to U.S.\$292 million from U.S.\$257 million for the first half of 2016. The increase in dollar terms was primarily attributable to a 17.5% appreciation of the rouble against the dollar during the first half of 2017 as compared to the first half of 2016.

#### *Impairment of non-current assets*

For the first half of 2017, RUSAL recorded an impairment of non-current assets of U.S.\$81 million, as compared to impairment of non-current assets of U.S.\$55 million for the first half of 2016. The impairment relates to certain of RUSAL's alumina and bauxite plants.

#### *Net other operating (expenses)/income*

For the first half of 2017, RUSAL had net other operating expenses of U.S.\$43 million, compared to net other operating income of U.S.\$1 million for the first half of 2016. RUSAL recorded the net operating expenses primarily due to the overall increase in other operating expenses denominated in roubles as a result of a 17.5% appreciation of the rouble against the dollar during the first half of 2017 as compared to the first half of 2016 and penalties of U.S.\$22 million paid in relation to a legal claim from a Swedish electricity supplier.

### *Results from operating activities*

For the reasons described above, the results from operating activities of RUSAL increased by U.S.\$292 million, or 79.3%, to U.S.\$660 million for the first half of 2017 from U.S.\$368 million for the first half of 2016. The operating profit margin improved from 9.4% in the first half of 2016 to 13.9% in the first half of 2017.

### *Share of profits of associates and joint ventures*

RUSAL's share of the profits of associates for the first half of 2017 and 2016 was U.S.\$244 million and U.S.\$370 million, respectively. RUSAL's share in the results of associates in the period under review primarily stemmed from the profit of U.S.\$244 million and U.S.\$370 million for the first half of 2017 and 2016, respectively, derived from the investment in Norilsk Nickel. The market value of the investment in Norilsk Nickel, based on the MOEX price, was U.S.\$6,012 million as at 30 June 2017.

RUSAL's share of profits of joint ventures was U.S.\$53 million and U.S.\$69 million for the first half of 2017 and 2016, respectively. This represents RUSAL's share of profits in joint ventures, namely the BEMO Project, LLP Bogatyr Komir, Mega Business and Alliance (transportation business in Kazakhstan) and North United Aluminium Shenzhen Co., Ltd.

### *Finance income*

The finance income of RUSAL increased by U.S.\$18 million to U.S.\$32 million for the first half of 2017 from U.S.\$14 million for the first half of 2016. The increase is primarily attributable to the net foreign exchange gain of U.S.\$23 million for the first half of 2017 as compared to the net foreign exchange loss of U.S.\$108 million for the first half of 2016. The foreign exchange gain was primarily due to the revaluation of working capital items of several subsidiaries of RUSAL denominated in foreign currencies.

### *Finance costs*

For the first half of 2017, the finance costs of RUSAL decreased by U.S.\$35 million, or 6.7%, to U.S.\$491 million from U.S.\$526 million for the first half of 2016. The decrease was primarily due to a net foreign exchange gain of U.S.\$23 million in the first half of 2017 as compared to a net foreign exchange loss of U.S.\$108 million in the first half of 2016 that was offset by (ii) an increase in interest expense on bank and company loans, bonds and other bank charges by U.S.\$56 million, or 19.0%, to U.S.\$351 million for the first half of 2017 from U.S.\$295 million for the first half of 2016 due to an increase in bank charges as a result of amortisation of previously capitalised arrangement fees following the restructuring of RUSAL's debt and (ii) a negative change in fair value of derivative financial instruments by 16.0% to U.S.\$138 million for the first half of 2017 from U.S.\$119 million for the first half of 2016 as a result of a significant improvement of LME and other commodities prices during the period under review that negatively affected the fair value of respective hedging instruments.

### *Profit/(loss) before taxation*

For the reasons described above, RUSAL had profit before taxation of U.S.\$498 million for the first half of 2017 as compared to profit before taxation of U.S.\$295 million for the first half of 2016. The improved results of operations of RUSAL are mainly explained by enhanced results from operating activities.

### *Income tax expense*

Income tax expense is comprised of a current and deferred income tax expense or a benefit.

RUSAL had a tax expense of U.S.\$28 million for the first half of 2017 as compared to an income tax expense of U.S.\$34 million for the first half of 2016.

For the first half of 2017, current tax expenses increased by U.S.\$20 million, or 39.2%, to U.S.\$71 million from U.S.\$51 million for the first half of 2016 mainly due to an increase in the taxable profits.

For the first half of 2017, deferred tax benefits increased by U.S.\$26 million, or 152.9%, to U.S.\$43 million from U.S.\$17 million for the first half of 2016 mainly due to the usage of accumulated tax losses in prior period.

### *Profit/(loss) for the period*

For the reasons described above, RUSAL had a profit of U.S.\$470 million for the first half of 2017, compared to a profit of U.S.\$261 million for the first half of 2016. The Net Profit Margin of RUSAL improved from 6.7% for the first half of 2016 to 9.9% for the first half of 2017.

### ***RUSAL's results of operations for the years ended 31 December 2016, 2015 and 2014***

#### *Revenues*

The following table sets forth components of RUSAL's revenue (before intersegmental elimination) for the years indicated:

	Year ended 31 December		
	2016	2015	2014
	(U.S.\$ millions)		
Sales of primary aluminium and alloys . . . . .	6,614	7,279	7,823
Sales of alumina . . . . .	622	595	569
Sales of foil . . . . .	240	270	303
Other revenue . . . . .	507	536	662
<b>Total revenues . . . . .</b>	<b><u>7,983</u></b>	<b><u>8,680</u></b>	<b><u>9,357</u></b>

RUSAL's revenues decreased by U.S.\$697 million, or 8.0%, to U.S.\$7,983 million for 2016 from U.S.\$8,680 million for 2015 which, in turn, decreased by U.S.\$677 million, or 7.2%, from U.S.\$9,357 million for 2014. The decrease in total revenue was primarily due to the lower prices of primary aluminium and alloys (as sales volumes increased), which accounted for 82.9%, 83.9% and 83.6% of RUSAL's revenues for 2016, 2015 and 2014, respectively.

Revenues from sales of primary aluminium and alloys decreased by U.S.\$665 million, or 9.1%, to U.S.\$6,614 million in 2016 from U.S.\$7,279 million in 2015, which in turn was a decrease of U.S.\$544 million, or 7.0%, from U.S.\$7,823 million in 2014. The decrease in 2016 as compared to 2015 was primarily due to a 13.4% decrease in the weighted-average realised aluminium price per tonne driven by a decrease in the LME aluminium price (to an average of U.S.\$1,604 per tonne in 2016 from U.S.\$1,663 per tonne in 2015), as well as a decrease in premiums above the LME prices in the different geographical segments (to an average of U.S.\$159 per tonne from U.S.\$281 per tonne in 2016 and 2015, respectively). In turn, the decrease in 2015 as compared to 2014 was primarily due to a 9.8% decrease in the weighted-average realised aluminium price per tonne for the respective period, which was driven by a decrease in the LME aluminium price (to an average of U.S.\$1,663 per tonne in 2015 from U.S.\$1,866 per tonne in 2014), as well as a decrease in the premiums above the LME prices in the different geographical segments (to an average of U.S.\$281 per tonne from U.S.\$380 per tonne in 2015 and 2014, respectively).

Revenue from sales of alumina increased by U.S.\$27 million, or 4.5%, to U.S.\$622 million for the year ended 31 December 2016, compared to U.S.\$595 million for 2015, which in turn was an increase of U.S.\$26 million, or 4.6%, from U.S.\$569 for 2014. The increase in 2016, compared to 2015, was mostly attributable to a 31.6% growth in alumina sales volume, whereas the increase in 2015, compared to 2014, was mostly attributable to a 6.1% growth in the average sales price.

Revenue from sales of foil decreased by U.S.\$30 million, or 11.1%, to U.S.\$240 million in 2016 from U.S.\$270 million in 2015, which in turn was an decrease of U.S.\$33 million, or 10.9%, from U.S.\$303 million in 2014. The decrease in 2016, compared to 2015, was primarily attributable to a 6.5% decrease in the weighted average sales price and a 4.9% decrease in sale volumes, whereas the decrease in 2015, compared to 2014, was primarily due to a 3.2% decrease in the weighted average sales price and an 8.0% decrease in sale volumes.

Revenue from other sales, including sales of other products, bauxite and energy services, decreased by 5.4% to U.S.\$507 million for 2016 from U.S.\$536 million for 2015, which in turn was a decrease of 19.0% from U.S.\$662 million for 2014. The decrease in 2016, compared to 2015, was primarily attributable to a 22.0% decrease in sales of other materials (such as silicon by 16.2%, soda by 12.2% and potassium sulphate by 48.9%), whereas the decrease in 2015, compared to 2014, was primarily due to a 48.8% decrease in sales of bauxite and an 11.3% decrease in sales of other materials.



RUSAL's customer base is diverse and only includes one major customer, Glencore, which is a 8.75% indirect shareholder of RUSAL. In 2016, revenue from sales of primary aluminium and alloys to Glencore amounted to U.S.\$2,322 million, compared to U.S.\$2,710 million in 2015 and U.S.\$2,745 million in 2014.

#### Cost of sales

The following table sets forth components of RUSAL's cost of sales (before intersegmental elimination) for the years indicated:

	Year ended 31 December		
	2016	2015	2014
	(U.S.\$ millions)		
Cost of alumina . . . . .	716	733	863
Cost of bauxite . . . . .	427	538	604
Cost of other raw materials . . . . .	2,131	2,189	2,591
Purchases of primary aluminium from joint ventures . . . . .	229	58	15
Energy costs . . . . .	1,568	1,680	1,929
Depreciation and amortisation . . . . .	434	434	435
Personnel expenses . . . . .	520	505	708
Repair and maintenance . . . . .	56	58	70
Net change in provisions for inventories . . . . .	(11)	20	8
<b>Total cost of sales . . . . .</b>	<b><u>6,070</u></b>	<b><u>6,215</u></b>	<b><u>7,223</u></b>

For 2016, RUSAL's cost of sales was U.S.\$6,070 million, a decrease of U.S.\$145 million, or 2.3%, compared to U.S.\$6,215 million for 2015. The decrease was primarily driven by the continuing depreciation of the rouble and the hryvnia against the dollar, by 10.0% and 17.0%, respectively, which was partially offset by the increase in volumes of primary aluminium and alloys sold. For 2015, RUSAL's cost of sales was U.S.\$6,215 million, a decrease of U.S.\$1,008 million, or 14.0%, from U.S.\$7,223 million for 2014. The decrease was primarily driven by the continuing depreciation of the rouble and the hryvnia against the dollar, by 58.7% and 83.3% respectively.

In 2016, the cost of alumina decreased by U.S.\$17 million, or 2.3%, to U.S.\$716 million, compared to U.S.\$733 million in 2015, which in turn represented a decrease of U.S.\$130 million, or 15.1%, from U.S.\$863 million in 2014. The decrease for both periods was primarily a result of a decrease in alumina transportation costs following the significant rouble depreciation and a slight decrease in the rail transportation tariff.

The cost of bauxite decreased by 20.6% to U.S.\$427 million in 2016 from U.S.\$538 million in 2015, primarily due to a decrease in the purchase price. In 2015, the cost of bauxite decreased by 10.9% as compared to U.S.\$604 million for 2014 due to a decrease in purchase volume.

The cost of raw materials (other than alumina and bauxite) and other costs decreased by 2.6% to U.S.\$2,131 million in 2016 compared to U.S.\$2,189 million in 2015 due to a lower raw materials purchase price (such as raw petroleum coke, which decreased by 30%, calcined petroleum coke, which decreased by 20.9%, and raw pitch coke, which decreased by 2.5%). In 2015, the cost of raw materials (other than alumina and bauxite) and other costs decreased by 15.5% from U.S.\$2,591 million for 2014 due to the lower raw materials purchase price (such as raw petroleum coke by 21.7%, calcined petroleum coke by 10.4%, raw pitch coke by 11.1%, pitch by 3.2%) and lower purchase volume in 2015 compared to 2014.

Purchases of primary aluminium from JV increased by 294.8% to U.S.\$229 million in 2016 from U.S.\$58 million in 2015 due to the commencement of aluminium production at the Boguchansk aluminium smelter (the BEMO Project) and further increase of its production capacity. RUSAL purchases aluminium from the Boguchansk aluminium smelter under a long-term purchase commitment for further export.

Energy cost decreased by 6.7% to U.S.\$1,568 million in 2016 from U.S.\$1,680 million in 2015, primarily due to the continuing depreciation of the rouble against the dollar and a 5.5% decrease in the average electricity tariff. In 2015, RUSAL's energy costs decreased by 12.9% to U.S.\$1,680 million, compared to U.S.\$1,929 million in 2014, primarily as a result of the continuing depreciation of the rouble against the dollar.

### *Gross profit*

For the reasons discussed above, RUSAL's gross profit decreased by U.S.\$552 million, or 22.4%, to U.S.\$1,913 million for 2016 from U.S.\$2,465 million for 2015, which, in turn, increased by U.S.\$331 million, or 15.5%, from U.S.\$2,134 million for 2014. The gross profit margin improved from 22.8% in 2014 to 28.4% in 2015, and decreased to 24.0% in 2016.

### *Distribution expenses*

The distribution expenses of RUSAL decreased by U.S.\$5 million, or 1.5%, from U.S.\$336 million for 2015 to U.S.\$331 million for 2016. The decrease was primarily attributable to the decrease in transportation tariffs and the continuing depreciation of the rouble against the dollar.

The distribution expenses of RUSAL decreased by U.S.\$66 million, or 16.4%, from U.S.\$402 million for 2014 to U.S.\$336 million for 2015. The decrease is primarily due to the decrease in railroad transportation tariffs, as well as the significant depreciation of the rouble against the dollar.

### *General and administrative expenses*

For 2016, general and administrative expenses of RUSAL were U.S.\$521 million, a decrease of U.S.\$12 million, or 2.3%, as compared to U.S.\$533 million for 2015, which in turn was a decrease of U.S.\$72 million, or 11.9%, from U.S.\$605 million for 2014. The decreases in dollar terms were primarily attributable to the significant devaluation of the rouble against the dollar during these periods.

### *Reversal of impairment/(impairment) of non-current assets*

For 2016, RUSAL recorded a reversal of impairment of non-current assets of U.S.\$44 million, as compared to impairment of non-current assets of U.S.\$132 million for 2015. This reversal of impairment of non-current assets in 2016 comprised the net results of a reversal of impairment of property, plant and equipment of U.S.\$113 million and an impairment of other non-current assets of U.S.\$69 million.

For 2015, RUSAL had impairment of non-current assets of U.S.\$132 million, an increase of U.S.\$29 million, or 28.2%, compared to U.S.\$103 million for 2014. The increase was primarily driven by the impairment of certain of RUSAL's alumina and bauxite plants.

### *Net other operating expenses*

For 2016, net other operating expenses of RUSAL decreased by U.S.\$18 million, or 32.7%, from U.S.\$55 million for 2015 to U.S.\$37 million for 2016.

For 2015, RUSAL had net other operating expenses of U.S.\$55 million, compared to U.S.\$82 million for 2014. The decrease was primarily due to the overall decrease of other operating expenses denominated in roubles.

### *Results from operating activities*

For the reasons described above, the results from operating activities of RUSAL decreased by U.S.\$341 million, or 24.2%, to U.S.\$1,068 million for 2016 from U.S.\$1,409 million for 2015 which, in turn, was an increase of U.S.\$467 million, or 49.6%, from U.S.\$942 million for 2014. The operating profit margin improved from 10.1% in 2014 to 16.2% in 2015 and decreased to 13.4% in 2016.

### *Share of profits of associates and joint ventures*

RUSAL's share in the profits of associates for 2016, 2015 and 2014 was U.S.\$688 million, U.S.\$193 million and U.S.\$501 million, respectively. RUSAL's share in the results of associates in the periods under review primarily stemmed from the profit of U.S.\$688 million, U.S.\$486 million and U.S.\$515 million for 2016, 2015 and 2014, respectively, derived from the investment in Norilsk Nickel. The market value of the investment in Norilsk Nickel, based on the MOEX price, was U.S.\$7,348 million as at 31 December 2016, U.S.\$5,542 million as at 31 December 2015 and U.S.\$6,388 million as at 31 December 2014.

The carrying value and market value of RUSAL's investment in Queensland Alumina Limited as at 31 December 2016, 2015 and 2014 amounted to U.S.\$nil, U.S.\$nil and U.S.\$327 million, respectively. 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

RUSAL's share of ownership to the resulting figure. As a result, RUSAL's share of the losses of associates for 2015 included impairment losses in an amount of U.S.\$283 million relating to RUSAL's investment in Queensland Alumina Limited. The Group recognised its share of impairment losses in Queensland Alumina Limited for the year ended 31 December 2015 at U.S.\$283 million, being an amount matching the extent of its investment in the entity, and made the necessary adjustments to the carrying value of the investment (which was written down to U.S.\$nil million).

RUSAL's share of profits of joint ventures was U.S.\$160 million for 2016, U.S.\$175 million for 2015 and U.S.\$35 million for 2014. This represents RUSAL's share of profits in joint ventures, namely the BEMO Project, LLP Bogatyr Komir, Mega Business and Alliance (transportation business in Kazakhstan) and North United Aluminium Shenzhen Co., Ltd.

RUSAL's share of profits of joint ventures for 2015 included a partial reversal of a previously recognised impairment of U.S.\$143 million relating to property, plant and equipment of the BEMO Project.

#### *Finance income*

The finance income of RUSAL decreased by U.S.\$4 million, or 17.4%, to U.S.\$19 million for 2016 from U.S.\$23 million for 2015. The finance income of RUSAL decreased by U.S.\$7 million, or 23.3%, to U.S.\$23 million for 2015 from U.S.\$30 million for 2014. The decreases can be attributed to the decrease in the interest income on time deposits at several subsidiaries of RUSAL.

#### *Finance costs*

The finance costs of RUSAL decreased by U.S.\$253 million, or 22.3%, to U.S.\$879 million for 2016 from U.S.\$1,132 million for 2015, which in turn was a decrease of U.S.\$229 million, or 16.8%, from U.S.\$1,361 million for 2014. These decreases were primarily due to a decrease in interest expenses, bank charges and the net loss from the change in fair value of derivative financial instruments, all of which were partially offset by an increase in the foreign exchange loss.

Interest expenses on bank and company loans in 2016 decreased by 2.7% to U.S.\$610 million from U.S.\$627 million in 2015, which in turn was a decrease of 25.0% from U.S.\$836 million in 2014. The decreases were due to the reduction of the principal amount payable to international and Russian lenders and the decrease of the overall interest rates between the periods, as well as the decrease in bank charges.

The decrease of RUSAL's net foreign exchange loss by 25%, to U.S.\$105 million in 2016 from U.S.\$140 million in 2015, was driven by a revaluation of certain working capital items of several of RUSAL's companies denominated in foreign currencies. The growth of the net foreign exchange loss by 418.5% to U.S.\$140 million in 2015 from U.S.\$27 million in 2014 was driven by a continuing depreciation of the rouble and the hryvnia against the dollar, and the resulting revaluation of working capital items of several of RUSAL's companies, denominated in foreign currencies.

The net loss from the change in fair value of derivative financial instruments decreased by 55.4% to U.S.\$157 million for 2016 from U.S.\$352 million for 2015, which in turn was a decrease of 27.7% from U.S.\$487 million for 2014. The losses can be attributed to the significant depreciation of the rouble against the dollar, which led to the revaluation of certain cross-currency instruments.

#### *Profit/(loss) before taxation*

For the reasons described above, RUSAL had profit before taxation of U.S.\$1,354 million for 2016 as compared to profit before taxation of U.S.\$763 million for 2015 and U.S.\$147 million for 2014. The improved results of operations of RUSAL are mainly explained by enhanced results from operating activities, certain one-off events and the decrease in finance costs.

#### *Income tax expense*

Income tax expense decreased by U.S.\$30 million to U.S.\$175 million for 2016 from U.S.\$205 million for 2015, which in turn was a decrease of U.S.\$33 million from U.S.\$238 million for 2014.

For 2016, current tax expenses decreased by U.S.\$51 million, or 29.5%, to U.S.\$122 million from U.S.\$173 million for year ended 31 December 2015, primarily due to a reduction of withholding tax on dividends received from Norilsk Nickel. Current tax expenses increased by U.S.\$24 million, or 16.1%, to U.S.\$173 million for 2015 from U.S.\$149 million for 2014 mainly due to an increase in the taxable profits.

Deferred tax expense increased by U.S.\$21 million, or 65.6%, to U.S.\$53 million for 2016 compared to U.S.\$32 million for 2015, primarily due to a reversal of an impairment of non-current assets of several subsidiaries. In turn, deferred tax expense decreased by U.S.\$57 million, or 64%, to U.S.\$32 million for 2015 from U.S.\$89 million for 2014, primarily due to the utilisation of deferred tax assets, relating to accumulated tax losses of several subsidiaries in 2014 and the decrease in deferred tax liability related to property, plant and equipment, due to the significant depreciation of the rouble against the dollar.

#### *Profit/(loss) for the year*

For the reasons described above, RUSAL had profit for the year of U.S.\$1,179 million for 2016, compared to profit for the year of U.S.\$558 million for 2015 and a loss of U.S.\$91 million for 2014. The Net Profit Margin of RUSAL improved from a negative of 1.0% in 2014 to a positive of 6.4% in 2015 and further to a positive of 14.8% in 2016.

### **Liquidity and Capital Resources**

#### *General*

The Group's liquidity requirements primarily relate to funding working capital, capital expenditures and debt service. The Group uses a variety of internal and external sources to finance operations. The Group's subsidiaries operate in capital-intensive industries requiring substantial investments. In addition to cash generated by operating activities and strategic investments are used to fund capital expenditures. During the periods under review, short- and long-term funding sources include primarily the rouble- and foreign currency-denominated secured and unsecured loans from Russian and international banks, as well as debt instruments issued in Russian and international capital markets. The Group expects that in the future the Group and its subsidiaries will rely primarily on cash provided by operating activities as a source of funding working capital needs and capital expenditure requirements and borrowings to finance certain investment projects.

The liquidity is managed separately in both, En+ Power and RUSAL. There are no cross-segment obligations other than those in the ordinary course of business.

#### *Dividends*

The Company is a parent company for the Group and does not conduct any business operations, thus its ability to repay its debts largely depends on the receipt of dividends, distributions and other payments from its subsidiaries, associates and joint ventures, as well as proceeds from investments and additional borrowings (see "*Risk Factors—Risks Relating to The Group's Business and Industries of Operation—Risks Relating to Financial Condition—The Group's ability to meet its obligations depends to a large extent upon receipt of sufficient funds from its subsidiaries*").

The Group distributed in cash dividends in the total amounts of U.S.\$69 million and U.S.\$60 million for the first half of 2017 and 2016, respectively. The Group received dividends from associates and joint ventures in the total amounts of U.S.\$325 million for the first half of 2017 and U.S.\$182 million for the first half of 2016.

In 2016, 2015 and 2014, the Group distributed in cash dividends in the total amounts of U.S.\$318 million, U.S.\$262 million and U.S.\$203 million, respectively. In 2016, 2015 and 2014, the Group received dividends from associates and joint ventures in the total amounts of U.S.\$336 million, U.S.\$755 million and U.S.\$926 million, respectively. For description of the dividends paid in 2017, see "*Capitalisation*".

In each of 2016 and 2015, RUSAL paid dividends of U.S.\$250 million, of which U.S.\$120 million was attributable to the Company.

## Cash flows

The following table sets forth the Group's selected cash flow data for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Cash flows from operating activities . . . . .	1,001	916	1,950	2,163	2,026
Cash flows (used in)/generated from investing activities . . . . .	(35)	(92)	(180)	97	(116)
Cash flows used in financing activities . . . . .	(920)	(545)	(1,704)	(2,258)	(1,869)
<b>Net change in cash and cash equivalents . . . . .</b>	<b>46</b>	<b>279</b>	<b>66</b>	<b>2</b>	<b>41</b>
Cash and cash equivalents at the beginning of the period, excluding restricted cash . . . . .	656	577	577	697	811
Effect of exchange rate changes on cash and cash equivalents . . . . .	3	56	13	(122)	(155)
<b>Cash and cash equivalents at the end of the period, excluding restricted cash<sup>(1)</sup> . . . . .</b>	<b>705</b>	<b>912</b>	<b>656</b>	<b>577</b>	<b>697</b>
Free Cash Flow <sup>(2)</sup> . . . . .	303	292	298	1,081	532

(1) Restricted cash amounted to U.S.\$17 million as at 30 June 2017, U.S.\$12 million as at 30 June 2016, U.S.\$13 million as at 31 December 2016, U.S.\$14 million as at 31 December 2015 and U.S.\$13 million as at 31 December 2014.

(2) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.

The following table sets forth En+ Power's selected cash flow data for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Cash flows from operating activities . . . . .	432	319	705	596	626
Cash flows used in investing activities . . . . .	(43)	(93)	(163)	(45)	(628)
Cash flows used in financing activities . . . . .	(414)	(148)	(519)	(551)	31
<b>Net change in cash and cash equivalents . . . . .</b>	<b>(25)</b>	<b>78</b>	<b>23</b>	<b>—</b>	<b>29</b>
Cash and cash equivalents at the beginning of the period excluding restricted cash . . . . .	125	83	83	140	110
Effect of exchange rate changes on cash and cash equivalents . . . . .	3	51	19	(57)	1
<b>Cash and cash equivalents at the end of the period, excluding restricted cash . . . . .</b>	<b>103</b>	<b>212</b>	<b>125</b>	<b>83</b>	<b>140</b>
Free Cash Flow <sup>(1)</sup> . . . . .	124	117	187	96	(84)

(1) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.

The following table sets forth RUSAL's selected cash flow data for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Cash flows from operating activities . . . . .	569	597	1,245	1,567	1,400
Cash flows generated from investing activities . . . . .	8	1	103	262	512
Cash flows used in financing activities . . . . .	(506)	(397)	(1,305)	(1,827)	(1,900)
<b>Net change in cash and cash equivalents . . . . .</b>	<b>71</b>	<b>201</b>	<b>43</b>	<b>2</b>	<b>12</b>
Cash and cash equivalents at the beginning of the period excluding restricted cash . . . . .	531	494	494	557	701
Effect of exchange rate changes on cash and cash equivalents . . . . .	—	5	(6)	(65)	(156)
<b>Cash and cash equivalents at the end of the period, excluding restricted cash . . . . .</b>	<b>602</b>	<b>700</b>	<b>531</b>	<b>494</b>	<b>557</b>
Free Cash Flow <sup>(1)</sup> . . . . .	179	175	111	985	616
Restricted cash <sup>(2)</sup> . . . . .	17	12	13	14	13

(1) Free Cash Flow means, for any period, the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures.

(2) Restricted cash pledged under a Swiss Law Pledged Agreement with BNP Paribas (Suisse) SA and Banca Nazionale Del Lavoro S.p.A.

#### *Cash flows from operating activities*

The Group's cash flows from operating activities for the first half of 2017 were U.S.\$1,001 million, an increase of U.S.\$85 million, or 9.3%, compared to U.S.\$916 million for the first half of 2016. The increase was primarily due to a higher operating profit before changes in Net Working Capital and provisions of U.S.\$1,530 million for the first half of 2017, compared to U.S.\$1,049 million for the first half of 2016.

The Group's cash flows from operating activities for 2016 were U.S.\$1,950 million, a decrease of U.S.\$213 million, or 9.8%, compared to U.S.\$2,163 million for 2015. The decrease was primarily due to a lower operating profit before changes in Net Working Capital and provisions of U.S.\$2,307 million for 2016 compared to U.S.\$2,775 million for 2015, which was partly offset by cash-positive changes in income tax paid (mainly due to a decrease in RUSAL's income tax liability).

The Group's cash flows from operating activities for 2015 were U.S.\$2,163 million, an increase of U.S.\$137 million, or 6.8%, compared to U.S.\$2,026 million for 2014. The increase was primarily due to a higher operating profit before changes in Net Working Capital and provisions of U.S.\$2,775 million for 2015, compared to U.S.\$2,255 million for 2014, which was offset by cash-negative changes in inventories as well as trade and other receivables.

The following table sets forth the Group's cash flows from operating activities for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Operating profit before changes in Net Working Capital and provisions . . . . .</b>	<b>1,530</b>	<b>1,049</b>	<b>2,307</b>	<b>2,775</b>	<b>2,255</b>
(Increase)/decrease in inventories . . . . .	(147)	78	(85)	197	387
(Increase)/decrease in trade and other receivables . . . . .	(1)	(54)	(37)	3	250
Decrease in trade and other payables and provisions . . . . .	(208)	(68)	(80)	(486)	(627)
<b>Cash flows from operations before income tax . . . . .</b>	<b>1,174</b>	<b>1,005</b>	<b>2,105</b>	<b>2,489</b>	<b>2,265</b>
Income taxes paid . . . . .	(173)	(89)	(155)	(326)	(239)
<b>Cash flows from operating activities . . . . .</b>	<b>1,001</b>	<b>916</b>	<b>1,950</b>	<b>2,163</b>	<b>2,026</b>

### *Cash flows generated from/(used in) investing activities*

The Group's cash flows used in investing activities for the first half of 2017 were U.S.\$35 million, primarily attributable to capital expenditures on the acquisition of property, plant and equipment of U.S.\$371 million, partially offset by dividends received from associates and joint ventures (mainly Norilsk Nickel). The Group's cash flows used in investing activities for the first half of 2016 were U.S.\$92 million, primarily attributable to capital expenditures on the acquisition of property, plant and equipment of U.S.\$240 million, partially offset by dividends received from associates and joint ventures (mainly Norilsk Nickel).

The Group's cash flows used in investing activities for 2016 were U.S.\$180 million, primarily attributable to cash used for capital expenditure on the acquisition of property, plant and equipment of U.S.\$834 million in 2016, partially offset by: (i) proceeds from the disposal of a subsidiary (Alpart) of U.S.\$298 million; and (ii) U.S.\$336 million in dividends received from associates and joint ventures (mainly Norilsk Nickel) in 2016.

For 2015, the Group had cash flows generated from investing activities of U.S.\$97 million, compared to U.S.\$116 million cash flows used in investing activities for 2014, mainly due to larger amounts attributable to: (i) capital expenditure on acquisition of property, plant and equipment of U.S.\$844 million in 2014 compared to U.S.\$677 million in 2015; and (ii) acquisition of RusHydro shares for cash consideration of U.S.\$343 million in 2014, offset by the decrease in dividends from associates and joint ventures (mainly Norilsk Nickel) to U.S.\$755 million in 2015 from U.S.\$926 million in 2014.

### *Cash flows used in financing activities*

The Group's cash flows used in financing activities for the first half of 2017 were U.S.\$920 million, an increase of U.S.\$375 million, compared to U.S.\$545 million for the first half of 2016. The increase was primarily due to: (i) net cash flow from borrowings of U.S.\$88 million paid in the first half of 2017 compared to U.S.\$1,036 million received in the first half of 2016; and (ii) the increase in interest paid to U.S.\$515 million for the first half of 2017 from U.S.\$371 million for the first half of 2016, partially offset by (i) the decrease in settlement of derivative financial instruments to U.S.\$101 million for the first half of 2017 from U.S.\$197 million for the first half of 2016; and (ii) the decrease in payment for the acquisition of non-controlling interests from U.S.\$676 million for the first half of 2016 (Irkutskenergo and Krasnoyarsk HPP) to U.S.\$108 million for the first half of 2017 (outstanding instalments under the acquisition of shares in Irkutskenergo).

The Group's cash flows used in financing activities for 2016 were U.S.\$1,704 million, a decrease of U.S.\$554 million, or 24.5%, compared to U.S.\$2,258 million for 2015. The decrease was primarily due to larger net cash flow from borrowings of U.S.\$1,177 million received in 2016 compared to U.S.\$662 million paid in 2015, which was offset by: (i) the acquisition of non-controlling interests (Irkutskenergo and Krasnoyarsk HPP) of U.S.\$827 million in 2016 compared to U.S.\$16 million in 2015; and (ii) a larger distribution to shareholders of U.S.\$318 million in 2016 compared to U.S.\$1 million in 2015. The effect from derivatives and restructuring fees of the Group's cash flows amounted to U.S.\$460 million in 2016 as compared to U.S.\$322 million in 2015.

The Group's cash flows used in financing activities for 2015 were U.S.\$2,258 million, an increase of U.S.\$389 million, or 20.8%, compared to U.S.\$1,869 for 2014, mainly driven by: (i) lower proceeds from borrowings of U.S.\$4,188 million in 2015 compared to U.S.\$4,940 million in 2014; (ii) increased dividends to shareholders of U.S.\$262 million for 2015 compared to U.S.\$203 million for 2014; and (iii) increased dividends to non-controlling shareholders of subsidiaries of U.S.\$149 million for 2015 compared to U.S.\$23 million for 2014. The overall increase in cash flows used in financing activities in 2015 was offset by: (i) the decrease in interest paid to U.S.\$855 million in 2015 from U.S.\$1,052 million in 2014; (ii) the decrease in restructuring fees and other expenses to U.S.\$2 million in 2015 from U.S.\$149 million in 2014; and (iii) the decrease in payments from settlement of derivative instruments to U.S.\$320 million in 2015 from U.S.\$452 million in 2014. The effect from derivatives and restructuring fees of the Group's cash flows amounted to U.S.\$322 million in 2015 as compared to U.S.\$601 million in 2014.

### *Net Working Capital*

As at 30 June 2017, the Group's Net Working Capital amounted to U.S.\$1,908 million, compared to U.S.\$1,678 million as at 31 December 2016, U.S.\$1,597 million as at 31 December 2015 and U.S.\$1,257 million as at 31 December 2014. The increase in the first half of 2017 was primarily due to the

increase in inventories and trade and other receivables. The decrease in 2016 and increase in 2015 were both primarily due to the increase and decrease, respectively, in trade and other payables.

En+ Power had negative Net Working Capital of U.S.\$76 million as at 30 June 2017, U.S.\$13 million as at 31 December 2016, U.S.\$41 million as at 31 December 2014 and positive Net Working Capital of U.S.\$6 million as at 31 December 2015. As at 30 June 2017 inventories increased to U.S.\$114 million from U.S.\$108 million as at 31 December 2016. As at 31 December 2016, inventories increased to U.S.\$108 million from U.S.\$85 million as at 31 December 2015, due to changes in KRAMZ's orders and a decrease in its sales volumes. In 2015, inventories decreased from U.S.\$137 million as at 31 December 2014, which was primarily due to a foreign currency translation from the subsidiaries' functional currency to presentation currency, in view of the significant devaluation of the rouble against the dollar. Trade and other receivables decreased to U.S.\$344 million as at 30 June 2017 from U.S.\$348 million as at 31 December 2016. The decrease in trade and other receivables was attributable to the summer season and decrease in demand for heat and electricity. Trade and other payables (excluding short-term part of deferred liability for acquisition of shares in Irkutskenergo) increased to U.S.\$534 million as at 30 June 2017 compared to U.S.\$469 million as at 31 December 2016 mainly due to foreign currency translation from functional currency to presentation currency. Trade and other receivables increased to U.S.\$348 million as at 31 December 2016 from U.S.\$323 million as at 31 December 2015 which, in turn, increased from U.S.\$311 million as at 31 December 2014. The increase in trade and other receivables is primarily attributable to an increase, in rouble terms, in other receivables from related parties and trade receivables from third parties, although this was partially levelled by the significant devaluation of the rouble against the dollar. Trade and other payables (excluding short-term part of deferred liability for acquisition of shares in Irkutskenergo) increased to U.S.\$469 million as at 31 December 2016 from U.S.\$402 million as at 31 December 2015, primarily as a result of foreign currency translation from functional currency to presentation currency. Trade and other payables decreased as at 31 December 2015 as compared to U.S.\$489 million as at 31 December 2014. The decreases in the dollar terms are a result of a foreign currency translation from functional currency to presentation currency pursuant to the significant devaluation of the rouble against the dollar. Trade and other payables increased, in rouble terms, primarily as a result of the increase in short-term other payables and accrued liabilities, which as at 31 December 2015 included dividends payable.

RUSAL had Net Working Capital of U.S.\$2,036 million as at 30 June 2017, U.S.\$1,691 million as at 31 December 2016, U.S.\$1,596 million as at 31 December 2015, and U.S.\$1,308 million as at 31 December 2014. Inventories increased to U.S.\$2,127 million as at 30 June 2017 from U.S.\$1,926 million as at 31 December 2016, which in turn increased from U.S.\$1,837 million as at 31 December 2015, and decreased as at 31 December 2015 as compared to U.S.\$1,998 million as at 31 December 2014. The increases in the first half of 2017 as compared to 2016 and in 2016 as compared to 2015 were both primarily due to an increase in raw material prices at the end the period, whereas the decrease in 2015 as compared to 2014 was primarily due to negative raw material price performance for the respective period. Trade and other receivables increased by U.S.\$93 million, or 8.2%, to U.S.\$1,223 million as at 30 June 2017 due to increase of net VAT receivable as a result of appreciation of the rouble against the dollar. Trade and other receivables increased by U.S.\$231 million, or 25.7%, to U.S.\$1,130 million as at 31 December 2016 from U.S.\$899 million as at 31 December 2015, which, in turn, increased from U.S.\$686 million as at 31 December 2014, due to an increase in trade receivables from third parties. Trade and other payables decreased by U.S.\$56 million, or 5.3%, to U.S.\$998 million as at 30 June 2017 due to a decrease of advances received from customers. Trade and other payables increased by U.S.\$103 million, or 10.8%, to U.S.\$1,054 million as at 31 December 2016 from U.S.\$951 million as at 31 December 2015, which, in turn, represented a decrease of U.S.\$411 million, or 30.2%, from U.S.\$1,362 million as at 31 December 2014. The increase in 2016 as compared to 2015 was primarily a result of the increase in accounts payable to third parties. The decrease in 2015 as compared to 2014 was primarily attributable to a decrease in advances received from RUSAL's main customers.

### ***Capital Requirements***

#### *General*

The Group and each of its subsidiaries require funding to finance the following:

- capital expenditures (consisting of purchases of property, plant and equipment, as well as intangible assets);
- repayment of debt;



- acquisitions;
- changes in working capital;
- general corporate activities, including the payment of dividends;
- potential payments of obligations under judgements; and
- potential payments of obligations under other contractual obligations.

The Group anticipates that capital expenditures, dividend, repayment of debt will represent the most significant uses of funds for several years to come.

#### *Capital expenditures*

In the first half of 2017 and 2016, the Group's capital expenditures (comprising acquisition of property, plant and equipment, as well as acquisition of intangible assets) were U.S.\$379 million and U.S.\$244 million, respectively. In 2016, 2015 and 2014, the Group's capital expenditures (comprising acquisition of property, plant and equipment, as well as acquisition of intangible assets) were U.S.\$851 million, U.S.\$691 million and U.S.\$864 million, respectively. From 2014 to the first half of 2017, the Group's subsidiaries financed their cash requirements through a combination of operating cash flows and borrowings. The table below sets forth capital expenditures of RUSAL and En+ Power for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
RUSAL . . . . .	321	194	575	522	479
En+ Power . . . . .	58	50	276	169	385

In 2016, the capital expenditures of En+ Power included acquisition of dams from RusHydro in the amount U.S.\$138 million (U.S.\$163 million including VAT). In 2014, the capital expenditures of En+ Power included the acquisition of Ondskaya HPP in the amount U.S.\$55 million (U.S.\$64 million including VAT).

The Group expects that En+ Power will have approximately U.S.\$202 million of capital expenditures in 2017. Actual capital expenditures may vary depending on the availability of financing, demand, currency volatility and other factors, including the availability of dividends from subsidiaries. The Company expects that En+ Power's capital expenditures will be primarily maintenance driven. En+ Power's investment programme is estimated at RUB12 billion (approximately U.S.\$200 million) per annum for the 2017-2021 period.

#### *Repayment of debt*

The Group had net repayment of borrowings of U.S.\$88 million in the first half of 2017 and net proceeds from borrowings of U.S.\$1,036 million in the first half of 2016. The Group had net proceeds from borrowings of U.S.\$1,177 million in 2016, net repayment of borrowings of U.S.\$662 million in 2015 and net proceeds from borrowings of U.S.\$91 million in 2014 (see "*—Indebtedness*" for a detailed description of the Group's loans and borrowings).

RUSAL had net repayment of borrowings of U.S.\$108 million in the first half of 2017 and net proceeds from borrowings of U.S.\$25 million in the first half of 2016. RUSAL had net repayment of borrowings of U.S.\$143 million, U.S.\$741 million and U.S.\$640 million in 2016, 2015 and 2014, respectively.

En+ Power's net proceeds from borrowings during the first half of 2017 and the first half of 2016 were U.S.\$20 million and U.S.\$1,011 million, respectively. En+ Power had net proceeds from borrowings of U.S.\$1,320 million, U.S.\$79 million and U.S.\$731 million in 2016, 2015 and 2014, respectively.

#### *Acquisitions and non-controlling interest buy-outs*

In addition to capital expenditures, in the first half of 2017, as well as in 2016, 2015 and 2014 the Group spent U.S.\$4 million, U.S.\$nil, U.S.\$71 million and U.S.\$343 million, respectively, for acquisitions.

In 2014 this amount was attributable to En+ Power's acquisition of shares in RusHydro which subsequently were exchanged to Krasnoyarsk HPP shares. Primarily as the result of this transaction, the Group's effective ownership in Krasnoyarsk HPP as at 31 December 2014 increased to 89.6% of shares.

In 2015, U.S.\$66 million were attributable to En+ Power's acquisition of non-core assets which were subsequently disposed of for a cash consideration of U.S.\$60 million received in 2016.

In June 2016, En+ Power acquired 40.3% shares in Irkutskenergo from InterRAO for a cash consideration of U.S.\$1,047 million (RUB70 billion). In September 2017 and in 2016 the Group paid, under this transaction, U.S.\$11 million and U.S.\$827 million, respectively, based on the average exchange rate during the reporting periods.

In June 2017, a subsidiary of En+ Power announced a mandatory offer to purchase the shares of the non-controlling shareholders of Irkutskenergo. The offer price was based on a weighted six-months trading average price prior to the offer and amounted to RUB17.42 per share (U.S.\$0.3). Under its accounting policy, the Group was required to record a liability in the aggregate amount of non-controlling interests in Irkutskenergo of U.S.\$194 million. If the shareholders do not exercise their put in full, the initially recognised liability will be de-recognised. The Group has accepted for purchase 0.7458% of the shares in Irkutskenergo for the aggregate amount of RUB619 million.

While the Company intends to expand its power business under its operational management organically in the future, other segments (in particular, RUSAL) may pursue selective acquisitions. The Group's cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

### ***Capital Resources***

The Group plans to fund its capital requirements through cash flows from operating activities, investing activities and financing activities, as described above.

### ***Cash***

As at 30 June 2017, 31 December 2016, 2015 and 2014, the Group's cash and cash equivalents excluding restricted cash were U.S.\$705 million, U.S.\$656 million, U.S.\$577 million and U.S.\$697 million, respectively. As at 30 June 2017, 31 December 2016, 2015 and 2014, En+ Power's cash and cash equivalents were U.S.\$103 million, U.S.\$125 million, U.S.\$83 million and U.S.\$140 million, respectively.

### ***Indebtedness***

The Group's indebtedness consists of loans and borrowings from banks, rouble-denominated bonds, eurobonds and RMB-denominated bonds.

As at 30 June 2017, the Group's total loans and borrowings were U.S.\$14,211 million, consisting of U.S.\$12,444 million in long-term debt and U.S.\$1,767 million in short-term debt maturing within one year or on demand. As at 30 June 2017, 63.0% of the Group's total loans and borrowings were attributable to RUSAL and the remaining 27.0% of the Group's total loans and borrowings were attributable to En+ Power. As at 30 June 2017, the Group's Net Debt was U.S.\$13,811 million, RUSAL's Net Debt was U.S.\$8,335 million and En+ Power's Net Debt was U.S.\$5,476 million.

As at 31 December 2016, the Group's total loans and borrowings were U.S.\$14,205 million, consisting of U.S.\$12,095 million in long-term debt and U.S.\$2,110 in short-term debt maturing within one year or on demand. As at 31 December 2016, 63.1% of the Group's total loans and borrowings were attributable to RUSAL and the remaining 36.9% of the Group's total loans and borrowings were attributable to En+ Power. As at 31 December 2016, the Group's Net Debt was U.S.\$13,939 million, RUSAL's Net Debt was U.S.\$8,421 million and En+ Power's Net Debt was U.S.\$5,518 million.

## Loans and Borrowings

The following table sets forth the Group's loans and borrowings as at the dates indicated:

	As at 30 June	As at 31 December		
	2017	2016	2015	2014
		(U.S.\$ millions)		
<b>THE GROUP</b>				
<b>Total of non-current loans and borrowings</b>	<b>12,444</b>	<b>12,095</b>	<b>9,604</b>	<b>9,626</b>
<b>Total of current loans and borrowings</b>	<b>1,767</b>	<b>2,110</b>	<b>2,724</b>	<b>3,484</b>
<b>Total of loans and borrowings</b>	<b>14,211</b>	<b>14,205</b>	<b>12,328</b>	<b>13,110</b>
<b>EN+ POWER</b>				
<b>Non-current loans and borrowings</b>				
Secured bank loans	3,668	2,821	594	83
Secured company loans	—	1,000	943	—
Unsecured bank loans	793	742	533	571
Unsecured company loans	—	—	9	12
<b>Total of non-current loans and borrowings</b>	<b>4,461</b>	<b>4,563</b>	<b>2,079</b>	<b>666</b>
<b>Current loans and borrowings</b>				
Secured bank loans	322	66	943	2,643
Secured company loans	—	50	100	1
Unsecured bank loans	397	492	250	385
Unsecured company loans	—	—	36	—
Accrued interest	77	69	40	8
<b>Total of current loans and borrowings</b>	<b>796</b>	<b>677</b>	<b>1,369</b>	<b>3,037</b>
<b>Total of loans and borrowings</b>	<b>5,257</b>	<b>5,240</b>	<b>3,448</b>	<b>3,703</b>
<b>RUSAL</b>				
<b>Non-current loans and borrowings</b>				
Secured bank loans	6,479	6,991	7,418	8,651
Secured company loans	—	—	—	196
Unsecured bank loans	147	346	107	—
Bonds payable	1,357	195	—	113
<b>Total of non-current loans and borrowings</b>	<b>7,983</b>	<b>7,532</b>	<b>7,525</b>	<b>8,960</b>
<b>Current loans and borrowings</b>				
Secured bank loans	895	1,365	1,023	102
Secured company loans	—	—	186	153
Unsecured bank loans	—	—	100	—
Bonds payable	31	1	21	144
Accrued interest	45	67	25	48
<b>Total of current loans and borrowings</b>	<b>971</b>	<b>1,433</b>	<b>1,355</b>	<b>447</b>
<b>Total of loans and borrowings</b>	<b>8,954</b>	<b>8,965</b>	<b>8,880</b>	<b>9,407</b>

The following table sets forth contractual undiscounted cash outflow of the Group's loans and borrowings (including interest payable and bonds) broken down by maturity as at the dates indicated:

	As at 31 December		
	2016	2015	2014
	(U.S.\$ millions)		
Within 1 year or on demand	2,962	3,352	4,093
Between 1 and 2 years	3,440	2,083	2,124
Between 2 and 5 years	10,885	7,702	5,017
More than 5 years	842	2,147	5,040
<b>Total loans and borrowings</b>	<b>18,129</b>	<b>15,284</b>	<b>16,274</b>

The following table sets forth the breakdown of En+ Power's and RUSAL's debt repayment schedule based on the Company's management financial report as at 31 December 2016:

	Year ended 31 December			
	2017	2018	2019	2020-2025
	(U.S.\$ millions)			
En+ Power	1,094	1,232	4,167	842
RUSAL	1,868	2,208	6,718	—
<b>Total</b>	<b>2,962</b>	<b>3,440</b>	<b>10,885</b>	<b>842</b>

The Company's and its subsidiaries' facility agreements include various non-financial and financial covenants which require them to comply with certain financial ratios such as net debt to EBITDA for the previous 12 months, as well as other general covenants, which are customary to credit facilities. As at the date of this Prospectus, the Company believes that its subsidiaries are in compliance with such ratios and covenants. The key terms of principal financing agreements are summarised below.

#### *En+ Power*

The principal lenders of the Company are VTB and Sberbank. The total loans and borrowings owed by En+ Power was U.S.\$5,257 million as at 30 June 2017 as compared to U.S.\$5,240 million as at 31 December 2016. En+ Power's nominal debt repayment schedule as at 30 June 2017 provided for U.S.\$205 million of indebtedness maturing in 2017, U.S.\$957 million in 2018, U.S.\$2,201 million in 2019 (the Group expects to significantly decrease this amount using the proceeds of the Offering to prepay the VTB Facility), U.S.\$924 million maturing in 2020, U.S.\$358 million maturing in 2021, U.S.\$286 million maturing in 2022 and U.S.\$493 million maturing in 2023. Subject to amendments to the loan agreements with Sberbank (see “—*Credit line agreements between Russian EuroSibEnergo and Sberbank*”), En+ Power's nominal debt repayment schedule as at 30 June 2017 would comprise U.S.\$220 million of indebtedness maturing in 2017, U.S.\$580 million in 2018, U.S.\$1,823 million in 2019 (also subject to the repayment of the VTB Facility out of the proceeds of the Offering), U.S.\$769 million maturing in 2020, U.S.\$426 million maturing in 2021, U.S.\$354 million maturing in 2022, U.S.\$561 million maturing in 2023 and U.S.\$691 million maturing in 2024. As at 30 June 2017, En+ Power maintained a balanced nominal debt portfolio with fixed rate borrowings amounting to 46% of the segment's borrowings, while floating interest rate agreements amounted to 54%. In addition, the currency structure of the segment's nominal portfolio consisted of: 72.3% of Russian rouble-denominated borrowings (with weighted average interest of 10.5%), 27.5% of U.S. dollar-denominated borrowings (with weighted average interest of 6.0%) and 0.2% of euro-denominated debt (with weighted average interest of 3.4%).

The principal financing agreements summarised below represent 74% of En+ Power's total indebtedness as at 30 June 2017.

#### Loan agreement between GrandStroy and VTB guaranteed by the Company

In August 2015, the Company entered into the U.S.\$1,043 million two tranche loan agreement with GrandStroy LLC currently bearing fixed interest of 6.15% in respect of U.S.\$-denominated tranche of the loan agreement and a floating rate based on CBR key rate +2.31% in respect of the rouble-denominated tranche of the loan, which replaced the pre-existing facility agreement with VTB. Simultaneously, the Company provided a corporate guarantee (the “**Guarantee**”) in favour of VTB and VTB Capital plc securing the obligations of GrandStroy under the facility (the “**VTB Facility**”). The Guarantee is secured by, among others, pledges of 29.99% shares of UC RUSAL, 25.00% +1 shares of JSC EuroSibEnergo (“**Russian EuroSibEnergo**”) and 11.14% shares of Krasnoyarsk HPP. The pledges of shares of Russian EuroSibenergo and Krasnoyarsk HPP, which represent the security under the Guarantee, are also used to secure the VTB Facility. The Guarantee contains certain covenants that, among others, put restrictions on the Group's investing and financing activities.

In January 2017, the Group acquired 100% of the shares in GrandStroy for a cash consideration of U.S.\$3 million. As at 30 June 2017, the outstanding amount under the VTB Facility was U.S.\$942 million. The Group is required to repay VTB U.S.\$50 million in December 2017 and U.S.\$892 million in December 2019. The maturity date can be extended to December 2021 by mutual agreement of the parties.

### Credit line agreements between Russian EuroSibEnergO and Sberbank

In June 2015, Sberbank opened two credit lines for Russian EuroSibEnergO: a rouble-denominated credit line with the limit of RUB87,550 million and a dollar-denominated credit line with the limit in the amount of U.S.\$1,410 million.

The limits under the credit lines were drawn to repay existing loans with Sberbank. As at 30 June 2017, there were no available limits under the credit lines.

As at 30 June 2017, Russian EuroSibEnergO had a rouble-denominated loan in the amount of U.S.\$1,102 million (RUB65,090 million) bearing 11.55% effective interest and a dollar-denominated loan in the amount of U.S.\$486 million bearing 7.4% effective interest.

Both credit lines are payable until June 2020 according to the agreed schedule. The rouble-denominated credit line repayments in nominal value U.S.\$1,116 million (RUB65,923 million based on the exchange rate as of 30 June 2017) are as follows: RUB212 million during July-December 2017, RUB26,279 million in 2018, RUB26,279 million in 2019 and RUB13,153 million in 2020. The dollar-denominated credit line repayments in nominal value (U.S.\$494 million) are U.S.\$271 million in 2019 and U.S.\$223 million in 2020.

The Group is currently involved in negotiations with Sberbank regarding amendment of the terms of the Russian EuroSibEnergO rouble-denominated loan. This proposed amendment currently provides for, inter alia, (i) extension of the final maturity of the loan from June 2020 to June 2024; and (ii) a changed repayment schedule in respect of the loan. Under the terms of the expected amendments, from December 2017 to March 2024, Russian EuroSibEnergO shall repay RUB1 billion of the principal amount of the loan each quarter, or RUB26 billion in aggregate for the period. On the date of final maturity of the loan in June 2024, Russian EuroSibEnergO shall repay RUB39,817 million of the outstanding amount of the loan. The above amendments are expected to be signed by the end of November 2017.

The loans have certain covenants that put restrictions on the investing and financing activities of Russian EuroSibEnergO and PJSC Krasnoyarsk HPP, as well as certain limitations on dividend distribution.

As at 30 June 2017, the loans are secured by the following pledges of shares: in Irkutsk GridCo (33.27% of its share capital), Irkutskenergo (27.41% of its share capital) and Krasnoyarsk HPP (50% + 1 of its share capital).

The credit lines are also secured by guarantees from the Company and a number of its subsidiaries.

### Syndicated loan agreement between EuroSibEnergO—Hydrogeneration and Sberbank and VTB

In June 2016, EuroSibEnergO—Hydrogeneration LLC (formerly named Telmamskaya HPP) entered into the syndicate loan agreement with Sberbank and VTB to finance the acquisition of a 40.3% interest in Irkutskenergo and to repay the existing indebtedness of a number of group companies. The total amount of the opened credit line was U.S.\$1,257 million (RUB84,000 million). As at 30 June 2017, the outstanding amount under the loan was U.S.\$1,385 million (RUB81,818 million). Irkutskenergo provided a guarantee under the loan.

The loan is payable until June 2023 according to the agreed schedule, and bears an interest rate of the CBR key rate plus 2.00%. The remaining tranches will be received according to the payment schedule of the Irkutskenergo acquisition, in equal instalments of RUB3,125 million per quarter to be paid within 2 years from the acquisition date.

In November 2016, EuroSibEnergO—Hydrogeneration agreed to increase the credit line by U.S.\$171 million (RUB10,950 million) for the acquisition of previously leased dams. The interest rate applicable to the first U.S.\$85.5 million (RUB5,475 million) is the CBR key rate plus 2.00%, while the interest rate applicable to the second U.S.\$85.5 million (RUB5,475 million) is 10.5%. U.S.\$26.1 million (RUB1,670 million) is payable in November 2017, and U.S.\$144.9 million (RUB9,280 million) is payable until November 2021 according to the agreed schedule.

The loans have certain covenants that put restrictions on the investing and financing activities of EuroSibEnergO—Hydrogeneration and Irkutskenergo.

As at 30 June 2017, the loan was secured by pledges of shares in Irkutskenergo (40.28% of its share capital) and EuroSibEnergO—Hydrogeneration (100% of its share capital), the pledge of the acquired dams, as well as an Irkutskenergo guarantee.

## RUSAL

### Restructuring of financing agreements

During 2013, aluminium prices deteriorated, decreasing from an average price of U.S.\$2,018 per tonne in 2012 to U.S.\$1,845 per tonne in 2013. This factor had an adverse impact on the revenue and profitability of RUSAL and together with other factors resulted in a loss for 2013 of U.S.\$3,322 million, including impairment losses of U.S.\$1,604 million. The covenant holiday period negotiated in 2012 and 2013 for certain of RUSAL's financial covenants in its financing agreements were due to expire at the end of 2013. In the second half of 2013, given that aluminium prices remained at depressed levels, it remained uncertain whether RUSAL would be able to comply with the terms of its financing agreements, and RUSAL entered into negotiations with its major lenders to renegotiate certain financial covenants, as well as revisiting the amortisation schedules and deferring the maturities thereunder.

### International lenders

As a result of all negotiations, the aluminium pre-export finance facility agreement for up to U.S.\$4,750 million and dated 29 September 2011 (as amended from time to time, the “**2011 PXF Facility Agreement**”) and the multicurrency aluminium pre-export finance facility agreement for up to U.S.\$400 million and dated 30 January 2013 (the “**2013 PXF Facility Agreement**”), were combined into one agreement, which was in effect from August 2014 (the “**Combined PXF**”). RUSAL revisited the amortisation schedule and the maturity as well as set of financial covenants thereunder.

The Combined PXF was secured by an assignment of rights arising out of certain aluminium offtake contracts between RUSAL's trading subsidiaries and its ultimate customers, certain intra-group contracts for the delivery of aluminium and raw materials, pledges of collection accounts and pledges of shares in certain operating companies.

The lenders under the Combined PXF, together with Sberbank and Gazprombank as bilateral lenders under the facilities described in “—*Bilateral loans*”, benefited from a cash sweep mechanism permitting them to apply certain excess cash over the monthly average plus a liquidity cushion towards prepayments of the principal amounts outstanding under those facilities and capitalised interest. In addition to the cash sweep, the same lenders benefited from an enhanced security package, comprising certain bank accounts, through which distributions from Norilsk Nickel were intended to flow or into which they were required to be deposited pursuant to the relevant security documents.

### *Sberbank and Gazprombank*

In conjunction with the amendments sought to the PXF Facility Agreements, RUSAL implemented corresponding measures in respect of its bilateral arrangements with Sberbank and Gazprombank. In particular:

- new credit facility agreements were entered into between: (i) JSC RUSAL Krasnoyarsk Aluminium Smelter, as borrower, and Gazprombank (with a facility amount of EUR74.7 million and U.S.\$142.7 million, respectively); and (ii) RUSAL Sayanogorsk, as borrower, and Gazprombank (with a facility amount of U.S.\$100 million) for refinancing of the 2014—2015 amortisation payments under the then outstanding Gazprombank facilities. The new credit facilities had maturities of no later than 31 March 2019. In March 2014, RUSAL drew down funds under the new facilities in the amount of U.S.\$242.7 million and EUR74.7 million and repaid the 2014—2015 amortisation payments under the then outstanding Gazprombank facilities; and
- agreements were entered into between RUSAL, as borrower, and Sberbank to extend the maturity of the existing bilateral facility agreements (including: (i) a credit facility agreement dated 30 September 2010 in the amount of U.S.\$4,583 million; (ii) a credit facility agreement dated 30 September 2011 in the amount of U.S.\$453 million; and (iii) a non-revolving credit facility agreement dated 1 December 2011 in the amount of RUB20.7 billion) by a maximum of 84 months from the date of the relevant Sberbank amendment agreement, and the repayments were agreed to be made quarterly in equal instalments during the sixth and seventh years, from the date of the relevant Sberbank amendment agreement.

### *2016 refinancing*

As a result of the continued volatility of the financial and commodity markets, caused by, among other things, global macroeconomic and political factors, as well as relatively low LME aluminium prices, in 2015, RUSAL commenced negotiations with its lenders to reset covenants to a sustainable level for the remaining term of the credit facilities and to refinance RUSAL's remaining scheduled repayment instalments falling due in 2016 (and *provided that* sufficient funds are available, in 2017) under the Combined PXF and certain bilateral facilities. On 2 March 2016, RUSAL obtained the lenders' consent on the reset of the covenants.

Furthermore, in April 2016, amendments were implemented to the Combined PXF whereby new refinancing tranches were introduced to refinance RUSAL's scheduled repayment instalments falling due in 2016 and in the first quarter of 2017. Following the effectiveness of these amendments, RUSAL prepaid three scheduled repayment instalments falling due in 2016 under the Combined PXF in the total amount of U.S.\$524 million (utilising U.S.\$415 million of available commitments under the new refinancing tranches as well as U.S.\$109 million of RUSAL's own funds) and by that discharged in full its obligations to repay the scheduled instalments under the Combined PXF for the year 2016.

In July 2016, RUSAL also made principal repayments in a total amount of U.S.\$139 million and EUR8 million (U.S.\$9 million) under the Combined PXF (using dividends from Norilsk Nickel) partially prepaying upfront the repayment instalment falling due in the first quarter of 2017. In addition, in October 2016, RUSAL prepaid a total amount of U.S.\$141 million and EUR8 million (equivalent to approximately U.S.\$9 million) under the Combined PXF against instalments falling due in January 2017 and partially in April 2017. Furthermore, in January, February and May 2017, RUSAL prepaid a further amount of U.S.\$1,256 million and EUR47 million (equivalent to approximately U.S.\$50 million) under the Combined PXF (using dividends from Norilsk Nickel and proceeds from U.S.\$—denominated bonds) against instalments falling due in 2017 and 2018. The next repayment under the Combined PXF was due in April 2018.

### *2017 refinancing*

In May 2017, RUSAL signed a new pre-export finance term facility agreement between, among others, UC RUSAL as borrower, ING Bank N.V. as facility agent and security agent, and the lenders named in the agreement for an amount of up to U.S.\$2 billion (the "**2017 PXF Facility Agreement**"). UC RUSAL's subsidiaries provided a joint and several guarantee with respect to UC RUSAL's obligations under the 2017 PXF Facility Agreement. RUSAL has utilised U.S.\$1.7 billion in principal amount with a floating rate of interest calculated with reference to three-month LIBOR. The final maturity is in May 2022 with quarterly repayments commencing in July 2019.

The proceeds of the 2017 PXF Facility Agreement were used primarily for the purpose of refinancing the outstanding balance under the Combined PXF. Any proceeds not used for refinancing the Combined PXF were applied towards refinancing of other indebtedness of RUSAL.

For the purposes of calculating the leverage ratio (as defined in the 2017 PXF Facility Agreement), in view of the security given over certain shares in Norilsk Nickel securing the relevant indebtedness of RUSAL, the amount of such secured indebtedness (or, if lower, the value of shares in Norilsk Nickel securing such indebtedness) is excluded from the total net debt (as defined in the 2017 PXF Facility Agreement). Consequently, RUSAL's EBITDA is net of the impact of shareholding in Norilsk Nickel (i.e. excludes dividends paid on any of shares in Norilsk Nickel). The leverage ratio is, thus, tested on the basis of RUSAL's core operations.

The dividend covenant was revised to allow UC RUSAL to pay dividends to its shareholders in an amount capped at 15% of RUSAL's Covenant EBITDA (as defined in the 2017 PXF Facility Agreement and which includes for this purpose dividends paid on shares in Norilsk Nickel) subject to certain conditions. The key conditions of dividend payments include positive cash flow, a certain liquidity minimum being maintained, the leverage ratio on a pro forma basis being not more than 3:1 and no defaults outstanding or occurring as a result of dividend payments.

Certain components of the security package, including cash sweep, cash pooling arrangements, other additional restrictions and additional security implemented in 2014 were terminated.

### *Bilateral loans*

*Sberbank.* As at 30 June 2017, RUSAL's indebtedness under the Sberbank loans was U.S.\$4.54 billion. The applicable interest rate under the Sberbank loans is three-month LIBOR (subject to a minimum of 1% per annum) plus a margin of 4.75% per annum. Sberbank's indebtedness amortises in equal quarterly instalments from November 2019 to August 2021. On 31 August 2017, RUSAL and Sberbank executed agreements to extend the final maturity under loans secured by the Norilsk Nickel shares to 2024 and decrease the interest rate from 4.75% to 3.75%, as well as to adjust the covenants package generally in line with the 2017 PXF Facility Agreement.

*VTB Capital plc.* As at 30 June 2017, RUSAL's indebtedness under the VTB Capital plc loans was U.S.\$143 million, at an interest rate of three-month LIBOR plus 4.8% per annum, and is amortised in equal quarterly instalments from December 2015 to December 2018. The covenant package is in line with the 2017 PXF Facility Agreement.

### *Gazprombank*

As at 30 June 2017, RUSAL's indebtedness under the Gazprombank loans was U.S.\$512 million, comprising:

- *U.S. dollar and Euro-denominated loans.* As at 30 June 2017, RUSAL's indebtedness under the loans with Gazprombank was U.S.\$404 million and EUR58 million, maturing in July 2020, and the interest rate on these loans was three-month LIBOR plus 4.5% per annum.
- *2016 rouble loan.* The loan was drawn in December 2016 to finance a project for the construction of a production site at the Volgograd smelter for baked anode manufacturing in the total amount of RUB2.5 billion at an interest rate of 11.0% per annum, to be amortised in equal quarterly instalments from December 2018 to December 2021.

In August 2017, RUSAL agreed with Gazprombank to extend the final maturity to 2022 and decrease the interest rate from 4.5% to 3.5% under the U.S. dollar and Euro-denominated loans, as well as to adjust the covenant packages in line with the 2017 PXF Facility Agreement under all Gazprombank loans.

*Credit Bank of Moscow.* As at 30 June 2017, RUSAL's indebtedness under a loan with JSC Moscow Credit Bank was U.S.\$100 million at an interest rate of three-month LIBOR plus 3.0% per annum, maturing in September 2019.

### *Trade finance*

RUSAL has several trade finance credit lines for working capital needs with banks such as RBI, ING, Credit Suisse, VTB Capital plc and others. As at 30 June 2017, the total amount of indebtedness under these credit lines was U.S.\$362 million, with fixed and floating interest rates calculated with reference to LIBOR and cost of funds.

### *Repo transactions*

*Credit Bank of Moscow.* In March 2017, RUSAL entered into a new repo transaction with JSC Moscow Credit Bank for the total amount of EUR100 million at an interest rate of 2.6% per annum (after giving effect to a cross currency swap), maturing in June 2018 and backed by bonds issued by Bratsk aluminium smelter.

*SIB.* Under a repo transaction with SIB (Cyprus) Limited, as at 30 June 2017, RUSAL's indebtedness was U.S.\$122 million at an interest rate of 2.9% per annum, maturing in August 2017. In August 2017 the amount was repaid in full.

### *Bonds*

As at 30 June 2017, the Group had U.S.\$1,388 million of bonds payable, compared to U.S.\$196 million as at 31 December 2016, U.S.\$21 million as at 31 December 2015 and U.S.\$257 million as at 31 December 2014. Bonds payable represent the rouble, dollar and renminbi—denominated debt securities placed by subsidiaries of RUSAL on the Russian and foreign markets.



### *RUB-denominated bonds*

In March-April 2011, Bratsk aluminium smelter placed two tranches of rouble-denominated bonds, for the total amount of RUB30 billion, traded on MOEX. The proceeds of the bonds were used to repay RUSAL's debt.

- The first tranche in the principal amount of RUB15 billion with a coupon rate of 12% per annum matures in February 2018. As at 30 June 2017, 1,821,565 bonds, each with a nominal value of RUB1,000, remained outstanding.
- The second tranche in the principal amount of RUB15 billion matures in April 2021. As at 30 June 2017, 51,509 bonds, each with a nominal value of RUB1,000, remained outstanding. On 3 April 2017, RUSAL announced a coupon rate in respect of the series 08 bonds at the level of 9% per annum for the 13-16 semi-annual coupon periods after which the series 08 bonds will be subject to a put option and coupon rate revision. On 12 April 2017 RUSAL exercised a put option on the outstanding RUB-denominated bonds series 08.
- In April 2016, Bratsk aluminium smelter placed exchange-traded bonds in the total principal amount of RUB10 billion, traded on MOEX. The bonds mature in 2026. The current coupon rate is 12.85% per annum applicable in the 1-6 semi-annual coupon periods. Upon their expiry in April 2019, Bratsk aluminium smelter will determine the coupon rate for any subsequent coupon periods and the number of such periods. Bondholders may exercise their put option rights and require early redemption of the bonds following the coupon rate revision. As at 30 June 2017, 6,461,320 bonds, each with a nominal value of RUB1,000, remained outstanding.

In June 2016, Bratsk aluminium smelter established a multicurrency programme with MOEX under which Bratsk aluminium smelter may issue exchange-traded bonds up to an aggregate principal amount of RUB70 billion or its equivalent in foreign currency (however, to date, no issuances have been made under the programme).

### *U.S.\$-denominated bonds*

In February 2017, RUSAL (through a special purpose vehicle as finance subsidiary) completed the debut offering of guaranteed notes in a principal amount of U.S.\$600 million at a rate of 5.125% per annum due in 2022, admitted to the Official List and to trading on the GEM of the Irish Stock Exchange. The notes are guaranteed by RUSAL's subsidiaries. The proceeds, excluding related expenses, in the amount of U.S.\$597 million, were applied for partial refinancing of the Combined PXF.

In May 2017, RUSAL (through a special purpose vehicle as finance subsidiary) completed the offering of guaranteed notes in a principal amount of U.S.\$500 million at a rate of 5.3% per annum due in 2023, admitted to the Official List and to trading on the GEM of the Irish Stock Exchange. The notes are guaranteed by RUSAL's subsidiaries. The proceeds were applied for refinancing of RUSAL's existing indebtedness.

### *RMB-denominated bonds*

In February 2017, RUSAL registered a prospectus establishing a corporate bond programme listed on the Shanghai Stock Exchange. The programme provides for a total principal amount of indebtedness of up to RMB10.0 billion (U.S.\$1.5 billion), which may be incurred for a term of up to 7 years. Tranches are to be guaranteed by an independent guarantor, China United SME Guarantee Corporation, or RUSAL's key operational companies. The programme remains available for 12 months from the date of registration of the prospectus, unless extended by the Shanghai Stock Exchange for another term. RUSAL may borrow under the programme at any time or from time to time in one or several tranches.

In March 2017, RUSAL issued the first tranche in the principal amount of RMB1.0 billion at a rate of 5.5% per annum due 2020 (subject to put option rights of bondholders in March 2019). The first tranche is guaranteed by China United SME Guarantee Corporation. The proceeds were applied for working capital needs and partial refinancing of RUSAL's debt.

In September 2017, RUSAL issued the second tranche in the principal amount of RMB500 million at a rate of 5.5% per annum due 2020 (subject to put option rights of bondholders in September 2019). The tranche is guaranteed by China United SME Guarantee Corporation. The proceeds were applied for working capital needs and partial refinancing of RUSAL's debt.

### *Collaterals and pledges*

The Group's loans and borrowings are secured by various collateral including: (i) shares in a number of subsidiaries of the Group; (ii) rights, including all monies and claims, arising out of all sales contracts between RUSAL and ultimate customers; (iii) export revenues of ferromolybdenum; (iv) properties, plant and equipment; and (v) inventories (see Notes 18, 12(e) and 15 to the Annual Financial Statements).

### **Commitments and Contingencies**

The summary of the Group's principal commitments and contingencies is set out below. For a detailed discussion of the Group's commitments and contingencies, including those arising out of social commitments, environmental contingencies, risks and concentrations and insurance (see Notes 22 and 23 of the Annual Financial Statements and Notes 14 and 15 of the Interim Financial Information).

#### *Capital Commitments*

##### *RUSAL*

RUSAL has entered into contracts that result in contractual obligations relating primarily to various construction and capital repair works. The commitments as at 30 June 2017, 31 December 2016, 2015 and 2014 were approximately U.S.\$180 million, U.S.\$157 million, U.S.\$169 million and U.S.\$319 million, respectively. These commitments are due over a number of years.

##### *En+ Power*

The Group had outstanding capital commitments which had been contracted for as at 30 June 2017, 31 December 2016, 2015 and 2014 in the amount of U.S.\$43 million, U.S.\$55 million, U.S.\$61 million and U.S.\$78 million, respectively. These commitments are due over a number of years.

#### *Purchase Commitments*

Commitments with third parties for the purchase of alumina, bauxite, other raw materials and other purchases in 2017-2034 under supply agreements are estimated to range from U.S.\$3,156 million to U.S.\$4,089 million as at 31 December 2016, from U.S.\$3,793 million to U.S.\$4,912 as at 31 December 2015 and from U.S.\$3,400 million to U.S.\$3,962 million as at 31 December 2014, all of which depend 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 nil as at 31 December 2016, at U.S.\$110 million as at 31 December 2015 and U.S.\$262 million as at 31 December 2014. Commitments with a related party—joint venture for purchases of primary aluminium and alloys in the period from 2017 to 2030 under supply agreements, are estimated to range from U.S.\$5,748 million to U.S.\$7,127 million, from U.S.\$5,512 million to U.S.\$6,838 million as at 31 December 2015 and nil as at 31 December 2014), all of which depend on the actual purchase volumes and applicable prices.

#### *Sale Commitments*

Commitments with third parties for the sale of alumina and other raw materials in the period from 2017 to 2034 are estimated to range from U.S.\$806 million to U.S.\$1,445 million as at 31 December 2016, from U.S.\$793 million to U.S.\$1,349 as at 31 December 2015 and from U.S.\$958 million to U.S.\$1,946 million as at 31 December 2014, and will be settled at market prices at the date of delivery. Commitments with related parties for sales of alumina in the period from 2017 to 2019 are expected to range from U.S.\$546 million to U.S.\$680 million as at 31 December 2016, U.S.\$504 million to U.S.\$1,046 million as at 31 December 2015 and U.S.\$852 million to U.S.\$1,324 million as at 31 December 2014.

Commitments with related parties for sales of primary aluminium and alloys in 2017-2030 are estimated to range from U.S.\$4,295 million to U.S.\$4,463 million as at 31 December 2016, from U.S.\$3,728 million to U.S.\$4,173 million, as at 31 December 2015 and from U.S.\$3,994 million to U.S.\$4,543 million as at 31 December 2014. Commitments with third parties for sales of primary aluminium and alloys as at 31 December 2016 are estimated to range from U.S.\$941 million to U.S.\$1,252 million, from U.S.\$307 million to U.S.\$654 million as at 31 December 2015 and from U.S.\$923 million to U.S.\$1,144 million as at 31 December 2014.

### *Operating Lease*

The following table sets forth the expected lease expenses of the Group as at 31 December 2016, 2015 and 2014:

	<u>As at 31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(U.S.\$ millions)</u>		
Less than one year . . . . .	30	35	22
Between one and five years . . . . .	88	109	71
More than five years . . . . .	<u>126</u>	<u>134</u>	<u>183</u>
<b>Total</b> . . . . .	<u><b>244</b></u>	<u><b>278</b></u>	<u><b>276</b></u>

From 2013-2014, the Group was involved in legal proceedings as a defendant in connection with the change of the terms of the lease contract relating to the dams. In June 2015, the Group signed an amicable agreement with the owner of the dams which led to the lease expenses increase from U.S.\$1 million (RUB74 million) to U.S.\$14 million (RUB821 million) per annum and a penalty for delayed payment in the amount of U.S.\$4 million.

As at 31 December 2016 and 2015, the Group had U.S.\$12 million and U.S.\$19 million, respectively, of lease liabilities, which remained unpaid under the agreement. In February 2016, the Group was subjected to a court ruling ordering a decrease of the annual lease payments for the dams from U.S.\$13 million (RUB821 million) to U.S.\$6 million (RUB365 million). As at the date of this Prospectus, the dams have been acquired by the Group. In October 2016, the Group acquired previously leased dams from RusHydro for a cash consideration of U.S.\$138 million (excluding VAT), which was paid in full as at 31 December 2016.

A number of lease contracts for land, heat network, property and equipment are for one year with the possibility of contract renewal in the future. Management of the Group believes that such contracts will be effective in the period from 2017 to 2022 and, therefore, the expected lease expenses for the respective period were included in the table above.

### *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.

### *Guarantees*

In September 2015, En+ Power issued a guarantee in respect of certain loan obligations of several borrowers which are not Group companies in favour of Sberbank. This guarantee replaced another guarantee issued in 2010 for the same amount. The obligations of En+ Power are limited to: (i) an aggregate amount up to U.S.\$89 million (RUB6,500 million) for repayment of the principal amounts of all guaranteed loans (including loans in the amount of U.S.\$102 million (RUB6,202 million) and U.S.\$61 million (RUB4,428 million) provided by Sberbank to the parties under common control and U.S.\$72 million (RUB5,263 million) loan provided by Sberbank to the third party); and (ii) interest payments under one of the guaranteed loans of the related company under common control. The guarantee matures simultaneously with the loans with the final maturity dated December 2020.

As at 30 June 2017, the Group recognised a provision in the amount of U.S.\$110 million as compared to U.S.\$108 million as at 31 December 2016 and U.S.\$89 million as at 31 December 2015 for a guarantee issued directly in equity in favour of the bank, in respect of the loan obligations described above.

The guarantee previously issued in 2010 in respect of loan obligations of a related party under common control with the Group in favour of Sberbank was terminated on 11 September 2015. As at 31 December 2014, the guarantee amounted to U.S.\$111 million (RUB6,232 million).

During 2015, the Group paid U.S.\$6 million to the bank under a guarantee agreement in respect of loan obligations of entity under common control. During the first half of 2017 and the year 2016, the Group

paid U.S.\$3 million and U.S.\$6 million, respectively, under this guarantee and recorded this transaction as other distribution.

### ***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.

Tax risks attributable to the Group and the maximum of additional amounts that it is reasonably possible may become payable regarding to these risks are disclosed in the Note 23(a) of the Annual Financial Statements and Note 15(a) of the Interim Financial Information.

### ***Legal Contingencies***

The Group's business activities expose it to a variety of lawsuits and claims which are monitored, assessed and contested on an 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. As at 30 June 2017 the amount of claims, where management assesses outflow as possible was approximately U.S.\$37 million (as compared to U.S.\$60 million as at 31 December 2016, U.S.\$38 million as at 31 December 2015 and U.S.\$111 million as at 31 December 2014).

In January 2013, RUSAL 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 BFI Group Divino Corporation (“**BFIG**”) against certain subsidiaries of RUSAL. 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 Aluminium Smelter Company of Nigeria Plc (“**ALSCON**”) and the 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 U.S.\$2.8 billion plus interest. RUSAL defendants filed their statement of defense and witness statements in support of their legal position. The next hearing is currently scheduled for 6 November 2017. Based on a preliminary assessment of the claim, the Group does not expect the case to have any material adverse effect on the Group's financial position or its operation as a whole.

### **Off-Balance Sheet Arrangements**

Except for the undertakings set forth in “—*Commitments and Contingencies*” above, the Group has no off-balance sheet arrangements that are reasonably likely to have a material impact on its business, financial condition, results of operations and prospects.

### **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 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.

### ***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.

#### *Price Risk*

##### Commodity price risk

From 2014-2016, the Group entered into certain commodity derivatives contracts in order to manage its exposure of commodity price risks. Details of the contracts are disclosed in Note 21 to the Annual Financial Statements.

##### Electricity price risk and tariffs

The Group believes that it has a low exposure to the wholesale market price risk as power plants and aluminium smelters operate in the same price zone and power production and consumption volumes are not materially different.

The tariffs for electricity, heat and transmission services applied to the Group's significant subsidiaries are currently partially restrained by government bodies. The Group cannot directly influence or mitigate the risks in relation to the change in tariffs.

#### *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. The Group's policy is to manage its interest costs by monitoring changes in interest rates with respect to its borrowings. As at 31 December 2016, the Group's 23.3% of loans and borrowings (excluding bonds and accrued interest from total amount) had fixed rate and 76.7% of loans and borrowings had floating rate as compared to 30.0% and 70.0%, respectively, as at 31 December 2015 and 31.0% and 69.0%, respectively, as at 31 December 2014.

#### *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 the Group entities, primarily the dollar but also the rouble, the hryvnia and the euro. The currencies in which these transactions are primarily denominated are the rouble, dollar and euro.

Borrowings are primarily denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily the dollar, but also the rouble and the euro. 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.

#### ***Liquidity Risk***

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

#### ***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. In addition,

receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Furthermore, 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 (see Note 16(b) to the Annual Financial Statements for details of impairment of trade and other receivables). The extent of the Group's credit exposure is represented by the aggregate balance of financial assets and financial guarantees given.

As at 31 December 2016, 2015 and 2014, the Group had certain concentrations of credit risk with 3.4%, 1.4% and 2.3% of the total trade receivables, respectively, due from the Group's largest customer, and 8.8%, 1.7% and 3.0% of the total trade receivables, respectively, due from the Group's five largest customers.

With respect to credit risk arising from guarantees, management have recognised a provision of U.S.\$108 million against the Group's exposure to guarantees as at 31 December 2016 as compared to U.S.\$189 million as at 31 December 2015 and U.S.\$100 million as at 31 December 2014 (see Note 21(e) to the Annual Financial Statements).

### ***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 Group'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 of Directors 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 Group was subject to externally imposed capital requirements from 2014-2016.

### **Significant Accounting Policies**

The Group applies certain significant accounting policies in the preparation of the Financial Statements. These accounting policies have been consistently applied to all periods presented in the Financial Statements. A detailed description of the Group's significant accounting policies are set forth in Notes to the Annual Financial Statements.

### **Accounting Estimates and Judgements**

The Group has identified the critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results of the financial position reported in future periods. Judgments, estimates and assumptions that have the most significant effect on the amounts recognised in the Financial Statements include:

- property, plant and equipment—fair value of hydro assets and recoverable amount;
- inventories—net realisable value;
- goodwill—recoverable amount;
- investments in associates and joint ventures—recoverable amount;
- legal proceedings;
- provision for restoration and rehabilitation;

- taxation;
- reserve estimates;
- exploration and evaluation expenditure;
- development expenditure; and
- defined benefit retirement and other post retirement schemes.

For a detailed description, see Note 26 to the Annual Financial Statements.

#### **Amendments, New Standards and Interpretations**

The IASB has issued the following amendments, new standards and interpretations which are not yet effective in respect of the financial years included in the Annual Financial Statements, and which have not been adopted in the Annual Financial Statements:

- IFRS 9, Financial Instruments—effective for accounting periods starting from 1 January 2018;
- IFRS 15, Revenue from Contracts with Customers—effective for accounting periods starting from 1 January 2018; and
- IFRS 16, Leases—effective for accounting periods starting from 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 but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's results of operations and financial position. For a detailed description, see Note 2(a) to the Annual Financial Statements.

## BUSINESS

### Overview

En+ Group plc is a leading international vertically integrated aluminium and power producer with core assets located in Russia. The Group is the world's largest privately-held hydro power generator and the largest aluminium producer outside of China. Based on its long-term average hydro power production, the Group covers almost all needs of its Siberian aluminium smelters by its own hydro power.

The Group operates through two major business segments: En+ Power and RUSAL. For the purposes of financial disclosure under the IFRS, the Group reports on the basis of five operating segments: the Metals Segment, the Power Segment, the Coal Segment, the Logistics Segment and the Other Segment. RUSAL, which also includes an equity investment in Norilsk Nickel, is equivalent to the Metals Segment. En+ Power predominantly consists of the Power Segment, and also includes both the Coal Segment and the Logistics Segment, both of which support the operations of the Power Segment and the Other Segment. The Other Segment comprises insignificant businesses in the context of the Group as a whole, and the Company may consider disposing of these non-core assets (see "*Presentation of Financial and Other Information—Presentation of Segment Information*").

The Company operationally manages the assets in En+ Power, the operating activities of which primarily include: (i) power and heat generation; (ii) power trading and supply and engineering services; as well as (iii) power transmission and distribution. The Group also strategically controls RUSAL through a 48.13% shareholding and contractual rights contained in a shareholders' agreement with non-controlling shareholders of RUSAL (including the right to propose for nomination for appointment the CEO of RUSAL, at least 50% of the board of directors and two independent directors), while the Company does not exercise day-to-day management of RUSAL's operations (see "*—Business Operations—RUSAL—RUSAL Shareholders' Agreements*").

The Group is the largest private power producer in Russia in terms of installed capacity, according to SEEPX. According to SEEPX, the Group is ranked as the largest privately owned hydro power generation company globally, with 15.1 GW of total installed hydro power capacity in 2016. The Group operates generating assets with 19.7 GW of installed electricity capacity and with 17.0 kGcal/h of installed heat capacity (as of 2016). The Group held an 8.0% share of the total installed electricity capacity in Russia and a 37.6% share of the total installed electricity capacity of the Siberian IPS as at 31 December 2016, according to SEEPX. In 2016, 76.6% of the Group's installed electricity capacity was represented by HPPs, with the remaining 23.4% represented by CHPs (which are predominantly coal-fired) and a solar plant. The Group operates five HPPs, including three of the five largest HPPs in Russia and of the twenty largest HPPs globally, in each case in terms of installed electricity capacity. In 2016, the Group produced 69.5 TWh of electricity, which represented 6.6% of Russia's and 34.0% of the Siberian IPS's total electricity production according to SEEPX, and 27.4 million Gcal/h of heat.

The Group's power operations are predominantly located in Siberia, Russia, thus benefiting from the abundant water resources of the Angara and Yenisei river cascades. In addition, certain assets are situated in the European region of Russia, including the Nizhny Novgorod and Karelia Regions.

RUSAL is a low-cost, vertically integrated aluminium producer with core smelting operations located in Siberia, Russia. According to CRU, RUSAL is the world's largest producer of primary aluminium outside of China and the second largest aluminium group globally. In 2016, RUSAL produced 3,685 thousand tonnes of aluminium, accounting for approximately 6.2% of global aluminium output. RUSAL's core aluminium smelters are major consumers of the power produced by En+ Power. Currently, RUSAL operates 10 aluminium smelters, 7 alumina refineries (including QAL), a strategic investment in Norilsk Nickel and a 50% interest in the BEMO Project.

The Group's business model provides for the advanced, cost-efficient and stable production of power and aluminium, based on favourably located low-carbon assets, which are supported by both the logistics and distribution businesses which provide distinct cost advantages. The Group's CHP facilities, which are predominantly coal-fired, source all of the coal that is consumed by them from mines owned and operated by the Company. The customer base of En+ Power includes RUSAL's largest aluminium smelters. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The Company believes that the interconnection between RUSAL and



En+ Power enable En+ Power to benefit from stable cash flow under its long-term supply agreements with RUSAL, which is the principal consumer of electricity in the region in which En+ Power principally operates. This synergy also allows the core smelters of RUSAL to receive guaranteed access to low-carbon and low cost hydro generated electricity.

In 2016, the Group's revenues and Adjusted EBITDA were U.S.\$9,776 million and U.S.\$2,311 million, respectively. In 2016, En+ Power accounted for 23.7% of the business segments' revenue (before intersegmental eliminations) and had an Adjusted EBITDA of U.S.\$822 million. For 2016, RUSAL accounted for 76.3% of the Group's revenues (before intersegmental eliminations) and had an Adjusted EBITDA of U.S.\$1,489 million.

## **History and Development**

En+ Group plc was established in 2002, initially to hold certain aluminium and alumina assets acquired by the Majority Shareholder. Since then, through strategic acquisitions, gradual asset consolidations, as well as organic growth, the Company has developed into a leading international vertically integrated aluminium and power producer. Below is a general description of the Group's historical development.

In 2003, following the corporate restructuring of aluminium and alumina assets controlled by the Majority Shareholder and the establishment of Rusal Holding Limited (which later formed the group of companies that now comprises RUSAL), the Majority Shareholder received 75% of shares in Rusal Holding Limited. In 2004, the consolidation of Rusal Holding Limited was completed with the acquisition by the Majority Shareholder of the remaining 25% of shares in Rusal Holding Limited from third party shareholders. The Majority Shareholder transferred 100% of shares in Rusal Holding Limited to the Company.

Between 2001 and 2007, the Group and certain other companies related to the Majority Shareholder gradually acquired 50.2% of the shares in Irkutskenergo, a power company that owns several large HPPs and CHPs, with an aggregate generation capacity of 12.8 GW. The shares were purchased from third party shareholders who had acquired shares in Irkutskenergo during its privatisation process or on the secondary market through subsequent transactions. In 2016, the Group acquired 40.3% of shares in Irkutskenergo from Inter RAO, increasing its shareholding to 90.8% (including treasury shares).

In 2003, the Group acquired 64.0% of shares in Krasnoyarsk HPP, currently the tenth largest HPP globally in terms of installed capacity. Between 2003 and 2007, the Group acquired a further 4.3% interest in Krasnoyarsk HPP through a series of acquisitions from third parties. In 2014, the Group purchased 3.4% of shares in RusHydro and exchanged this shareholding in RusHydro for 25.0% of shares in Krasnoyarsk HPP, which were at that time owned by RusHydro. Pursuant to a mandatory tender offer and the buyout process undertaken in 2016, the Group increased its shareholding to 100% of shares in Krasnoyarsk HPP.

In 2006, RUSAL and RusHydro entered into a cooperation agreement to jointly implement the BEMO Project, which contemplated the construction of the 3.0 GW Boguchansk HPP on the Angara river and the Boguchansk aluminium smelter (with a designed production capacity of approximately 588,000 tonnes of aluminium per annum) in the Krasnoyarsk Region. Boguchansk HPP's power generation operations were launched in 2014 under the operational management of RusHydro, a 50% joint venture partner in the BEMO Project. Under the operation management of RUSAL, the first half of the first stage of Boguchansk aluminium smelter launched its operations in 2016 with the production capacity of 149 thousand tonnes.

In 2007, EuroSibEnergo plc was established to consolidate and manage the Group's power assets and operations. All power assets that were owned by companies related to the Majority Shareholder were combined under EuroSibEnergo plc, a Cypriot intermediary holding subsidiary of the Company, by 2009.

In 2007, as a result of the acquisition by the Group of SUAL, which at the time was one of the ten largest aluminium producers globally, and certain of the aluminium and alumina businesses of Glencore, the current RUSAL was formed under UC RUSAL, a parent company for the newly formed group, which was comprised of the aluminium producing assets and subsidiaries of the Group. Due to the shareholders' objective at that time, which was to form a global producer of aluminium focused on its upstream aluminium business, KRAMZ was not included in RUSAL as part of the acquisition arrangements, as the former focuses on the downstream market for aluminium products, and as such did not fit RUSAL's strategic profile.

In 2008, RUSAL completed the acquisition of a 25% plus one share interest in Norilsk Nickel, the world's second largest producer of nickel, top-1 producer of palladium in 2016 and one of the world's leading

producers of platinum and copper. Norilsk Nickel is the lowest nickel cash cost producer globally, firmly positioned on the first quartile of the global cost curve. In 2016, Norilsk Nickel produced 236 thousand tonnes of nickel.

In 2008, with a view to increasing vertical integration within En+ Power, the Group acquired companies operating coal mining assets located primarily in the Irkutsk and Krasnoyarsk Regions. The Group's CHPs, which are predominantly coal-fired, source almost all of their coal consumption from its own coal operations, which are included in the Coal Segment.

In 2010, RUSAL conducted an IPO and listed its shares and global depository receipts on the Hong Kong Stock Exchange and NYSE Euronext in Paris. Later in 2010, RUSAL listed its Russian depository receipts on Russia's stock exchanges. In 2015, the shares of RUSAL were admitted to listing on MOEX.

In 2010, the Group acquired SMR, which owned and operated two mining and processing plants, as well as two ferromolybdenum plants, all of which are located in the Khakassia and Zabaikalsk Regions. The Group purchased SMR from the company under common control.

In 2011, the Group formed a logistics business in order to provide comprehensive logistics services predominantly to the power companies of En+ Power. The logistics assets include railway lines with a total length of 95 km and a number of railcars and locomotives in the Khakassia Region.

In 2016, the Group purchased dams in the Angara river cascade in the Irkutsk Region from RusHydro. The dams, which are a part of the Group's cascade comprising the Irkutsk, Bratsk and Ust-Ilimsk HPPs located on the Angara river, were previously leased by Irkutskenergo from RusHydro.

### **Competitive Strengths**

The Group's management believes that the Group has a number of competitive strengths that have enabled it to expand significantly over the last several years, and that these strengths will continue to provide it with competitive advantages in the future. The Group's key competitive strengths are summarised below.

#### ***Global leader in hydro power generation and aluminium production***

The Group benefits from its unique base of closely located and integrated assets in order to establish its global leadership in both power and aluminium production.

With 15.1 GW installed hydro power capacity in 2016, the Group is the largest privately held hydro generator in the world. It also operates three of the twenty largest HPPs globally and three of the top five HPPs in Russia (Krasnoyarsk HPP, Bratsk HPP and Ust-Ilimsk HPP). The Group has the highest installed power generation capacity in the Siberian IPS and was the fifth largest electricity producer in Russia in 2016.

RUSAL is the world's largest aluminium producer outside of China and the second largest aluminium group globally according to CRU, with annual production of 3,685 thousand tonnes of aluminium in 2016.

In Russia, the Group is among the largest industrial groups, one of the largest employers and a major contributor to the federal and regional budgets.

With an established presence in 19 countries and a strong operational hub in Siberia, combining assets of both En+ Power and RUSAL, the Group is able to capture opportunities arising from its world class platform and scale. The Group's aluminium segment has a well-diversified sales platform which allows it to efficiently access and operate in all key aluminium markets, such as the United States, Western Europe, Japan and South East Asia. The Group has a world class market research and analytics platform which provides valuable input to the Group's long-term operational and financial planning. At the same time, En+ Power operates the largest and the most cost-efficient network of power plants in the Siberian region, which allows it to efficiently and reliably cater to its core clients in Siberia, including the largest smelters operated by RUSAL.

The Group's scale also provides a number of distinct operational advantages including greater bargaining power with key raw materials suppliers, service providers and regulators, both in Russia and globally. The Group's scale allows it to actively manage the flow of aluminium products, alumina and other raw materials within the Group and proactively plan the Group's energy generation and consumption targets in order to optimise capacity utilisation and maximise efficiency at the Group's smelters, refineries and power plants.

The Group's diverse operational base and expertise also enhance the Group's ability to develop and implement proprietary technology and operating solutions, execute on opportunistic and value creative acquisitions and compete globally for the best operational, managerial and financial expertise and human capital.

#### *Vertically integrated green business model*

The composition of the Group's assets and operations, both in terms of the industries and concentrated location in which the Group operates, enables En+ Power and RUSAL to achieve strategic synergies.

Aluminium smelting is an electricity intensive process, that is dependent on high volumes of electricity for the production of aluminium. En+ Power has no single customer that consumes volumes of electricity comparable to those required by RUSAL's aluminium smelters that En+ Power supplies. Similarly, there are limited numbers of other power generation companies capable of assuring the volumes of electricity and capacity required by RUSAL's aluminium smelters. In addition, these aluminium smelters source a certain volume of electricity on the wholesale market, therefore also indirectly from En+ Power. The Group's largest and most efficient aluminium smelters are located in the Krasnoyarsk and Irkutsk regions of Russia. At the same time, the Group's largest HPPs are located on the Angara and Yenisei rivers in the same regions. The aluminium smelters of RUSAL and the HPPs of En+ Power thus form the Group's core operating hub in Siberia.

In 2016, RUSAL consumed a total of 59.4 TWh of electricity in the Siberian IPS according to CRU estimates, while En+ Power produced 67.4 TWh of electricity (56.3 TWh of which by HPPs) in Siberia. The long-term average power production of En+ Power's Siberian HPPs is 63.8 TWh of electricity. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The Company's management believes that the Group's key competitive advantage in terms of creating value through vertical integration lies in the close match of the electricity needs of RUSAL and the electricity production of En+ Power. The long-term power supply contracts secure a stable source of electricity supply for RUSAL's aluminium smelters, while providing a benefit for En+ Power by securing a base load demand for electricity. The Company estimates that event if these contracts did not exist, the volumes would be supplied to the wholesale market by En+ Power's HPPs (being the price takers and supplying to the market as much electricity as they are able to generate) and would be consumed by RUSAL's Siberian smelters (being one of the most cost efficient aluminium producers in the world).

Consequently, En+ Power and the aluminium smelters of RUSAL are interdependent. In the long run, the Group has the ability to plan long-term capital expenditures for its power and aluminium businesses in Siberia.

Approximately 60% of RUSAL's costs are rouble-denominated and subject to fluctuations in the rouble/dollar exchange rate when translated into dollars. The revenues of En+ Power are predominantly rouble-denominated and subject to rouble/dollar exchange rate fluctuations when presented in dollars, the Group's presentation currency. As a result, in case of weakening of the rouble against the dollar both the costs of RUSAL and the revenues of En+ Power would decrease in dollar terms, partially offsetting the rouble depreciation effects when translated to consolidated Group margins. Alternatively, in the case of strengthening of the rouble against the dollar both the costs of RUSAL and the revenues of En+ Power would increase in dollar terms, again partially offsetting the currency effects on the consolidated Group margins.

In addition to the close integration and complementarity of En+ Power and RUSAL, there is a high degree of vertical integration within power generation and aluminium production. En+ Power's CHP facilities, which are predominantly coal-fired, source all of the coal that is consumed by them from mines owned and operated by En+ Power's subsidiaries. The coal is transported by a railway cargo operator also held by En+ Power. RUSAL's alumina production covers 100% of its total alumina needs while RUSAL's own bauxite and nepheline production is sufficient to cover approximately 80% of its alumina production with additional bauxite being purchased under medium- and long-term contracts.

### *Unique asset base and operational excellence contributing to cost leadership*

The favourable geographic characteristics of the Group's assets and the integration of its aluminium and power operations are the key drivers contributing to its global cost leadership.

Renewable energy sources, and HPPs in particular, have lower variable operating costs when compared to generators reliant on fossil or nuclear fuel. The Group's HPPs are run-of-river hydro plants, which means that the water flowing through them gets converted to electricity without significant incremental costs being incurred by the operator. The only variable cost of an HPP is a water tax.

The Group's power operations are predominantly located in Siberia, Russia, benefiting from the abundant water resources of the Angara and Yenisei river cascades. Angara runs its course from Baikal, a lake fed by more than 300 rivers and containing major water reserves amounting to approximately 20% of the world's surface fresh water. Since Angara is the only river flowing out of the lake, it has sufficient flows throughout the year to provide required water supply and stable load factor to En+ Power's HPPs.

The Group also benefits from the scale of its hydro power plants, operating three of the five largest HPPs in Russia and of the twenty largest HPPs globally. Because of the geographic characteristics of the area where it operates, scale and the efficient management of its power plants, En+ Power has lower operating costs compared to other companies engaged in hydro generation. This contributes to the favourable position of the associated HPPs in the Siberian merit order curve, and gives them priority in dispatching electricity.

As a result, RUSAL also enjoys a number of cost advantages. It benefits from its access to low-cost and abundant hydro power generation, which has allowed RUSAL's core aluminium smelters to retain their competitive position on the global cost curve, whilst competition for energy sources continues to put pressure on the cost base of other aluminium producers that rely more on thermal or gas power. In addition, in recent periods, RUSAL benefited from the rouble devaluation, which has helped to minimise RUSAL's costs, approximately 60% of which are denominated in roubles. As a result, RUSAL's average aluminium costs per tonne were U.S.\$1,333 in 2016, which ranked RUSAL in the first quartile of the aluminium industry cost curve. RUSAL's Adjusted EBITDA Margin for 2016 was 18.7% as compared to the industry average EBITDA Margin for 2016 of 10% (based on the average of Norsk Hydro, Hindalco, Novelis, Alcoa, Chalco and Century 2016 EBITDA margins).

In addition to a structurally low cost base, En+ Power implements cost control measures through the use of an operating and maintenance cost-allocation priority system, whereby maintenance capital expenditures are assigned to a particular project at the appropriate time (as determined on the basis of multiple factors and taking into consideration budget constraints). As a result, the year-to-year increases in costs for En+ Power for 2014 through 2016, which are substantially all rouble-based, were below inflation levels in Russia for the same period. Additional cost control measures introduced by En+ Power include: personnel cost optimisation, consolidated procurement service, ongoing centralisation of back-office functions, introduction of O&M cost allocation priority system, reduction in grid losses, shutdown of inefficient power and heat capacity, maximisation of CHP operation in heating mode, and effective plant management.

The useful life of HPPs is longer than the useful life of CHPs and nuclear power plants. This advantage allows the Group to benefit from lower capital expenditures in the long-term than some of its competitors.

RUSAL is also focused on cost efficiency: in 2013 and 2014, it implemented a programme to shut down inefficient capacity. As a result of such optimisation, RUSAL's average aluminium segment costs per tonne were reduced by 9.3% from U.S.\$1,907 to U.S.\$1,729 over that period. Furthermore, RUSAL has a prudent capital allocation policy in place, focusing capital expenditures on projects increasing its raw materials self-sufficiency and the share of value-added products in its sales mix.

Given that the electricity consumption at RUSAL's Siberian smelters is largely balanced with the electricity generation at En+ Power HPPs, the Group, on a consolidated basis can view electricity sales between RUSAL and En+ Power as intercompany transactions. The management believes that on a look-through basis, the Group's aluminium operations are actually the most cost-efficient in the world.

The advantageous aluminium cost curve position for the entire Group on a look-through basis further reinforces the Group's cost leadership in one of its core business segments. Therefore, as a Group, the business is less vulnerable to the negative price developments in the aluminium market and has more flexibility to maintain production and optimal levels, service debt obligations and other ongoing commitments than other non-integrated aluminium producers.

### *Strong cash flow generation*

The Group has established a track record of free cash flow generation that has enabled it to pay increased dividends to its shareholders in recent years. In 2016, 2015 and 2014, the Group's Free Cash Flow amounted to U.S.\$298 million, U.S.\$1,081 million and U.S.\$532 million, respectively. In 2016, 2015 and 2014, the Group paid dividends of U.S.\$318 million, U.S.\$262 million and U.S.\$203 million, respectively. While the Group's power operations generate a stable base for free cash flow from operating activities through dividends from its power subsidiaries, RUSAL, operating in a cyclical industry that is susceptible to price volatility, provides an upside in case of favourable market conditions. In addition, the combined free cash flow of the Group in the dollar terms is less susceptible to currency fluctuations than the free cash flows of RUSAL and En+ Power individually. The Group's Free Cash Flow is supported by RUSAL's continued focus on higher-margin value-added products, as well as dividend payouts from Norilsk Nickel.

The strong free cash flow generation of the Group is a key enabler of the Company's dividend policy, aimed at distributing 75% of the En+ Power Free Cash Flow, subject to a minimum of U.S.\$250 million per annum (with U.S.\$125 million in December 2017) and fully passing through any dividends from RUSAL and deleveraging the Group's balance sheet.

### *Upside potential from multiple catalysts*

The global primary aluminium consumption is expected to grow from 59.7 million tonnes in 2016 to 73.2 million tonnes in 2021 according to Company analysis, translating into a 4.2% compounded annual growth rate, and contributing to an increase in primary aluminium deficit from 0.7 million tonnes in 2016 to 2.1 million tonnes in 2021. Aluminium demand is driven by a diverse set of industries, with transport and construction sectors accounting collectively for over half of world aluminium semis consumptions in 2016, according to CRU (see "*Aluminium Industry Overview*").

China, the world's top producer and consumer of aluminium in 2016, according to CRU, has recently introduced an Air Pollution Control Plan implying curtailment in aluminium production. In December 2016 and January 2017, high levels of pollution were registered in Beijing and the neighbouring industrial regions of Hebei, Shandong, Shanxi, Henan and Tianjin, an area with emission intensity four times the national average and accounting for 39% of aluminium production, while only representing 7.2% of the country's territory. In response to these negative developments, the Government of China introduced the Air Pollution Control Plan requiring 30% of aluminium smelting and 30% of alumina refining capacity in those regions to close between the months of November and March each year. According to the Company, this is expected to lead to a decrease in aluminium output of approximately 1.2 million tonnes in the first full year of the policy implementation, and likely to result in an increase of smelting costs and growth of alumina import.

As the largest aluminium producer outside of China, RUSAL is favourably positioned to capture some of the incremental demand. RUSAL is in the process of constructing two large aluminium smelters, which, if completed, will increase designed capacity by 1.6 million tonnes. In 2016, the BEMO Project, with a total designed capacity of approximately 600 thousand tonnes of aluminium per annum, was commissioned with production of 149 thousand tonnes of aluminium per annum, with additional production of 149 thousand tonnes of aluminium per annum expected to be operational in 2018. In May 2017, RUSAL decided to resume the construction of Taishet aluminium smelter, which was suspended in 2009. It is expected that the Taishet aluminium smelter will have a designed capacity of 983 thousand tonnes of aluminium per annum.

As the largest power producer in the Siberian region, En+ Power is well positioned to capture the benefit from the increase in electricity demand that would be triggered by the completion of the aforementioned projects, estimated at 20.7 TWh.

Due to less favourable hydrological conditions in 2016, En+ Power's HPPs production amounted to 56.3 TWh (excluding Ondskaya HPP), 14% below the long-term average of 63.8 TWh. The Company calculates the long-term average with reference to data since 1970 with regard to Krasnoyarsk HPP and to data since 1977 with regard to Irkutsk, Bratsk and Ust-Ilimsk HPPs. The Company's management believes that a reversion to the mean would allow En+ Power's HPPs to meet some of the incremental demand generated by the RUSAL projects under construction, without any incremental capex requirements. It will also allow En+ Power's HPPs to benefit from any increases in power prices.

In addition, a number of other projects are currently under development in Siberia, which would also increase power consumption in the region if completed. SEEPX currently estimates that demand will

increase by 6.4 TWh by 2022, excluding the construction of RUSAL's BEMO Project and Taishet aluminium smelter (see "*Russian Power Industry Overview*").

### ***Experienced management team***

The Group has a highly skilled and experienced team of managers with proven industry expertise and an impressive track record of managing growth through acquisitions and organic growth in challenging environments. The Company has adopted international standards of corporate governance, including independent directors on the Board of Directors. The Group plans to continue to develop in this area and to adhere to internationally recognised standards of corporate governance, transparency, disclosure and accountability for publicly traded companies (see "*Management and Corporate Governance—Board of Directors*").

### **Strategy**

Building on the strengths described above, the Company's management is pursuing and will continue to pursue the strategies that they believe will enable the Group to capture market opportunities, including to take advantage of more favourable macro-economic environments and/or improved global aluminium markets as and when they materialise. The Group's strategy concentrates on organic growth with a focus on capital discipline and deleveraging. Taking into account the forecasted demand for power in Siberia (based on the development plans of RUSAL, which is the principal driver of demand in the region), En+ Power is capable of increasing its power output without any material capital expenditures. Thus, the Group does not plan to implement any large-scale capital intensive programmes that would otherwise require significant capital expenditures, focusing instead on maintenance and modernisation of its generating assets, including HPPs. In order to achieve these objectives, the Company intends to focus on the following pillars of its strategic plan.

#### ***Deleverage and support solid dividend payments through strong free cash flow generation***

The Group operates a conservative capital allocation policy, focusing on operating efficiencies, cash preservation, deleveraging and value creation for its shareholders. One of the Group's management's key financial priorities in the near and medium term is to continue to reduce the Group's leverage, in particular to decrease En+ Power's Net Debt to Adjusted EBITDA from 5.5 to 1 as at 30 June 2017 to 3.5 to 1 within three years. The capital discipline and deleveraging activities undertaken by the Group in recent years has enabled RUSAL to commence dividend payments to its shareholders, which amounted to U.S.\$250 million in each of 2015 and 2016. The continued reduction of indebtedness will allow the Company to implement its dividend policy, as approved by the Board of Directors in 2017, targeting the payment on at least a semi-annual basis of dividends which will be equal to the sum of: (i) 100% of dividends received from RUSAL; and (ii) 75% of Free Cash Flow of En+ Power, subject to a minimum of U.S.\$250 million per annum (with U.S.\$125 million in December 2017).

#### ***Optimise the electricity supply-demand balance through the integration of RUSAL and En+ Power***

The Group has highly integrated and interdependent businesses. In 2016, RUSAL consumed a total of 59.4 TWh of electricity in the Siberian IPS under CRU estimates, while En+ Power produced 67.4 TWh of electricity (56.3 TWh of which by HPPs) in Siberia. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. The Company's management believes that the Group's key competitive advantage in terms of creating value through vertical integration lies in the close match of the electricity needs of RUSAL and the electricity production of En+ Power. The long-term power supply contracts secure a stable source of supply of electricity for RUSAL's aluminium smelters, while providing a benefit for En+ Power through securing a base load demand for electricity. En+ Power is the leading electricity generator in Siberia based on both installed electricity capacity and production output. Thus, RUSAL and En+ Power are key players in the Siberian electricity market and are capable of influencing the balance of electricity supply and demand in the region. The Group's strategies include the reinforcement of the synergies between its power and aluminium businesses, primarily through the coordination of long-term capital expenditures for core operations in Siberia.

### ***Focus on cost control below inflation***

The Group emphasises a cost discipline throughout En+ Power's and RUSAL's operations. In addition to natural low cost base for the Group's power generation business, due to the significant share of HPPs in its portfolio of generation assets, En+ Power intends to continue to control cost increases by keeping them at a level below inflation in Russia, primarily by using a cost-allocation priority system, as well as implementing various cost optimisation measures such as ensuring a lean production system, reducing personnel costs, establishing a consolidated procurement service and centralising back-office functions (accounting, legal and IT). Historically, RUSAL has been one of the lowest cost aluminium producers globally. To a large extent, this cost advantage is due to RUSAL's access to sources of historically low-cost power, although in recent periods the depreciation of the rouble against the dollar has also helped to minimise RUSAL's costs, approximately 60% of which are denominated in roubles. RUSAL seeks to maintain and improve its historical cost efficiency levels by reducing costs across all divisions, and optimising raw-materials sourcing, transport and logistics. To achieve this, RUSAL intends to focus on customer demand, secure long-term power and transportation contracts and achieve full bauxite and nepheline self-sufficiency in the medium term.

### ***Ensure continuous improvement of the Group's environmental performance***

In recent years, the issue of environmental protection, and in particular limiting climate change, has become increasingly important. For example, the Paris Agreement, reached at the 2015 UN Climate Change Conference, commits its signatories (which include states in which many of the Group's key markets are based) to limit climate change to two degrees Celsius by reference to pre-industrial temperatures. As governments introduce new environmental protection and climate change limitation regulations, any failure by companies to address their impact on the environment is likely to become increasingly expensive to them. Currently, the Group's power generation and aluminium production facilities have one of the lowest carbon footprints. In 2016, RUSAL had carbon emissions of primary aluminium production of 3.4 tCO<sub>2</sub>e/tAl (RUSAL verified calculation) as compared to 17.1 tCO<sub>2</sub>e/tAl in India (the highest number) and 3.6 tCO<sub>2</sub>e/tAl in South America (the lowest number) (CRU 2015 data for world aluminium production). The Group continues to implement state-of-the-art environmental techniques and practices to further decrease its impact on environment. En+ Power's companies constantly focus on efficiency to decrease the heat transmission losses. As a result, greenhouse gas emissions of the power assets that comprise En+ Power decreased significantly over the past 25 years (from 31.6mt CO<sub>2</sub> in 1990 to 27.1mt in 2008, 21.6mt in 2013 and further to 19.8mt in 2016). The Group aims to reduce greenhouse gas emissions by its CHPs in Syberia by 12% to 17.5mt by 2020 as compared to 2016 level. In addition to implementing new technologies, while implementing modernisation programmes, RUSAL introduces new developments to decrease emissions (such as closed water cycle). Going forward, the Group aims to comply with strict environmental targets relating to energy consumption, energy sources, greenhouse gas emissions, waste management and land rehabilitation. RUSAL aims to cover 100% of aluminium production energy needs by using hydropower sources.

### ***Reinforce the Group's leadership in the global aluminium industry by raising production efficiency and operating margins***

RUSAL's business is focused on the production of primary aluminium in the form of standard LME tradable specification of commodity ingots and aluminium VAPs, including billets, rolling ingots, foundry alloys, wire rods and high-grade aluminium. VAPs typically generate additional margins as compared to standard aluminium commodity ingots. Aluminium VAPs constitute a significant share of RUSAL's portfolio (contributing 44% of RUSAL's total aluminium sales volumes, 47% of revenue from primary aluminium and alloys, and 39% of revenue from total sales in 2016). To further benefit from the higher margins generally available to businesses selling VAPs to end-customers and distributors (as compared to commodity businesses that provide primary aluminium to global traders), and to provide a better service to and technical support to customers, RUSAL seeks to increase the share of VAPs in its production and sales mix to 60% by 2021, in particular, through increasing the VAP capacity and improving the effectiveness of its Siberian smelters.

RUSAL's wide range of VAPs allow RUSAL to serve the majority of aluminium end use applications and to react to market needs more quickly. In 2015 and 2016, in order to increase VAP sales, RUSAL rolled out over 100 new products with respect to product dimensions and alloy grades. These products have been qualified or are undergoing qualification with customers.

In addition to increasing VAP sales, RUSAL intends to increase sales in all of its key markets by purchasing and selling primary aluminium and aluminium alloys from producers and third parties seeking to achieve access to new end users, markets and geographies. In the particular context of the Russian market, RUSAL seeks to cooperate with strategic partners and to take advantage of RUSAL's existing infrastructure and workforce (particularly at smelters where primary aluminium production has been discontinued) in order to develop downstream facilities, to stimulate local aluminium markets and to promote new applications of aluminium products.

*Actively explore power industry development opportunities*

The Group's long-term strategy includes the development and implementation of support for new power generation and supply opportunities and projects. In this regard, the Group has participated in several pilot development projects, such as a pilot solar plant in Abakan (the Khakassia Region) and a solar panel development project with Moscow State University.

The Group's strategy includes participating in diversified, low capital expenditure research and development projects with potential industrial and environmental applications. As an example, in 2013 the Group initiated a greenfield project for building a solar plant in Abakan, which was put into operation in December 2015, with installed capacity of 5.2 MW and annual electricity production of 6.5 MWh. The plant has more than 20,000 solar modules and covers an area of 18 hectares. The average number of sunny days in Abakan exceeds 310, which maximises the use of solar potential, satisfying approximately 1/30 of the electricity needs of the city, whilst also providing a source of non-polluting renewable energy. For the same amount of energy, a coal thermal power station would need to burn approximately 5,000 tonnes of coal per annum, which, in turn, would create greenhouse gas emissions in excess of 8,000 tonnes.

The Group's strategy also includes other solar energy initiatives, such as design of solar roof panels, small solar power plants with installed capacity up to 10 KW and production of the components for solar plants.

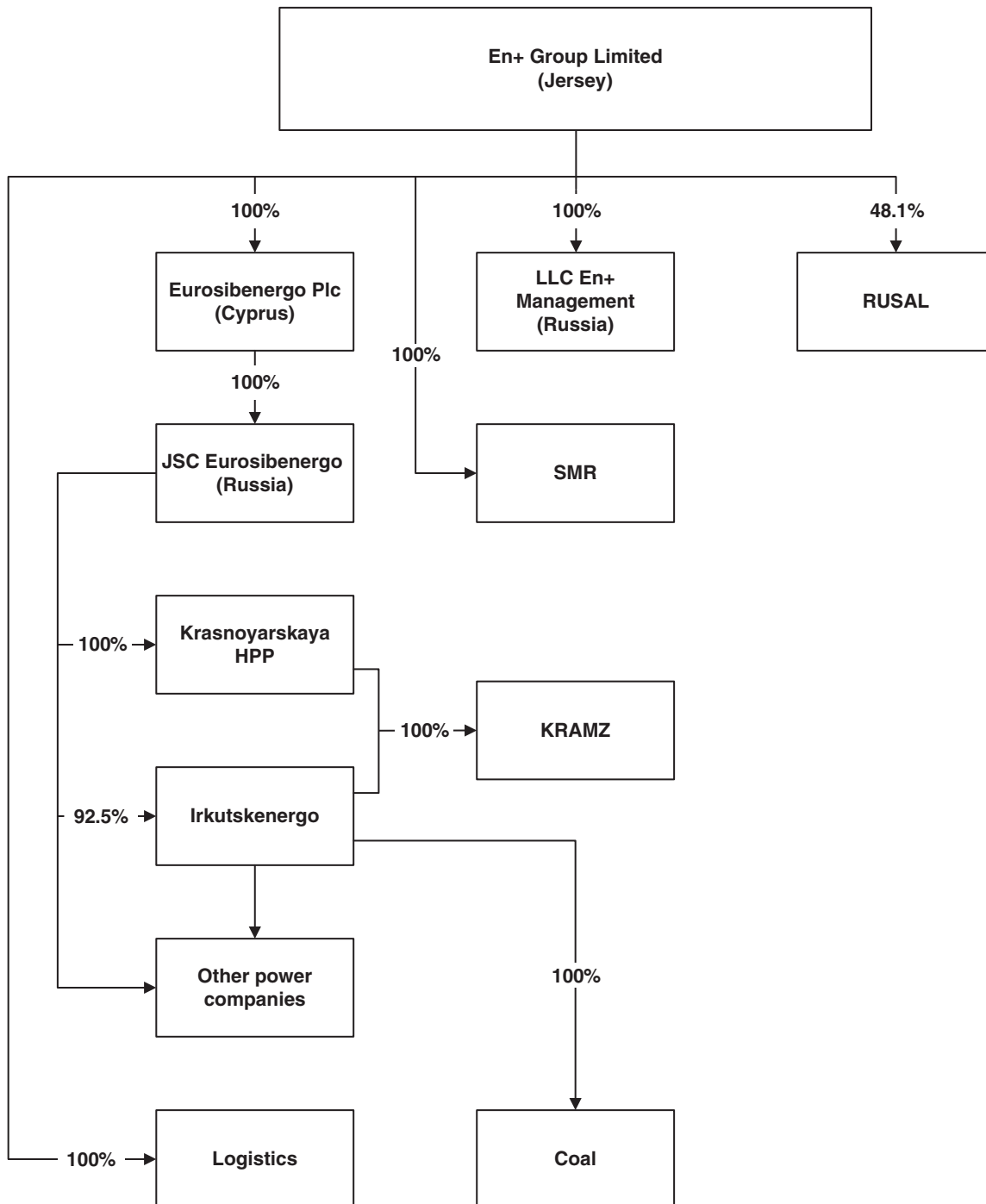
The Group also seeks to keep pace with certain initiatives that are expected to fundamentally change the power industry. For example, the Group intends to implement smart grid systems through distributed generation projects aimed at securing synergies in electricity supply and grid efficiency. The smart grids are modernised power grids that use communication systems and technologies to generate information on power production and consumption, which will allow the Group to increase the efficiency, reliability and sustainability of its power production and supply. In addition, certain distributed generation projects may be implemented in isolated zones, such as construction of captive CHPs (up to 25 MW) for large industrial companies or captive solar plants. In contrast with the current unified electricity systems, which require the transmission of electricity over long distances, the distributed generation systems are decentralised, modular and flexible technologies, which are located close to the load they serve and have an installed electricity capacity of less than 10 MW. These systems can comprise multiple generation and storage components. Distributed generation and storage systems enable the collection of energy from many sources and can, therefore, improve security of supply.

In addition, as part of power business development, the Group explores initiatives relating to small HPP construction with installed capacity up to 150 MW, recovery of unexploitable HPPs and exploration of new boundary sites.



## Corporate Organisation

All production, sales, marketing and other operations of the Group are conducted through the Group's subsidiaries. The following chart sets forth the Group's simplified organisational structure as at the date of the Prospectus:



## Internal reorganisation

In 2018, the Group intends to implement an internal reorganisation whereby EuroSibEnergy plc, a Cypriot intermediary holding subsidiary of the Company, is expected to be merged into the Company. Following this merger, LLC En+ Management, a Russian company that currently manages the operating subsidiaries of En+ Power, is expected to become a Russian holding company that will legally own and control most of the operating subsidiaries of En+ Power. It is planned that LLC En+ Management will own 100% of shares in JSC EuroSibEnergy. It is anticipated that the completion of the reorganisation will optimise the

management structure and the Group's internal business processes, in order to better facilitate the rapid implementation of decisions.

### ***Redomiciliation***

Following the Offering, the Company intends to become a tax resident of Cyprus by the end of 2017 and to redomicile from Jersey to Cyprus in 2018. Based on advice from the Company's external legal counsels on Jersey and Cypriot law, below is a general description of steps required to be made by the Company in order to implement the redomiciliation.

Under Jersey laws, the Company is required to adopt a shareholders' resolution in the form of a special resolution, which must be passed by a two-thirds majority of those shareholders entitled to attend and vote at a general meeting. Unless the vote in favour of the special resolution is unanimous, the Company must wait for 21 days following the passing of the special resolution to allow minority shareholders to object.

Unless all of the known creditors of the Company agree in writing, notice must also be given to all of the known creditors of the Company at least 21 days before making any application to continue overseas. Each creditor under Jersey law has the power to apply to court within 21 days after the date of such notice for an order restraining the application of the Company to redomicile. If the court is satisfied that the interests of the creditor would be unfairly prejudiced by the proposed continuance it may make an order restraining the application. The Company intends to obtain the written consent of all of its known creditors prior to making any application to the Jersey Financial Services Commission (the "JFSC"), a local regulator.

Following the passing of the special resolution, the grant of consent by all the known creditors of the Company and the expiration of a 21-day period, the Company will apply to the JFSC to issue a certificate of discontinuance, which is issued only after the temporary certificate of registration in Cyprus is granted.

Following the completion of steps under the Jersey laws, the Company will file applications for transfer of its registered office in Cyprus with the registrar of companies in Cyprus which shall be accompanied by certain documents (including the respective corporate shareholders' resolution adopted under the Jersey laws).

If the registrar is satisfied that the Company has complied with the provisions of the Cypriot corporate laws, it should provisionally register the Company as a company continuing in Cyprus and issue a temporary certificate. The date of the temporary certificate is deemed to be the date of the Company's registration in Cyprus. The Company will then be considered as a legal entity established under the Cypriot laws. Prior to the issuance of a temporary certificate, the Company will still be considered as a legal entity registered under the Jersey laws.

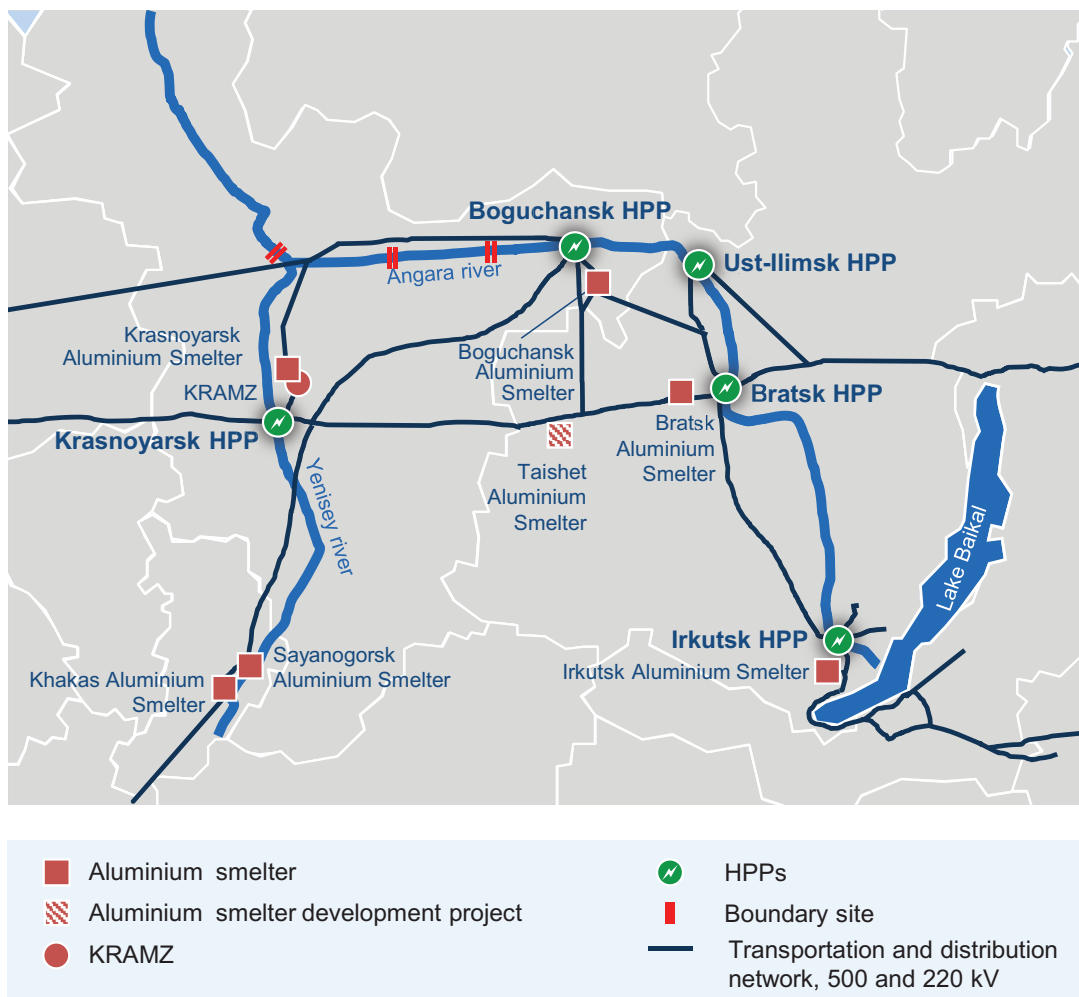
Within six months from the date of the temporary certificate, the Company is required to file with the Cypriot registrar a form accompanied by the certificate issued by the Jersey registrar confirming that the Company ceased to be registered in Jersey. The Cypriot registrar will then issue the permanent certificate confirming that the Company has been registered as a company continuing in Cyprus from the date of the temporary certificate.

Once the temporary certificate is issued by the Cypriot registrar, the shareholders who are recorded in the register of members (including the Depositary) at the time of redomiciliation will continue to be registered in the register of members following the issuance of a temporary certificate. The share certificates will be issued in their name as soon as possible following the issue of the temporary certificate.

*See also "Risk Factors—Risks Relating to the Securities and the Trading Market—The contemplated redomiciliation of the Company may entail certain risks".*

### Location of principal assets

The following map shows the location of the Group's principal assets in Siberia:



### Business Operations

The Group's operations, businesses and financial reports are presented based on the following segments:

- **En+ Power:** En+ Power includes the Group's power generation, transmission and distribution operations, which are supported by the Group's coal and logistics operations, and other immaterial assets. Operationally, En+ Power is divided into four segments:
  - **Power:** The Power Segment includes the Group's operations that provide for the generation of green, cost-effective hydro energy and heat, and the subsequent transmission and distribution and sales of such hydro energy and heat in the east Siberia and Volga regions of the Russian Federation.
  - **Coal:** The Coal Segment is engaged in the mining and sale of coal in the east Siberia region of the Russian Federation. Brown and fossil coals are the products of this segment. The Coal Segment provides sufficient coal to enable the Power Segment's operations to be self-sufficient in coal, and is also involved in coal sales to third parties in Russia and abroad.
  - **Logistics:** The Logistics Segment is engaged in providing transportation services to the other segments of the Group and to third parties.
  - **Other:** The Other Segment includes the production and processing of molybdenum and ferromolybdenum at SMR plants located in certain cities of eastern Russia, and the aluminium processing operations of KRAMZ. These products are mainly sold to customers in the military, aircraft, transportation, ship building, packaging and construction industries in Russia and

abroad. This segment also holds a number of greenfield and brownfield project licences for ferrous and non-ferrous metals.

- *RUSAL*: This segment includes the Group's shareholding in RUSAL, whose operations include the mining and refinement of bauxite into alumina, along with the production and sale of primary aluminium, alumina and other related products. In addition to its other assets, RUSAL also owns a 27.82% stake in Norilsk Nickel, the world's largest producer of nickel and palladium.

The operations of the Group's segments are managed separately and the results of their operations are reviewed by the Group's management on a regular basis.

### ***En+ Power***

The Group's En+ Power, which includes its assets and operations involved in the production and supply of electricity and heat, as well as its supporting operations engaged in the supply of coal reserves, as well as logistics services to the Group, is operationally managed as three distinctive operating segments. For reporting purposes, En+ Power also includes the non-core operations of SMR and KRAMZ.

### ***Power Segment***

#### *Overview*

The Group's Power Segment includes energy operations in the east Siberia and Volga regions and is engaged in all of the major areas of the power industry in Russia, with assets and activities in: electricity and heat generation; electricity, capacity and heat sales; heat distribution; retail energy trading and supply; engineering services; and electricity distribution and transmission.

The Group operates five HPPs, including three of the five largest HPPs in Russia and of the twenty largest HPPs globally, in each case in terms of installed electricity capacity. As at 31 December 2016, the total installed electricity capacity of the Power Segment's assets amounted to 19.7 GW, while their total installed heat capacity amounted to 17.0 Gcal/h. The Power Segment produced 69.5 TWh of electricity output in 2016, which represented 6.6% of Russia's total electricity generation and 34% of the Siberian IPS's total electricity generation for the period, according to SEEPX.

Hydro power generation is a key area of the Group's Power Segment's business. Russia has the second largest potential in the world for economically efficient hydro power generation. This is namely due to Russian rivers, which are recoverable energy sources that in total are able to provide more than 800 billion kWh of low-carbon electricity per annum, according to SEEPX. As at 31 December 2016, 76.6% of the Power Segment's installed electricity capacity was represented by HPPs, with the remaining 23.4% represented by CHPs (which are predominantly coal-fired) and one solar plant. The Group's management believes that its HPPs operate in accordance with high environmental protection standards and provide a low-carbon power source for Russian manufacturing facilities. In 2016, the Power Segment's HPPs produced 81.5% of the total electricity generated by the Power Segment. The Group is a member of International Hydropower Association (the "IHA") and will adhere to IHA Sustainability Assessment Protocol in order to mitigate and prevent the negative environmental impact of its hydro power plants on Lake Baikal. As electricity output of the HPPs is subject to fluctuations in water flows, the Group's CHPs complement the Group's generation assets portfolio by enabling the Power Segment to balance its electricity production loads (see—"Risk Factors—Risks Relating to the Group's Business and Industries of Operation—Risks Relating to Power Operations—The electricity output of the Group's hydro power generation facilities is subject to fluctuations in water flows").

The assets and activities attributable to the Power Segment are predominantly located in the Siberian federal district of Russia. In addition, the Group has certain assets in the European part of Russia. The Group's power operations are located in close proximity to numerous Russian companies that produce goods and extract natural resources found in Siberia. A large proportion of the natural resources extracted and produced in Siberia are sold to consumers in nearby Asian markets, in particular China, Japan and South Korea. Consequently, the Group is well positioned to benefit as a supplier of sustainable green hydro power to companies involved in energy intensive extraction and production of natural resources to be sold on the Asian markets.

The total revenue attributable to the Power Segment amounted to U.S.\$2,077 million, U.S.\$2,075 million and U.S.\$2,856 million for the years ended 31 December 2016, 2015 and 2014, respectively. In the first half of 2017, the Power Segment's revenues amounted to U.S.\$1,371 million compared to U.S.\$976 million in

the first half of 2016. For 2016, the Power Segment's Adjusted EBITDA and Adjusted EBITDA margin were U.S.\$794 million and 38.2%, respectively.

### Operations

The following table sets forth the Power Segment's key operating data for the periods indicated:

		Six months ended 30 June		Year ended 31 December		
		2017	2016	2016	2015	2014
<b>Production volumes</b>						
Electricity <sup>(1)</sup>	<i>GWh</i>	33,917	32,169	69,498	65,507	75,369
HPPs	<i>GWh</i>	27,347	25,175	56,714	52,421	62,891
CPPs	<i>GWh</i>	6,570	6,994	12,784	13,086	12,478
Heat	<i>Gcal</i>	14,611,560	14,959,702	27,362,622	26,409,464	27,710,179
<b>Transmission and distribution<sup>(2)</sup></b>						
Power transmission and distribution	<i>GWh</i>	23,366	22,184	43,905	45,595	45,708
<b>Purchase volumes</b>						
Electricity	<i>GWh</i>	11,132	9,990	20,732	22,112	22,589
Capacity	<i>MWh/year</i>	10,476	8,465	15,308	14,643	19,703
<b>Sales volumes</b>						
Electricity	<i>GWh</i>	42,203	39,121	84,361	80,862	85,354
Capacity	<i>MWh/year</i>	85,910	84,882	171,395	169,965	165,413
Heat	<i>Gcal</i>	12,809,967	13,075,906	23,928,657	23,326,265	24,579,039
Power transmission	<i>GWh</i>	15,436	15,158	30,578	30,937	30,588
<b>Revenues</b>						
Electricity	<i>U.S.\$ million</i>	985	679	1,449	1,447	1,872
Heat	<i>U.S.\$ million</i>	222	180	352	350	550
Other	<i>U.S.\$ million</i>	164	117	276	278	434
<b>Total</b>	<i>U.S.\$ million</i>	<b>1,371</b>	<b>976</b>	<b>2,077</b>	<b>2,075</b>	<b>2,856</b>

Notes:

(1) Including generation of Ondskaya HPP in amount of 297, 396, 178 and 191 GWh for 2015, 2016, 1H2016 and 1H2017, respectively (Ondskaya HPP was acquired in October 2014 and leased by RUSAL). Including Bratsk HPP production (6.2 TWh), which was supplied directly to RUSAL.

(2) Presents 100% results for the Group's consolidated subsidiaries, including not wholly-owned by the Group.

For information on regulated tariffs and unregulated prices for the Company's power operations during the first half of 2017 and the years 2016, 2015 and 2014, see "Operating and Financial Review—Key Factors Affecting the Results of Operations—Factors affecting the results of operations of En+ Power—Tariffs".

### Generation

The principal business of the Power Segment of the Group involves the production and supply of electricity to the wholesale market and the production and supply of heat to end consumers. The majority of the Group's assets are located in the Siberian Federal District, along the Yenisei and Angara rivers. The vast water reserves of the Yenisei and Angara rivers create a natural environment for the development of hydro generation, which in turn facilitate the development of power intensive industry plants, such as aluminium smelters. CHPs are designed to operate in both the condensing cycle for the production of electricity only and the combined cycle for the production of electricity and heat. The Group's CHPs are primarily operated in the combined cycle, which is more efficient. In the years ended 31 December 2016, 2015 and 2014, the Power Segment produced 69,498 GWh, 65,507 GWh and 75,369 GWh of electricity, respectively, and 27,362,622 Gcal, 26,409,464 Gcal and 27,710,179 Gcal of heat, respectively.

The Group's principal generation assets include Irkutskenergo's HPPs and CHPs, Krasnoyarsk HPP and Avtozavodskaya CHP.

Irkutsk District Energy Department “Irkutskenergo” was founded as a state-owned enterprise on 21 October 1954, to hold CHPs in the cities of Irkutsk and Angarsk and electricity transmission and distribution networks, as well as supply assets in the region. The company started to operate HPPs from 1958 and through a gradual new construction of facilities increased its hydro power capacity to 9,002 MW in 1980. Irkutskenergo was privatised in 1992. During the privatisation process it acquired all of the generation equipment and facilities at the HPPs and CHPs, including the main operational components of the dams. Irkutskenergo’s assets are located in the Irkutsk Region (within the Siberian Federal District), an economically developed region of Russia, along the Angara River and are part of the Angara HPP Cascade. The vast water reserves of the Angara River create a natural environment for the development of hydro generation, which facilitates the development of power intensive industries, such as aluminium smelters. Irkutskenergo’s CHPs are designed to operate in both the condensing cycle for the production of electricity only and the combined cycle for the production of electricity and heat. As at 31 December 2016, installed electricity generation capacity of Irkutskenergo’s assets amounted to 13.0 GW and installed heat capacity amounted to 13,588 Gcal/h.

Krasnoyarsk HPP is a power company involved in the generation of hydroelectricity in the Krasnoyarsk region, which was initially established as a state-owned enterprise, but was privatised in 1993 as part of the Russian Federation privatisation programme. Krasnoyarsk HPP is located on the Shumikhinsky granite block on the Yenisei River, in Divnogorsk, a town located approximately 36 km upstream from Krasnoyarsk. Krasnoyarsk is the administrative centre of the Krasnoyarsk region, and is the third largest city in Siberia. Krasnoyarsk HPP is the second largest hydro power plant in Russia in terms of installed electricity capacity and the tenth largest globally by installed capacity, which as at 31 December 2016 amounted to 6 GW. Krasnoyarsk HPP accounts for, on average, approximately 46% per annum of the power generated in the Krasnoyarsk region. Krasnoyarsk HPP consists of 12 hydroelectric generation turbines of 500 MW each. Krasnoyarsk HPP owns all of the generation equipment and facilities at the HPP, including the dam and the land plots beneath the dam. In 2015, JSC Krasnoyarsk HPP and Russian EuroSibEnergo entered into a complex of bilateral agreements in respect of generation assets and management of Krasnoyarsk HPP’s operations. Such agreements include a property and equipment lease agreement, maintenance agreement and management services agreement, providing for Russian EuroSibEnergo to lease and assume operational and financial control over the operating generating assets of Krasnoyarsk HPP, which is in turn responsible for general maintenance and safety of the assets. The arrangement also entitles Russian EuroSibEnergo to represent Krasnoyarsk HPP on the wholesale electricity and capacity market.

Avtozavodskaya CHP is the main generation asset of the Group in the Nizhniy Novgorod region, one of the leading industrial regions in Russia, which is within the Middle Volga IPS. The power plant operates four generation units, which had a combined installed electricity capacity of 580 MW and heat capacity of 2,434 Gcal/h as at 31 December 2016.

The table below sets forth, for each of the Group's principal plants, the installed capacity for electricity generation as at 31 December 2016, as well as their production results and utilisation levels for 2016, 2015 and 2014.

	As at 31 December							
	Installed capacity		2016		2015		2014	
	2016 (MW)	% of total (%)	Generated (GWh)	Utilisation (%)	Generated (GWh)	Utilisation (%)	Generated (GWh)	Utilisation (%)
<b>Siberia</b>								
<b>HPPs</b>								
Krasnoyarsk HPP . . . . .	6,000	30	19,283	37	16,532	31	19,678	37
Bratsk HPP . . . . .	4,500	23	17,626	45	16,611	42	20,485	52
Ust-Ilimsk HPP . . . . .	3,840	20	16,550	49	16,132	48	19,156	57
Irkutsk HPP . . . . .	662	3	2,859	49	2,849	49	3,573	62
<b>CHPs</b>								
CHP-10 . . . . .	1,110	6	2,487	26	2,733	28	2,282	23
CHP-9 . . . . .	540	3	1,771	37	1,611	34	1,605	34
Novo-Irkutsk CHP . . . . .	708	4	2,767	45	2,723	44	2,662	43
Ust-Ilimsk CHP . . . . .	515	3	971	22	1,055	23	977	22
CHP-11 . . . . .	350	2	799	26	785	26	691	23
CHP-6 . . . . .	270	1	803	34	809	34	889	38
Novo-Ziminskaya CHP . . . . .	260	1	930	41	956	42	972	43
<b>European part</b>								
Ondskaya HPP . . . . .	80	0	396	56	297	42		
Avtozavodskaya CHP . . . . .	580	3	1,569	31	1,655	33	1,666	33
Other power plants . . . . .	271	1	686	29	761	32	735	31
<b>Total power generation . . . . .</b>	<b>19,687</b>	<b>100</b>	<b>69,498</b>		<b>65,507</b>		<b>75,369</b>	
Power consumption losses for the period . . . . .			537.9		523.4		498.8	

Out of total electricity generated in 2016, 2015 and 2014, the Group's generation assets' total consumption amounted to 2.9%, 3.4% and 3.2%, respectively.

The Power Segment's generation facilities include 5 HPPs, which produce cost-efficient and low-carbon hydro power, and 17 electricity generating CHPs, which are mainly coal-fired. The Group controls and operates three of the five largest HPPs in Russia in terms of installed electricity capacity. According to SEEPX, the Group is a leading private hydro power producer globally with approximately 15 GW of total installed hydro power capacity under its control. Hydro power generation has a number of important advantages as compared to other generation technologies, including, but not limited to: (i) cost-effectiveness (due to the absence of costs associated with the use of fossil fuels); (ii) load flexibility (allowing increased output in a short timeframe to support peak loads); and (iii) the generation of green and renewable energy (utilising the considerable water reserves in Siberia). As at 30 June 2017, 76.6% of the Power Segment's installed electricity capacity was represented by HPPs, with only 23.4% represented by CHPs. Therefore, the Group has a cost advantage over many of its competitors in Siberia, who rely on thermal electricity generation capacity to a more significant extent. The Group's hydro power generation results are affected mainly by fluctuations in water flows. For example, lower water inflows in 2014-2015 resulted in a decrease in electricity production at the Group's HPPs (see—"Risk Factors—Risks Relating to Power Segment—Electricity output of the Group's generation facilities is subject to fluctuations in water flows and the capacity utilisation factor of its facilities").

The power generating assets of the Group supply some of the Group's produced electricity and capacity to its customers through the wholesale market. Electricity and capacity are treated as separate economic products in the Russian electricity market. A sale of capacity represents the obligation to maintain sufficient generation capability to satisfy a target level of potential demand, while a sale of electricity represents an actual delivery of electricity to its purchaser. The Group's principal customers on the wholesale market are industrial consumers, and include RUSAL's aluminium smelters, certain electricity supply companies, including retail supply companies of the Group, and certain grid companies, including Irkutsk GridCo.

The Group's CHPs may operate in either combined (simultaneous production of electricity and heat) or condensing (production of electricity only) cycles. Operating in the combined cycle allows a generator to be more efficient in terms of its costs, namely fuel, as it involves significant usage of heat produced during the electricity generation process allowing the generator's costs to be split between the two products.

The table below sets forth, for each of the Group's CHPs, the installed capacity for heat generation as at 31 December 2016, as well as their production results and utilisation levels for 2016, 2015 and 2014.

	As at or year ended 31 December						
	2016	2016		2015		2014	
	Installed capacity (Gcal/h)	Generated (Gcal'000)	Utilisation (%)	Generated (Gcal'000)	Utilisation (%)	Generated (Gcal'000)	Utilisation (%)
<b>Irkutskenergo CHPs</b>							
CHP-9 . . . . .	2,403	4,136	20	3,900	19	4,216	20
Novo-Irkutsk CHP . . . . .	1,729	4,876	32	4,531	30	4,596	28
CHP-6 . . . . .	1,529	2,541	19	2,611	19	2,850	21
Ust-Ilimsk CHP . . . . .	1,364	1,645	14	1,493	13	1,587	13
CHP-11 . . . . .	1,285	1,013	9	994	9	1,061	9
Novo-Ziminskaya CHP . . . . .	819	1,349	19	1,382	19	1,533	21
CHP-10 . . . . .	563	482	10	404	8	396	8
<b>Other CHPs</b>							
Avtozavodskaya CHP . . . . .	2,434	3,515	16	3,649	16	3,657	16
Baikalenergo CHP . . . . .	592	1,323	26	1,246	24	1,270	25
EnSer CHP . . . . .	575	905	18	898	18	933	19
Other heat plants . . . . .	3,743	5,557	17	5,302	16	5,611	16
<b>Total heat generation . . . . .</b>	<b>17,035</b>	<b>27,363</b>		<b>26,409</b>		<b>27,710</b>	

Heat is mainly distributed as steam or hot water that is transferred through the pipe distribution system. Heat produced by the Power Segment's generation assets is supplied to consumers through a heat distribution network covering approximately 2,518 km, of which approximately 2,025 km is owned by the Group, with the remaining sections being leased from local municipalities and third parties. The terms of these lease agreements vary between one and three years. The Group conducts regular maintenance and repairs of its heat distribution network (both owned and leased) in order to ensure the effective utilisation of the network and a stable supply of heat to its customers. The repair and maintenance provisions under the lease agreements with municipalities and third parties vary, with the municipality or third party remaining responsible for capital repairs at its own expense under certain agreements and the Group assuming a duty to maintain the network and carry out capital repairs under certain others. The principal subsidiaries of the Group involved in heat distribution include Irkutskenergo, CJSC Baikalenergo and LLC Zavodskie Seti. Their main customers are companies operating in the oil-refining, chemical, pulp-and-paper, housing and municipal utility industries.

The table below sets forth information on the distribution of heat by the Group for the years ended 31 December 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
Heat distribution network length, km . . . . .	2,518.1	2,526.3	2,513.9
Heat distributed, million Gcal . . . . .	22.2	21.5	22.7
Heat losses, % . . . . .	11.3%	11.4%	11.2%

### Retail Business

Retail supply companies of the Group, including Irkutskenergosbyt, Volgaenergosbyt and LLC MAREM+ ("MAREM+") purchase electricity on the wholesale market (from both the generating facilities of the Group and third parties) and then resell on the retail market to both industrial consumers that do not have access to the wholesale market and residential consumers. The retail supply companies of the Group are involved in heat and electricity sales directly to the end-users. Their customer base in the retail market mainly includes industrial enterprises involved in the production of non-ferrous metals, oil refining,



chemical and pulp and paper production, as well as independent power supply companies, such as FSC JSC, Ilim Group JSC, RN-Energo Ltd, SUEK AG, Rusenergosbyt Ltd, Novosibirskenergosbyt JSC.

In 2007, Irkutskenergosbyt and Volgaenergosbyt were granted the status of guaranteeing suppliers within the Irkutsk and Nizhny Novgorod regions, respectively. In accordance with this status, Irkutskenergosbyt and Volgaenergosbyt are under an obligation to conclude an electricity supply contract with any consumer that is located within the boundaries of their respective operational area and which applies for such contract. For further information regarding the status of a guaranteeing supplier, see “*Russian Power Industry Overview*”.

MAREM+ is an independent electricity trading company specialising in the purchase of electricity from the wholesale market and in re-sale to end customers. MAREM+ is a wholly owned subsidiary of the Group. MAREM+ purchases electricity on the wholesale market and then sells such electricity to companies within the Group, such as RUSAL refineries, on an arm’s-length basis, as well as to external customers. MAREM+ is increasingly focused on growing its customer base of consumers outside of the Group. MAREM+ also installs systems for measuring electricity consumption, which allow customers to forecast electricity consumption more accurately. These services are primarily provided to customers that plan to sign supply agreements with MAREM+, but they are also provided to companies that intend to enter the wholesale electricity market independently.

### Engineering

LLC Eurosibenergo-Engineering (“ESE-E”) is a provider of engineering and consultancy services within the Power Segment. ESE-E conducts maintenance and repairs, design and exploration, construction, consulting and the procurement and installation of equipment. ESE-E is able to provide a full scope of maintenance and repair services for energy equipment and materials used by power and industrial plants. ESE-E operates in various locations, including Siberia (in Irkutsk and Krasnoyarsk). The customers of ESE-E include subsidiaries of the Group as well as third parties. ESE-E provides its services to subsidiaries of the Group on similar arms-length terms as those with independent customers.

### Electricity Transmission and Distribution

Electricity is transmitted by the Group to wholesale and retail consumers through the Irkutsk GridCo transmission and distribution system. As at the date of this Prospectus, Irkutskenergo owns a 19.9% share in Irkutsk GridCo. As at 31 December 2016, Irkutsk GridCo owned and operated a transmission and distribution system of approximately 41,000 km of high and low voltage lines and had an annual transmission capacity of approximately 45 TWh. Irkutsk GridCo’s operations include the transmission of electricity generated at Irkutskenergo’s HPPs to customers, including RUSAL’s aluminium smelters. Other generation facilities of the Group, such as Krasnoyarsk HPP and Avtozavodskaya CHP, do not use Irkutsk GridCo’s transmission services as their location is not within the geographical scope of Irkutsk GridCo’s transmission and distribution network.

The table below sets forth information on the transmission of electricity via Irkutsk GridCo’s system for the years ended 31 December 2016, 2015 and 2014.

	<u>As at 31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Electricity network</b>			
Electricity transmission network length, km . . . . .	9,945.8	9,912.3	9,961.4
Electricity distribution network length, km . . . . .	31,128.6	30,683.9	30,176.7
Electricity transported, GWh . . . . .	43,904.5	45,595.4	45,708.5
Electricity losses, % . . . . .	7.2	6.4	6.3
<b>Electricity substations</b>			
Transmission substations . . . . .	205.0	200.0	197.0
Distribution substations . . . . .	10,139.0	9,783.0	9,296.0
Transmission substation capacity, MVA . . . . .	23,718.1	22,892.8	22,136.8
Distribution substation capacity, MVA . . . . .	5,575.7	5,385.8	5,303.5

Under Russian law, one group of companies operating in the electricity market may not own stakes in both electricity generation companies and electricity transmission and distribution assets above certain thresholds. The share that a group of companies involved in electricity generation is allowed to own in any

electricity transmission and distribution asset cannot amount to or exceed 20%, otherwise, such group of companies may be obliged to sell the share in excess of the threshold and may be subject to administrative fines.

As at the date of this Prospectus, Irkutskenergo directly owns a 19.9% share in Irkutsk GridCo. However, indirectly and through financial arrangements and share purchase contracts with third party shareholders of Irkutsk GridCo, the Group is able to consolidate Irkutsk GridCo's results of operations under IFRS on the basis of a 52.3% effective interest in Irkutsk GridCo as at the date of this Prospectus. There is a degree of uncertainty with respect to the legal interpretation of the aforementioned existing arrangements and, therefore, Russian regulatory authorities may construe such arrangements as non-compliant with applicable legislation. In such case, the Group could be required to unwind its arrangements and sell the part of its stake in Irkutsk GridCo exceeding the 19.9% threshold to a third party, which may, in turn, lead to the decrease in the level of operational control over Irkutsk GridCo and result in a deconsolidation of its results of operations. As at 31 December 2016, Irkutsk GridCo's share in the Group's total revenue and total assets amounted to 2.9% and 2.6%, respectively. The Group would not expect there to be any operational impact on the Group if a compulsory reorganisation resulting in the deconsolidation of Irkutsk GridCo were imposed by the Russian regulatory authorities. In the event of deconsolidation, Irkutsk GridCo would be obliged to provide services to the Group due to the requirements imposed upon Irkutsk GridCo as a provider of regulated services (which restrict it from refusing access to the electricity grid network to third parties). Further, the Group believes that as prices for electricity transmission and distribution are regulated, there would not be any change in prices for electricity transmission and distribution charged by Irkutsk GridCo following any such deconsolidation. Moreover, the Group believes that a compulsory reorganisation that could result in the deconsolidation of Irkutsk GridCo would not affect the Group's consolidated historical results, because it is expected that Irkutsk GridCo would cease to be consolidated prospectively from the time the Group ceases to consolidate Irkutsk GridCo and under IFRS, such deconsolidation would not be applied retrospectively. However, any compulsory reorganisation that could result in the deconsolidation of Irkutsk GridCo may affect the Group's financial condition and results of operations in the future, due to the fact that the results of operations of Irkutsk GridCo would not be included in the Group's consolidated financial statements (see "*Risk Factors—Risks Relating to the Russian Legal System—Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity*").

### Fuel Supply

The main types of fuel used by the Power Segment's CHPs, in both electricity and heat generation operations include coal (83%) and gas (16%), while fuel oil is also used as a starting and reserve fuel.

Coal is typically supplied to the generating facilities of the Power Segment under one-year agreements on commercial terms. Coal supplied from the Group's subsidiaries located in close proximity to the Group's generation facilities enables these facilities to be self-sufficient in coal. However, a small portion of the coal that is supplied by the Coal Segment to such generation facilities is supplied through short-term agreements with third-party suppliers, primarily for logistics and blending reasons. Gas is supplied to Avtozavodskaya CHP under one-year agreements with Gazprom, based on prices set by the Federal Antimonopoly Service.

The table below sets forth the fuel mix of the Group's CHPs for the periods indicated:

	<u>Six months ended 30 June</u>	<u>Year ended 31 December</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Coal .....	83%	83%	84%	83%
Natural gas .....	16%	16%	16%	17%
Fuel oil .....	1%	1%	0%	0%

Fuel consumption efficiency depends on a plant's seasonal load schedule. When CHP switches to the combined cycle generation of both heat and electricity, the fuel efficiency increases.

The chart below sets forth the Group's CHPs heat and electricity fuel efficiency coefficients for the periods indicated:

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Irkutskenergo CHPs</b>			
<i>Electricity</i>			
Specific reference fuel consumption (g/kwh) . . . . .	333.4	336.7	330.5
Fuel efficiency (thousand kwh) . . . . .	2.999	2.970	3.026
<i>Heat</i>			
Specific reference fuel consumption (kg/Gcal) . . . . .	142.6	142.6	140.6
Fuel efficiency (Gcal) . . . . .	7.014	7.011	7.113
<b>Volgaenergo CHPs</b>			
<i>Electricity</i>			
Specific reference fuel consumption (g/kwh) . . . . .	334.5	322.1	333.9
Fuel efficiency (thousand kwh) . . . . .	2.989	3.105	2.995
<i>Heat</i>			
Specific reference fuel consumption (kg/Gcal) . . . . .	151.8	151.2	153.0
Fuel efficiency (Gcal) . . . . .	6.587	6.612	6.536
<b>EnSer CHP</b>			
<i>Electricity</i>			
Specific reference fuel consumption (g/kwh) . . . . .	319.9	314.3	320.1
Fuel efficiency (thousand kwh) . . . . .	3.126	3.182	3.124
<i>Heat</i>			
Specific reference fuel consumption (kg/Gcal) . . . . .	157.0	157.7	162.5
Fuel efficiency (Gcal) . . . . .	6.367	6.342	6.154

*Sales and Distribution*

The table below sets forth the Group's revenue attributable to the Power Segment in the periods indicated:

	<u>Six months</u>		<u>Year ended 31 December</u>		
	<u>ended 30 June</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
			(U.S.\$ millions)		
Revenue from external customers . . . . .	928	745	1,546	1,599	2,257
Inter-segment revenue . . . . .	443	231	531	476	599
<b>Total segment revenue . . . . .</b>	<b><u>1,371</u></b>	<b><u>976</u></b>	<b><u>2,077</u></b>	<b><u>2,075</u></b>	<b><u>2,856</u></b>

In the years ended 31 December 2016, 2015 and 2014, the Power Segment's electricity and capacity sales under the regulated market accounted for 4.9%, 5.1% and 5.7%, respectively.

The chart below provides the Power Segment's energy sales by client type in the years ended 31 December 2016, 2015 and 2014.

	Year ended 31 December					
	2016		2015		2014	
	(GWh)	(U.S.\$ millions)	(GWh)	(U.S.\$ millions)	(GWh)	(U.S.\$ millions)
<b>Electricity</b>						
Capacity sales . . . . .	171	344	170	303	165	277
Wholesale market sales	65,952	618	62,912	651	66,157	852
Retail market sales to:						
Industrial consumers . .	2,115	150	3,748	129	3,926	181
Residential consumers and others . . . . .	16,294	337	14,214	365	15,270	562
<b>Total electricity sales . .</b>	<b>84,361</b>	<b>1,449</b>	<b>80,873</b>	<b>1,447</b>	<b>85,353</b>	<b>1,872</b>
	(Gcal)	(U.S.\$ millions)	(Gcal)	(U.S.\$ millions)	(Gcal)	(U.S.\$ millions)
<b>Heat</b>						
Sales to:						
Industrial consumers . .	7,297,041	108	6,665,943	100	7,173,850	158
Residential consumers and others . . . . .	16,631,616	243	16,660,322	250	17,405,189	392
<b>Total heat sales . . . . .</b>	<b>23,928,657</b>	<b>352</b>	<b>23,326,265</b>	<b>350</b>	<b>24,579,039</b>	<b>550</b>

Note: The figures in the chart present 100% results for the Group's consolidated subsidiaries, including in respect of subsidiaries of the Group that are not wholly-owned.

The Group sells electricity and capacity in the wholesale market. Retail supply companies purchase electricity on the wholesale market for resale in the retail market to customers in industrial production, oil-refining, chemical, pulp-and-paper enterprises, housing and municipal utility industries, electricity supply and grid companies, as well as residential consumers. Sales by the Power Segment to its five largest customers accounted for approximately 43%, 45% and 41% of its total sales for the years ended 31 December 2016, 2015 and 2014, respectively. The Power Segment's largest customers include FSC (18% of total sales in 2016) and RUSAL (24% of total sales in 2016).

### Pricing

At present, electricity in Russia may be purchased in both wholesale and retail markets. Taking into account the technological and systemic limitations inherent in the Unified Energy System of Russia (as described below), the territory of the country is divided into the following zones:

- the first pricing zone (European part of Russia and Ural),
- the second pricing zone (Siberian IPS),
- four non-pricing zones (Kaliningrad Region, Far East, Arkhangelsk Region and Komi Region).

In the non-pricing zones, the state authorities set tariffs and regulate the prices for electricity and capacity. In the first and second pricing zones, certain contract mechanisms are available for electricity and capacity procurement, including: (i) regulated price contracts; (ii) the purchase of electricity at unregulated prices on the day-ahead market or the balancing market; and (iii) the purchase of capacity pursuant to certain types of agreements (depending on the generation asset, energy source and execution mechanism). The wholesale market operates, within the current legal and regulatory framework, with the interaction between consumers, generating companies as well as technological and commercial infrastructure organisations.

In the wholesale electricity and capacity markets, FSC acts as a unified party to transactions and enters into commission agreements for the wholesale trade of electricity and capacity. For sales of electricity and capacity, the supplier will enter into a commission agreement with FSC for such sale, and the buyer will enter into an electricity purchase agreement with FSC for such purchase. These agreements are made on the basis of a standard form, and parties have no freedom to negotiate their terms and conditions. Prices for and volumes of electricity and capacity being sold under such agreements are determined by the ATS in accordance with the Wholesale Market Rules.

Retail market participants represent retail energy supply companies that purchase electricity in the wholesale market for resale to retail market customers, including industrial consumers that do not have access to the

wholesale market and residential consumers. Certain retail energy supply companies with a leading market share in a specific region are granted the status of guaranteeing suppliers, which obliges them to conclude electricity supply contracts with any consumer located within the boundaries of its operational area and that applies for such contract. In 2007, Irkutskenergosbyt and Volgaenergosbyt were granted the status of guaranteeing suppliers within the Irkutsk region and Nizhny Novgorod region, respectively.

The table below sets forth regulated tariffs and unregulated prices for the Group's power operations in the Siberian IPS during the periods indicated:

		Six months ended 30 June		Year ended 31 December		
		2017	2016	2016	2015	2014
<b>Irkutskenergo</b>						
Wholesale weighted average day-ahead electricity price	<i>RUB/MWh</i>	847	900	805	835	690
Wholesale weighted average regulated electricity price	<i>RUB/MWh</i>	31	59	52	32	21
Wholesale weighted average balancing electricity price	<i>RUB/MWh</i>	568	722	599	685	592
Wholesale weighted average free bilateral contracts	<i>RUB/MWh</i>	770	503	507	451	393
Retail market average electricity tariff	<i>RUB/MWh</i>	1,641	1,590	1,587	1,510	1,256
Weighted average regulated contracts capacity tariff	<i>RUB/MW per month</i>	62,830	68,644	65,922	61,096	91,371
Weighted average KOM capacity tariff	<i>RUB/MW per month</i>	191,113	166,779	179,672	141,555	84,160
Weighted average free bilateral capacity tariff	<i>RUB/MW per month</i>	—	40,449	42,453	39,585	63,116
Average heat price set for CHPs	<i>RUB/Gcal</i>	934	872	902	841	795
<b>Irkutsk GridCo</b>						
Transmission:						
High Voltage	<i>RUB/MWh</i>	419	352	385	325	298
Distribution:						
Medium Voltage 1	<i>RUB/MWh</i>	818	676	746	624	573
Medium Voltage 2	<i>RUB/MWh</i>	1,035	846	940	781	717
Low Voltage	<i>RUB/MWh</i>	1,201	991	1,096	916	840
<b>Krasnoyarsk HPP</b>						
Wholesale weighted average day-ahead electricity price	<i>RUB/MWh</i>	886	794	736	1,060	666
Wholesale weighted average regulated electricity price	<i>RUB/MWh</i>	21	17	19	17	16
Wholesale weighted average balancing electricity price	<i>RUB/MWh</i>	682	488	603	651	445
Wholesale weighted average free bilateral contracts	<i>RUB/MWh</i>	702	0	770	804	103
Weighted average regulated contracts capacity tariff	<i>RUB/MW per month</i>	28,174	26,143	27,337	25,321	24,558
Weighted average KOM capacity tariff	<i>RUB/MW per month</i>	192,045	174,050	176,199	105,704	50,589
Weighted average free bilateral capacity tariff	<i>RUB/MW per month</i>	—	—	—	—	24,558
<b>Avtozavodskaya CHP</b>						
Wholesale weighted average day-ahead electricity price	<i>RUB/MWh</i>	1,297	1,246	1,414	1,324	1,261
Wholesale weighted average regulated electricity price	<i>RUB/MWh</i>	1,101	1,059	1,079	1,058	1,057
Wholesale weighted average balancing electricity price	<i>RUB/MWh</i>	1,024	1,115	1,160	1,873	1,565
Retail market average electricity tariff	<i>RUB/MWh</i>	3,251	2,892	2,961	2,738	2,789
Weighted average regulated contracts capacity tariff	<i>RUB/MW per month</i>	124,575	114,882	119,669	114,511	114,065
Weighted average KOM capacity tariff	<i>RUB/MW per month</i>	117,100	113,316	111,997	126,975	142,137

For a detailed discussion on the Russian electricity and heat market structure, see “Russian Power Industry Overview”.

### Power Supply Contracts with RUSAL

In October 2016, certain subsidiaries of the Power Segment entered into three new long-term electricity supply agreements with RUSAL. These new agreements replaced the equivalent electricity supply contracts previously entered between the Power Segment and RUSAL. Two supply contracts (“SC 1” and “SC 2”) are between Bratsk aluminium smelter and Irkutskenergo, and provide for Irkutskenergo to supply electricity to Bratsk aluminium smelter from 1 January 2017 to 31 December 2026. The third contract (“SC 3”) is between RUSAL Energo Limited Liability Company (“RUSAL Energo”) and Russian EuroSibEnergo, and provides for Russian EuroSibEnergo to supply RUSAL Energo with electricity from 1 November 2016 to 31 December 2025.

The overall maximum contractual electricity supply volume to be supplied each year will be as follows:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(Thousand MWh)									
SC 1	7,297.08	7,297.08	7,297.08	7,317.07	7,286.09	7,297.08	7,297.08	7,317.02	7,297.09	7,297.08
SC 2	17,896.68	17,896.68	17,896.68	17,945.71	17,896.68	17,896.68	17,896.68	17,945.71	17,896.68	17,896.68
SC 3	12,073.24	12,404.16	12,404.16	12,404.16	12,438.14	12,404.16	12,404.16	12,404.16	12,438.14	12,404.16
<b>Total</b>	<b>37,267.00</b>	<b>37,597.92</b>	<b>37,597.92</b>	<b>37,666.94</b>	<b>37,620.91</b>	<b>37,597.92</b>	<b>37,597.92</b>	<b>37,666.89</b>	<b>37,631.9</b>	<b>37,597.92</b>

RUSAL subsidiaries are not obliged to acquire maximum supply amounts under the contracts.

The contract price for the electricity under the long-term agreements is generally equal to the day-ahead market price less a 3.5% discount. If, due to unforeseen factors such as adverse weather conditions or river flow rates, the volume of electricity generated by the facilities named in the contract is not sufficient to provide RUSAL’s demand, the remaining contracted volume will be supplied from other generating facilities that are operated by Irkutskenergo or by Russian EuroSibEnergo, as the case may be (which may have a higher cost of generation), at applicable market terms established on the day-ahead market with no discount.

The market price (which is based on the day-ahead market price) is determined by the ATS. The 3.5% contractual discount applies to the lower of:

- the free volume of electricity to be sold under the relevant contract; and
- the actual consumption of the buyer.

The free volume of electricity represents the total volume of electricity supplied to: (i) Bratsk aluminium smelter from Irkutskenergo’s Bratsk, Ust-Ilimsk and Irkutsk HPPs; or (ii) RUSAL Energo from Krasnoyarsk HPP, after the relevant supplier has fulfilled its obligations under compulsory contracts concluded with other consumers pursuant to the Wholesale Market Rules, less the electricity used by the relevant generating facilities for heating, lighting, equipment operation and other uses. The actual consumption of the buyer represents the volume of electricity consumed, which may include electricity derived from generating facilities other than those listed in the preceding sentence. EuroSibEnergo plc has guaranteed the performance of the respective power supply contracts by Irkutskenergo and Russian EuroSibEnergo.

From time to time on an as-needed basis, subsidiaries of the Power Segment also enter into short-term power supply agreements with RUSAL, which are immaterial in volume.

### **Coal Segment**

#### *Overview*

The Coal Segment’s operations include the mining and sale of coal in Eastern Siberia. The assets and mining sites attributable to the Coal Segment are operated by VostSibUgol and LLC Tuvinskaya Gornorudnaya Company (the “TGC”). In 2007, the Group acquired TGC, which holds licences for the development of the Kaa-Khem coking coal deposit in the Tuva Region. In 2008, the Group acquired the company that controls VostSibUgol, which operates coal mining assets primarily located in the Irkutsk and Krasnoyarsk Regions.

The Coal Segment provides the Group’s CHPs with a self-sufficient coal base thus covering 100% of En+ Group Powers internal coal consumption. A portion of the coal produced by the Coal Segment is sold to third parties in Russia and abroad. As at 30 June 2017, the total output of the Group’s coal assets amounted to 6.8 million tonnes. In 2014, 2015 and 2016, the Coal Segment produced 12.7 million tonnes, 13.5 million tonnes and 13.8 million tonnes, respectively, of brown and fossil coals.

The Group's coal mining assets comprise 12 coal licence plots and a coal dressing plant for processing coal. In addition, the Group holds 17 licences for geological exploration, research and development at coal licence plots. The Group's main coal mining assets are located in Eastern Siberia, in close proximity to the growing Asian markets. On the basis of the Group's estimated consumption of coal, its coal mines have an estimated working lifespan of approximately 70 years.

Revenues attributable to the Coal Segment amounted to 2.4%, 2.1% and 2.7% of the Group's total revenues (before intersegmental elimination) in 2016, 2015 and 2014, respectively. In the first half of 2017, the Coal Segment's revenues amounted to 2.4% of the Group's total revenues (before intersegmental elimination).

### Operations

The assets and mining sites attributable to the Coal Segment are operated by VostSibUgol and TGC. The Group produces coal from 10 open pit mines.

The table below sets forth the annual capacity and factual output of Company's open pit coal mines for 2016, 2015 and 2014.

	As at and for the year ended 31 December					
	2016		2015		2014	
	Annual output capacity	Production volume	Annual output capacity	Production volume	Annual output capacity	Production volume
			(thousand tonnes)			
PU Mugunsky . . . . .	7,000	4,180	7,000	4,115	7,000	4,061
Cheremkhovsky . . . . .	3,100	2,755	3,100	2,765	3,100	2,914
PU Azeisky . . . . .	2,000	2,285	2,000	2,216	2,000	1,877
Irbeisky . . . . .	3,000	2,455	3,000	1,843	3,000	1,873
Golovinsky . . . . .	1,500	791	1,500	1,044	1,500	736
Trailing . . . . .	1,500	688	1,500	733	1,500	501
Kaa-Khem . . . . .	1,500	411	1,500	465	1,500	459
Chadan . . . . .	350	240	350	218	350	216
Other . . . . .	1,500	43	1,500	66	1,500	59
<b>TOTAL . . . . .</b>	<b>21,450</b>	<b>13,848</b>	<b>21,450</b>	<b>13,465</b>	<b>21,450</b>	<b>12,696</b>

Each of the Group's coal mining assets is operated under one or more licences. The licences are granted for durations of between eight and 20 years, and existing licences are expected to expire between 2025 and 2040. According to Russian law, mining licences are renewed upon prior application by the former licensee, subject to there not having been any violations of the expired licence. The public authority engaged in the renewal of mining licences can, but is not obligated to, refuse to renew a licence if any such violations have occurred. The Group currently expects to be able to renew each of its existing licences prior to their expiry.

In addition, in 2013 the Group established a 50/50 joint venture, LLC Razrezugol, with China Shenhua Overseas Development and Investment Co., Limited, a leading coal mining company and producer globally. The joint venture is aimed at the exploration of the Zashulanskoye coal deposit in Transbaikal, Russia and the development of a coal production facility. The joint venture plans to build an open pit mine at such deposit with up to 6 million metric tonnes per annum in capacity. The coal produced will be used for electric and thermal power generation in the Transbaikal territory, as well as exports to China.

In 2016, the Group initiated exploration works at its Beiskoe hard coal deposit in Khakassia under its existing exploration licence. Any coal ultimately produced at the Beiskoe hard coal deposit will be used primarily for export sales.

The Group owns the Kasyanovskaya dressing plant, which produces high quality concentrate from raw coal supplied to it from the Group's coal licence plots. The coal concentrate is a high quality fuel with low ash, sulphur and water content and a high calorific value. As at 31 December 2016, the Kasyanovskaya dressing plant had a production capacity of 3.1 million tonnes of raw coal per annum.



## *Sales*

The principal consumers of the processed coal concentrate are the electricity generating plants in the Group's Power Segment. In 2016, 2015 and 2014, the Coal Segment supplied 9.6 million tonnes, 9.1 million tonnes and 8.5 million tonnes of coal, respectively, to Irkutskenergo. Coal is sold to Irkutskenergo under annual supply agreements on arms-length basis.

In addition, the Coal Segment's customer base includes third parties. In 2016, 2015 and 2014, companies of the Coal Segment sold 3.3 million tonnes, 3.1 million tonnes and 3.1 million tonnes of coal, respectively, to third-party customers, including export sales of 1.0 million tonnes, 1.0 million tonnes and 0.7 million tonnes, respectively.

## ***Logistics Segment***

### *Overview*

En+ Logistics conducts transportation services both for the Group's companies and to third parties. The Group's total revenue attributable to the Logistics Segment amounted to U.S.\$133 million, U.S.\$106 million and U.S.\$129 million for the years ended 31 December 2016, 2015 and 2014, respectively. The Group's companies generate approximately 30 million tonnes of cargo flows annually.

The assets of En+ Logistics include a subsidiary which owns railway lines with a total length of 95 km, 3,645 railcars and locomotives in Khakassia and a Russian forwarder company.

## ***Other Segment***

### *Overview*

The Group's Other Segment includes its non-core assets and operations, namely SMR's operations (aimed at the production and processing of molybdenum and ferromolybdenum at plants located in eastern Russia) and KRAMZ's aluminium processing operations. Products of these operations are mainly sold to customers in the military, aircraft, transportation, ship building, packaging and construction industries in Russia and abroad. This segment also holds a number of greenfield and brownfield projects licences for ferrous and non-ferrous metals. The Group's total revenue (before intersegmental elimination) attributable to the Other Segment amounted to U.S.\$245 million, U.S.\$249 million and U.S.\$401 million for the years ended 31 December 2016, 2015 and 2014, which represents 2.3%, 2.2% and 3.1% of the Group's total revenue (before intersegmental elimination), respectively. The total assets of the companies comprising the Other Segment amounted to 0.6%, 0.7% and 0.8% of the Group's total assets (before intersegmental elimination) as at 31 December 2016, 2015 and 2014.

The Group considers the operations of SMR and KRAMZ to be non-core activities, thus, the Group does not plan any significant investments or development projects in respect of these assets. Historically, these assets were acquired by the Group in accordance with its active development and investment strategy, which has since been altered to focus on the organic and efficient development of the Group's core power business and supporting coal operations. The Group may consider selling these assets, subject to market conditions.

## ***Operations***

SMR is Russia's largest molybdenum concentrate and ferromolybdenum manufacturer. In addition, SMR produces copper concentrate. SMR is a vertically integrated company that has a full ferromolybdenum production cycle. Its operations start with ore mining and also include the processing of ore into molybdenum concentrate, molybdenum concentrate calcination, concentrate melting and ultimately ferromolybdenum production. In the years ended 31 December 2016, 2015 and 2014, SMR produced 4881 tonnes, 4660 tonnes and 4503 tonnes of ferromolybdenum, respectively.

SMR is currently undertaking exploration activity on the China polymetal deposit in Transbaikalia.

KRAMZ's operations include the processing of aluminium into alloys, which are then used in construction and transportation. In 2016, 2015 and 2014 KRAMZ produced 84 thousand tonnes, 66 thousand tonnes and 115 thousand tonnes of products, respectively. Primary aluminium is the main material used in KRAMZ's production and is supplied to KRAMZ by RUSAL. KRAMZ receives liquid aluminium from the nearby OJSC RUSAL Krasnoyarsk, which substantially reduces costs and manufacturing time.

In addition, the Company is considering the recommissioning of a brownfield rolling mill project for its existing KRAMZ facilities with expected annual production of up to 60 thousand tonnes of aluminium, including 45 thousand tonnes of heat-treated plates. Estimated capital expenditures for the project amount to approximately U.S.\$110 million, 80% of which is expected to be funded by project finance and 20% via general corporate loans. Implementation of the project is expected to allow the Group to increase domestic sales of primary aluminium and increase the overall value of KRAMZ, which at a certain point in the future may be considered for disposal. Such recommissioning is conditional upon confirmation of project finance funds by potential lenders.

### ***Health, Safety and Environment***

As with other power and coal mining companies, En+ Power's operations create hazardous and non-hazardous waste, discharge effluent emissions into the atmosphere and give rise to safety risks for its workforce. Consequently, En+ Power's facilities are required to comply with a range of health, safety and environmental ("HSE") laws and regulations. The Group's management believes that its operations are in compliance in all material respects with the applicable HSE legislation of the Russian Federation and the regions in which it operates.

En+ Power's assets are subject to statutory limits on air emissions and the discharge of liquids and other substances. Russian authorities may permit, in accordance with the relevant Russian laws and regulations, a particular facility to exceed statutory limits, *provided that* it develops a plan for the reduction of its emissions or discharge and pays a fee based on the amount of contaminants released by the facility in excess of the relevant limits. Fees are assessed on a sliding scale in accordance with the relevant laws and regulations. The lowest fees are imposed for pollution within the standard statutory limits, intermediate fees are imposed for pollution within the temporary individually approved statutory limits and the highest fees are imposed for pollution exceeding such limits. It is within the discretionary power of the Russian authorities to individually permit pollution in excess of the standard statutory limits, although any request may be denied. Moreover, the payment of fees for exceeding the statutory limits does not relieve the facility from its responsibility to undertake environmental protection measures and restoration and clean-up activities.

En+ Power's facilities have not received any material fines for non-compliance with HSE laws in the years ended 31 December 2016, 2015 and 2014. However, it has in the past incurred immaterial fines for minor violations of environmental rules and regulations. The Group has implemented an environmental strategy that aims to prevent increases in air emissions, including through the replacement and upgrading of filtering facilities, in order to ensure that the Group remains in compliance with existing emissions norms.

The Group regularly revises its environmental strategy in response to changes in the internal and external environment, in order to prevent increases in the environmental impact of its operations and to reduce the costs of any such impact. The Group's environmental strategy defines the purpose, tasks and the main scope of the Group's activities in protecting the environment and ensuring environmental security over the next five and ten year periods. Health and safety is an ongoing process and requires continuous improvement in response to changing regulations and business needs. Environmental reports in relation to health and safety performance are consolidated weekly on a group-wide basis, in accordance with applicable regulatory and internal reporting requirements. As mandated by Russian law, in the event of an industrial incident or accident, an investigation must be carried out to determine causation and the appropriate corrective action. Based on the results of such investigation, mandatory steps to improve internal safety standards and practices, and ultimately to prevent further accidents, are then imposed. Further, the Group conducts health and safety training on a regular basis, in addition to the induction training that is provided when staff are admitted to the Group's workplaces. The Group further plans to strengthen its environment management systems, while Irkutskenergo has already received ISO 14001 certification in recognition of its environmental management systems. The safety management system of Irkutskenergo has a certificate of compliance confirmed by inspection audits and meets the requirements of GOST R 54934-2112 / OHSAS 18001: 2007 "Occupational Health and Safety Management Systems".

In order to reduce greenhouse gas emissions, En+ Power is targeting the implementation of the following measures:

- increase its share of hydro power generation relative to of CHP production based on more efficient use of water flow;
- decrease of electricity and heat losses in grids and heating networks;

- closure of inefficient fossil fuel generation: and
- potential conversion of CHPs from coal to gas in the long-term.

In the years ended 31 December 2016, 2015 and 2014, the facilities of En+ Power experienced 119 work-related lost-time injuries, involving only employees, of which 3 incidents with employees resulted in fatalities. Following these incidents, the Group implemented a number of preventive measures to avoid any future incidents, such as training on the use of equipment and vehicles and safety measures for employees, new technical solutions to enhance employee safety, new health and safety instructions, the testing of employees' knowledge of equipment and safety instructions, evaluations of the physical condition of employees, on-site checks assessing employees' health and safety compliance and systemic checks of the condition of equipment and vehicles, along with additional preventative measures for persons involved in high risk activities.

### *Insurance*

The Group currently maintains insurance coverage covering its key power generating and other production assets, the loss of which, in full or in part, may have a significant impact on the Group's business or entail significant replacement costs. In addition, as an operator of hazardous industrial objects, the Group is required to have civil liability insurance. In 2015, the Group substantially increased its insurance coverage for its power assets, including obtaining business interruption insurance for the critical power stations in addition to property damage insurance. Ingosstrakh is the main provider of insurance to En+ Power's assets.

### *Employees*

The following table sets forth the aggregate average number of people (full-time equivalents) employed by En+ Power during the periods indicated.

	<b>Six months ended 30 June</b>	<b>Year ended 31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Power .....	24,820	25,357	25,728	25,797
Coal .....	5,638	5,834	5,850	6,052
Logistics .....	295	290	272	255
Other .....	4,467	4,553	4,719	4,851

Certain subsidiaries of the Group attributable to En+ Power have collective bargaining agreements with trade union representatives, which primarily relate to social benefits in favour of their respective employees. During the period under review En+ Power has not experienced any material collective or individual labour disputes or industrial conflicts with its employees.

## **RUSAL**

### *Overview*

RUSAL is a low-cost, vertically integrated aluminium producer with core smelting operations located in Siberia, Russia. According to CRU, RUSAL is the world's largest producer of primary aluminium outside of China and the second largest aluminium group globally. In 2016, RUSAL produced 3,685 thousand tonnes of aluminium, accounting for approximately 6.2% of global primary aluminium output. RUSAL's core aluminium smelters are major consumers of the power produced by En+ Power. Currently, RUSAL operates 10 aluminium smelters, 7 alumina refineries (including QAL), a strategic investment in Norilsk Nickel and a 50% stake in the BEMO Project.

RUSAL's operations include extraction and refinement of bauxite into alumina and the production and sale of primary aluminium, alumina and related products. RUSAL's production chain includes bauxite and nepheline ore mines, alumina refineries, aluminium smelters and casting houses, foil mills and packaging production centres as well as power-generating facilities.

RUSAL benefits from a high degree of vertical integration and has operations throughout all the major stages of aluminium production, from the mining of raw materials to sales of VAPs to end-users. With its competitive mining and refinery operations covering the major material consumption needs of RUSAL's production facilities, and its historically low-energy and low-cost smelting operations located in Siberia,

RUSAL has one of the lowest costs of production in the industry globally and is firmly positioned in the first quartile of the global aluminium industry cost curve, according to CRU.

In 2016, RUSAL produced approximately 7.5 million tonnes of alumina, covering more than 100% of RUSAL's total alumina needs. In addition, RUSAL's own bauxite and nepheline production was sufficient to cover approximately 80% of its alumina production in 2016 with additional bauxite being purchased under medium- and long-term contracts. Russian alumina refineries represented 35.6% of total RUSAL output and such aluminium refineries were fully supplied by RUSAL's own domestic production of bauxite and nepheline ores in 2016. The rest of RUSAL's alumina output was produced by assets located in Ukraine, Ireland, Jamaica and Australia. These operations are supplied with bauxite both produced by RUSAL's own operations and supplied by third-party sources under medium-term and long-term contracts. Based on current production levels (including the second stage of the Dian Dian project, which is expected to increase the design capacity from 3 mtpa in 2018 to 6 mtpa by 2022), RUSAL's bauxite self-sufficiency covers more than 100 years of operations.

In 2016, 34.1% of RUSAL's aluminium output was represented by pre-bake technology and 65.9% by Söderberg technology. RUSAL is 72% self-sufficient in anode block production, for use in pre-bake smelting, and 100% self-sufficient in anode paste production, for use in Söderberg smelting. RUSAL is also 71% self-sufficient in calcined petroleum coke, for use in anode block and anode paste production. The current level of self-sufficiency in anodes production also contributes to RUSAL's cost competitiveness. In addition, RUSAL is investing in new anode projects, including (i) Volgograd anode plant with design capacity of 104 ktpa expected to be launched in 2018; (ii) Taishet anode plant with design capacity of 217 ktpa expected to be launched in 2019; (iii) new calcined coke production capacities at RUSAL Volgograd facility with design capacity of 95 ktpa expected to be launched by the end of 2017; and (iv) new calcined coke production capacities at Irkutsk smelter with design capacity of 89 ktpa expected to be launched by the end of 2017.

RUSAL's core smelting operations are located in Siberia, a region that is served by many hydroelectric power stations. Electricity from the HPPs helps to ensure a low environmental footprint from an energy-generation perspective, and is also competitively priced. In the year ended 31 December 2016, 95% of RUSAL's total aluminium production was produced in Siberia. Approximately 93% of RUSAL's energy needs were supplied by HPPs, approximately 5% by CHPs and approximately 2% by nuclear power stations. The core Siberian aluminium smelters of RUSAL are among the largest customers of En+ Power. Based on the existing long-term power supply agreements between En+ Power and RUSAL, which provide for the annual volumes of electricity to be supplied during the nine- or ten-year period, depending on the contract, En+ Power is contracted to supply to RUSAL up to 37.6 TWh of electricity in 2017, which would have accounted for 54.4% of En+ Power's power production and 66.8% of En+ Power's hydro power production in Siberia in 2016. As a result, RUSAL benefits from one of the lowest electricity prices in the industry, according to CRU.

One of the key performance indicators of RUSAL is the share of its VAP sales as a proportion of its total sales as they typically generate an additional margin above RUSAL's other products and provide a competitive advantage to RUSAL. VAPs represented 47% of RUSAL's sales mix for the first half of 2017, 44% of RUSAL's sales mix for 2016 and 43% of RUSAL's sales mix for 2015. More than 80% of the primary aluminium produced by RUSAL is sold through annual and longer-term contracts.

RUSAL benefits from a sales mix that is diversified across a broad portfolio of key regions, such as Northern and Southern Europe, North America, Russia and CIS countries and East Asia. RUSAL also has a strong market position in regions with a primary aluminium deficit, such as Europe (including Turkey), the United States, Japan and South Korea.

To diversify its exposure to aluminium, RUSAL holds a 27.82% shareholding in Norilsk Nickel, the world's largest palladium producer and second largest nickel producer in 2016 in terms of market share, according to CRU, and a leading producer of platinum and copper. As a strategic investor in Norilsk Nickel, RUSAL diversifies its earnings through significant exposure to platinum-group metals and bulk materials, and also broadens its strategic opportunities suite of commodities.

One of RUSAL's strategic goals is reducing carbon and greenhouse gas emissions. Currently, RUSAL's aluminium production facilities have one of the lowest carbon footprints in the industry. For 2016, RUSAL had carbon emissions of primary aluminium production of 3.4 tCO<sub>2</sub>e/tAl as compared to 17.1 tCO<sub>2</sub>e/tAl in India (the highest number) and 3.6 tCO<sub>2</sub>e/tAl in South America (the lowest number excluding RUSAL), according to CRU 2015. RUSAL continues to implement state-of-the-art environmental techniques and

practices, such as utilisation programmes and closed water cycle developments to further decrease its impact on environment. During 1990-2015, RUSAL reduced its greenhouse gas emissions by more than 53%. RUSAL also aims to cover 100% of aluminium production energy needs by using hydropower sources.

The Group's total segment revenues (before intersegmental elimination) attributable to RUSAL, including intra-segment revenues, amounted to U.S.\$7,983 million, U.S.\$8,680 million and U.S.\$9,357 in 2016, 2015 and 2014, respectively, representing 74.6%, 76.5% and 71.4% of the Group's total revenues (before intersegmental elimination), respectively.

#### *Recent Developments*

On 23 October 2017, RUSAL announced its operating results for the nine months of 2017. Operating data is based on preliminary data and may be subject to update in the announcement of financial results for the nine months of 2017.

The following table sets forth RUSAL's key operating data for the periods indicated:

	<b>Nine months ended 30 September</b>	
	<b>2017</b>	<b>2016</b>
<b>Production</b>		
<i>(in thousands of tonnes)</i>		
Aluminium . . . . .	2,763	2,756
Aluminium foil and packaging products . . . . .	74.7	62.2
Alumina . . . . .	5,783	5,588
Bauxite . . . . .	8,701	9,346
Nepheline . . . . .	3,291	3,454
<b>Sales</b>		
Aluminium <i>(in thousands of tonnes)</i> . . . . .	2,955	2,896
Average realised price of aluminium <i>(U.S.\$ per tonne)</i> . . . . .	2,051	1,711
<i>LME QP component</i> <sup>(1)</sup> . . . . .	1,888	1,550
<i>Realised premium</i> <sup>(2)</sup> . . . . .	163	161
VAP <i>(in thousands of tonnes)</i> . . . . .	1,407	1,277
Share of VAP . . . . .	48%	44%

Notes:

- (1) QP (quotation period) prices differ from real time LME quotes due to a time lag between LME quotes and sales recognition and due to contract formula specialty.
- (2) Average premiums over LME prices realised by RUSAL based on management accounts.

The table below presents the aluminium production of RUSAL's principal aluminium smelting plants for the periods indicated:

	Nine months ended 30 September	
	2017	2016
	<i>(thousand tonnes)</i>	
<b><i>Russia—Siberia</i></b>		
Bratsk aluminium smelter . . . . .	753	752
Krasnoyarsk aluminium smelter . . . . .	761	768
Sayanogorsk aluminium smelter . . . . .	398	395
Novokuznetsk aluminium smelter . . . . .	161	159
Irkutsk aluminium smelter . . . . .	313	310
Khakas aluminium smelter . . . . .	218	219
<b><i>Russia—Other smelters</i></b>		
Nadvoitsy aluminium smelter . . . . .	9	9
Kandalaksha aluminium smelter . . . . .	54	51
Volgograd aluminium smelter . . . . .	5	—
<b><i>Sweden</i></b>		
Kubikenborg Aluminium . . . . .	92	93
<b>Total production (including remelting at Volgograd aluminium smelter) . . . . .</b>	<b><u>2,781</u></b>	<b><u>2,785</u></b>

The table below presents the alumina output attributable to RUSAL from RUSAL's principal plants for the periods indicated:

	Nine months ended 30 September	
	2017	2016
	<i>(thousand tonnes)</i>	
Aughinish Alumina (Ireland) . . . . .	1,448	1,458
Nikolaev Alumina Refinery (Ukraine) . . . . .	1,244	1,103
Achinsk Alumina Refinery (Russia) . . . . .	707	702
Bogoslovsk Alumina Refinery (Russia) . . . . .	725	712
Urals Alumina Refinery (Russia) . . . . .	667	598
Winalco (Jamaica) . . . . .	429	453
QAL (Australia JV) . . . . .	563	562
<b>Total . . . . .</b>	<b><u>5,783</u></b>	<b><u>5,588</u></b>

The table below presents the bauxite output attributable to RUSAL from RUSAL's principal mines for the periods indicated:

	Nine months ended 30 September	
	2017	2016
	<i>(thousand tonnes)</i>	
Timan Bauxite Mine (Russia) . . . . .	2,449	2,396
North Urals Bauxite Mine (Russia) . . . . .	1,753	1,760
Compagnie des Bauxites de Kindia (Guinea) . . . . .	2,295	2,733
Bauxite Co. De Guyana (Guyana) . . . . .	721	844
Alpart (Jamaica) . . . . .	—	69
Winalco (Jamaica) . . . . .	1,483	1,544
<b>Total . . . . .</b>	<b><u>8,701</u></b>	<b><u>9,346</u></b>

The table below presents the nepheline output attributable to RUSAL from RUSAL's principal mines for the periods indicated:

	Nine months ended 30 September	
	2017	2016
	<i>(thousand tonnes)</i>	
Kiya Shaltyr Nepheline Syenite (Russia) . . . . .	3,291	3,454
<b>Total</b> . . . . .	<b>3,291</b>	<b>3,454</b>

*RUSAL's Business Divisions and Operating Assets*

RUSAL's operations, business activities and financial results are divided into the following segments:

- *Aluminium*, which is primarily involved in the production and sale of aluminium and related products;
- *Alumina*, which focuses on the mining and refining of bauxite into alumina and the sale of alumina;
- *Energy*, which includes subsidiaries 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; and
- *Mining and Metals*, which includes the equity investment in Norilsk Nickel.

The table below sets forth an overview of RUSAL's operating assets as at 30 June 2017:

<u>Asset type</u>	<u>Quantity and Location(s)</u>
Aluminium smelters . . . . .	10, of which 9 <sup>(1)</sup> are in Russia and 1 is in Sweden
Alumina refineries . . . . .	7, of which 3 are in Russia, 1 is in Ireland, 1 is in Ukraine, 1 is in Jamaica and 1 is in Australia <sup>(2)</sup>
Foil mills . . . . .	4, of which 3 are in Russia and 1 is in Armenia
Powder plants . . . . .	3, all of which in Russia
Silicon factories . . . . .	2, all of which in Russia
Bauxite . . . . .	5, of which 2 are in Russia, 1 is in Jamaica, 1 is in Guinea and 1 is in Guyana
Nepheline mines . . . . .	1 in Russia
Coal mines . . . . .	1 in Kazakhstan <sup>(3)</sup>
Hydro-electric power stations . . . . .	1 in Russia <sup>(4)</sup>

Notes:

- (1) Including Volgograd aluminium smelter where smelting production was mothballed (as at 30 June 2017) but casting production was in operation.
- (2) QAL is an associate in which the Group's ownership share is 20%.
- (3) A 50:50 joint venture with Samruk-Kazyna.
- (4) A 50:50 joint venture with RusHydro.

## Production

The table below presents RUSAL's key production and operating data for the six months ended 30 June 2017 and 2016, as well as the years ended 31 December 2016, 2015 and 2014.

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
<b>Production (thousand tonnes)</b>					
Aluminium . . . . .	1,831	1,835	3,685	3,645	3,601
Alumina . . . . .	3,817	3,724	7,528	7,402	7,253
Bauxite . . . . .	5,959	6,135	12,187	12,112	12,108
<b>Sales of primary aluminium and alloys (thousand tonnes) . . .</b>	<b>1,987</b>	<b>1,915</b>	<b>3,818</b>	<b>3,638</b>	<b>3,525</b>
<b>Sale price and costs (U.S.\$ per tonne)</b>					
Aluminium segment cost per tonne <sup>(1)</sup> . . . . .	1,456	1,330	1,333	1,455	1,729
Aluminium LME price per tonne <sup>(2)</sup> . . . . .	1,880	1,543	1,604	1,663	1,866
Average aluminium sale price . . . . .	2,016	1,689	1,732	2,001	2,219
Alumina market price per tonne <sup>(3)</sup> . . . . .	318	236	253	303	330
Average alumina sale price . . . . .	355	266	274	346	326

Notes:

- (1) Calculated as the respective RUSAL segment's revenue less EBITDA divided by sales volume of the respective segment.
- (2) Price per tonne quoted on the LME representing the average of the daily closing official prices for each period.
- (3) Average price per tonne based on the daily closing spot prices of alumina according to the Non-ferrous Metal Alumina Index FOB Australia U.S.\$ per tonne.

## Aluminium Division

Currently, RUSAL operates 10 aluminium smelters. Three of RUSAL's smelters produce over 500,000 tonnes of primary aluminium per annum. Two of these, the Bratsk aluminium smelter and the Krasnoyarsk aluminium smelter, located in Siberia, are among the largest aluminium smelters globally in terms of production capacity and each produces over one million tonnes of primary aluminium per annum. The aggregate aluminium production from RUSAL's smelters was 3.6 million tonnes in 2015 and 3.7 million tonnes in 2016. RUSAL's smelters ran at full or near-full capacity over the three-year period from 2014 to 2016. RUSAL has modernised its key aluminium smelters by improving operating practices and introducing enhanced and low-carbon technology, which in turn has led to higher efficiency and amperages and longer cell life.



The table below presents the aluminium production capacity and output of RUSAL's principal aluminium smelting plants as at and for the periods indicated:

	As at and six months ended 30 June		As at and year ended 31 December					
	2017		2016		2015		2014	
	Capacity <sup>(1)</sup>	Production	Capacity	Production	Capacity	Production	Capacity	Production
(thousand tonnes per annum)								
<b>Russia—Siberia</b>								
Bratsk aluminium smelter . .	1,006	499	1,006	1,005	1,006	1,005	1,006	1,005
Krasnoyarsk aluminium smelter . . . . .	1,013	506	1,013	1,024	1,013	1,013	1,008	1,005
Sayanogorsk aluminium smelter . . . . .	542	264	542	530	542	525	542	514
Novokuznetsk aluminium smelter . . . . .	215	107	215	213	215	209	215	207
Irkutsk aluminium smelter . .	410	208	410	415	410	410	529	394
Khakas aluminium smelter . .	297	145	297	293	297	289	297	287
<b>Russia—Other smelters</b>								
Nadvoitsy aluminium smelter	24	6	24	12	24	12	24	12
Kandalaksha aluminium smelter . . . . .	76	36	76	69	76	66	76	64
Urals aluminium smelter <sup>(2)</sup> . .	75	—	75	—	75	—	75	—
Volgograd aluminium smelter <sup>(3)</sup> . . . . .	66	—	66	—	100	—	168	—
<b>Sweden</b>								
Kubikenborg Aluminium . . .	128	61	128	124	128	116	128	113
<b>Nigeria</b>								
ALSCON <sup>(4)</sup> . . . . .	24	—	24	—	24	—	96	—
<b>Total</b> . . . . .	<b>3,876</b>	<b>1,832</b>	<b>3,876</b>	<b>3,685</b>	<b>3,910</b>	<b>3,645</b>	<b>4,164</b>	<b>3,601</b>

Notes:

- (1) Capacity is indicated on a per annum basis.
- (2) Mothballed.
- (3) While smelting production was mothballed, casting production is in operation.
- (4) Mothballed.

RUSAL's six largest aluminium smelters accounted for 94% and 95% of its aggregate aluminium production for the years ended 31 December 2016 and 2015, respectively. In recent years, RUSAL's key facilities operated close to full capacity. In 2012-2014, during a period of relatively weak market conditions, RUSAL mothballed assets representing over 600,000 tonnes (per annum) of inefficient smelting capacity, mostly located in the European part of Russia.

In addition to the production of primary aluminium, RUSAL also has facilities that produce a number of other aluminium products, including aluminium powder, silicon and secondary aluminium, along with other materials related to aluminium production.

RUSAL also has a number of anode production facilities, which are integrated with certain of its aluminium smelters.

#### *BEMO Project*

The BEMO Project comprises the construction of Boguchansk HPP with installed capacity of 3 GW (which generated 14.0 TWh of electricity in 2016 and is projected to generate 17.6 TWh per annum as a long-term average) and Boguchansk aluminium smelter with designed production capacity of approximately 600,000 tonnes of aluminium per annum. The BEMO Project is a 50:50 joint venture between RUSAL and RusHydro, and is developed in the Krasnoyarsk region in Siberia.

Boguchansk HPP was commissioned in stages during 2012-2014 with the commencement of commercial supplies to the wholesale electricity and capacity markets in December 2012. Boguchansk HPP generated 14.0 TWh of electricity in 2016, 13.1 TWh of electricity in 2015 and 8.4 TWh in 2014.

The total capital expenditures for Boguchansk HPP, incurred and to be incurred, is currently estimated at approximately U.S.\$2,116 million (of which RUSAL's share is expected to be approximately U.S.\$1,058 million), of which approximately U.S.\$2,090 million has been incurred as at 30 June 2017 (of which RUSAL's share amounted to approximately U.S.\$1,043 million). Total capital expenditures for Boguchansk HPP were U.S.\$11 million, U.S.\$20 million and U.S.\$53 million for 2016, 2015 and 2014, respectively.

The construction of the Boguchansk aluminium smelter is divided into two stages, each with a total capacity of 298,000 tonnes per annum. The start-up complex of the first stage with a capacity of 149,000 tonnes per annum was launched in the third quarter of 2015. The second part of the first stage with a capacity of 149,000 tonnes per annum is scheduled for completion at the end of 2018. Each part of the first stage includes 168 pots. As at 30 June 2017, all 168 pots of the start-up complex are in operation. The second stage with a capacity of 298,000 tonnes per annum is to be considered with RusHydro.

The capital expenditures for the first stage of the Boguchansk aluminium smelter, incurred and to be incurred, is currently estimated at approximately U.S.\$1,612 million (of which RUSAL's share is expected to be approximately U.S.\$806 million), of which approximately U.S.\$1,370 million has been incurred as at 30 June 2017 (of which RUSAL's share amounted to approximately U.S.\$685 million). Total capital expenditures for the Boguchansk aluminium smelter were U.S.\$66 million, U.S.\$71 million and U.S.\$151 million for 2016, 2015 and 2014, respectively.

The financing of the first stage of the Boguchansk aluminium smelter was provided by Vnesheconombank on a project finance basis. As at 30 June 2017, the BEMO Project utilises the project financing proceeds to make necessary contributions to the ongoing construction projects and does not require contributions from the joint venture partners.

#### *Taishet Aluminium Smelter*

The construction of Taishet aluminium smelter originally commenced in 2006. Due to unfavourable market conditions, RUSAL decided to suspend the project in 2009. In May 2017, RUSAL's board of directors decided to resume the construction and approved additional financing for top-priority works at PC-1 (the first line) in the amount of approximately U.S.\$39 million for 2017. The project contemplates the construction of the aluminium smelter with designed production capacity of approximately 983,600 tonnes of aluminium per annum in the Irkutsk region in Siberia. The smelter is divided into two lines: PC-1 (the first line) with a capacity of 428,500 tonnes of aluminium per annum with 352 pots (RA 400) installed and PC-2 (the second line) with a capacity of 555,100 tonnes of aluminium per annum with 352 pots (RA 550) installed. PC-1 (the first line) is expected to consume 6.4 TWh of electricity per annum while the smelter operating at full capacity is designed to consume 14.2 TWh of electricity per annum. As at 1 July 2017, RUSAL invested U.S.\$798 million (excluding VAT) for both lines, and expects that further capital expenditures of U.S.\$711 million (excluding VAT) will be required to launch the production at the first line. RUSAL plans to construct the Taishet aluminium smelter on a wholly-owned or a joint venture basis with funding through a project finance facility. As at the date of this Prospectus, RusHydro (RUSAL's joint venture partner under the BEMO Project), has preliminarily resolved, subject to certain commercial conditions and considerations, to participate in the construction of Taishet aluminium smelter. It is anticipated that the structure of the joint venture arrangement will be finalised around year end 2017.

#### *Alumina Division*

Currently, RUSAL operates 7 alumina refineries, including QAL—an associate in which RUSAL's ownership share is 20%. The aggregate alumina production from RUSAL's plants was 7.5 million tonnes, 7.4 million tonnes and 7.3 million tonnes for the years ended 31 December 2016, 2015 and 2014, respectively.

The table below presents the alumina nameplate production capacity (including mothballed facilities) and alumina output attributable to RUSAL from RUSAL's principal plants as at and for the periods indicated:

	As at and six months ended 30 June		As at and year ended 31 December					
	2017		2016		2015		2014	
	Capacity <sup>(1)</sup>	Production	Capacity	Production	Capacity	Production	Capacity	Production
	(thousand tonnes per annum)							
Aughinish Alumina (Ireland)	1,990	951	1,990	1,967	1,990	1,983	1,990	1,951
Nikolaev Alumina Refinery (Ukraine) . . . . .	1,630	828	1,630	1,510	1,601	1,481	1,601	1,455
Achinsk Alumina Refinery (Russia) . . . . .	1,069	473	1,069	916	1,069	880	1,069	891
Bogoslovsk Alumina Refinery (Russia) . . . . .	1,030	473	1,030	962	1,052	941	1,052	911
Urals Alumina Refinery (Russia) . . . . .	864	437	864	804	780	772	780	770
Winalco (Jamaica) . . . . .	1,210	280	1,210	609	1,210	596	1,210	559
QAL (Australia JV) <sup>(2)</sup> . . . . .	4,058	376	4,058	760	4,058	749	4,058	716
Eurallumina (Italy) <sup>(3)</sup> . . . . .	1,085	—	1,085	—	1,085	—	1,085	—
Friguia Alumina Refinery (Guinea) <sup>(4)</sup> . . . . .	650	—	650	—	650	—	650	—
Boxitogorsk Alumina Refinery (Russia) <sup>(5)</sup> . . . . .	165	—	165	—	165	—	165	—
Alpart (Jamaica) <sup>(6)</sup> . . . . .	1,650	—	1,650	—	1,650	—	1,650	—
<b>Total</b> . . . . .	<b>13,751</b>	<b>3,818</b>	<b>13,751</b>	<b>7,528</b>	<b>15,310</b>	<b>7,402</b>	<b>15,310</b>	<b>7,253</b>

Notes:

- (1) Capacity is indicated on a per annum basis.
- (2) QAL's full production capacity is indicated while production for respective periods is indicated on a pro-rata share attributable to RUSAL.
- (3) Mothballed in 2009.
- (4) Mothballed in 2009.
- (5) Mothballed in 2011.
- (6) Mothballed in 2009 and sold in 2016.

To adapt to the continuing depression in commodities prices, RUSAL has mothballed the production process on its Eurallumina, Alpart and Winalco refineries, which, prior to their mothballing in 2009, had the highest cost of sales of any of RUSAL's alumina refineries. One of Winalco's sites, Ewarton, was relaunched in 2010, while the other site, Kirkwine, remains mothballed. The effectiveness of the mothballing is periodically reassessed. In November 2016, RUSAL completed the sale of 100% stake in Alpart to the Chinese state industrial group, JIUQUAN IRON & STEEL (GROUP) Co. Ltd. for a consideration of U.S.\$299 million.

Alumina is predominantly produced through the purification of bauxite into aluminium oxide using the Bayer process, though several other processes exist. All of RUSAL's refineries process bauxite, with the exception of the Achinsk alumina refinery, which uses nepheline ore as the feedstock. RUSAL is progressively upgrading and modernising its alumina refining equipment to improve the quality, yield and physical properties of the alumina it produces, and to reduce the level of raw materials consumed by it in the refinement process.

RUSAL regularly assesses the effectiveness and economic benefit of restoring its mothballed capacities. As a result of such assessment, the Alpart alumina refinery was sold to third parties in 2016 for U.S.\$299 million. Also, against the background of the changed market environment, an agreement was signed between RUSAL and the government of Guinea to restart the Friguia alumina refinery (located in the Republic of Guinea). Preparation for the relaunch has been started with an expected export of alumina to be resumed from Guinea in 2018.

At the end of 2016 and the beginning of 2017, RUSAL implemented a number of projects aimed at the expansion of production capacities at the Urals and Nikolaev alumina refineries. RUSAL has also been actively investing in the on-going construction of the Dian (Guinea) project. In future, this large and high quality bauxite deposit is expected to provide RUSAL's European alumina refineries with their own ore. In addition, in order to ensure a stable supply of bauxite, a project involving the development of a new deposit, the Verkhne-Shchugorskoye deposit of Timan, has been implemented.

### Mining

RUSAL's mining assets comprise 16 mines and mine complexes, including seven bauxite mines, two quartzite mines, one fluorite mine, two coal mines, one nepheline syenite mine and two limestone mines. RUSAL jointly operates two coal mines, the Bogatyr mine and the Severny mine in the Ekibastuz coal basin in Kazakhstan, with Samruk-Kazyna under a 50/50 joint venture, LLP Bogatyr Komir. This asset is one of the world's largest opencast coal producers in terms of production volumes. RUSAL's investment in this asset provides it with a growth platform in energy production capacity and a strategic energy hedge through thermal coal. The combined production of the Bogatyr and Severny opencast mines in 2016 was 35.1 million tonnes of coal per annum, which was approximately 52% of the total annual thermal coal output from Kazakhstan. The largest consumers of coal from the Ekibastuz coal basin are Kazakh and Russian power stations.

The aggregate attributable bauxite production from RUSAL's mines for the years ended 31 December 2015 and 2016 was 12.1 and 12.2 million tonnes, respectively. Ensuring the security of supply of high-quality bauxite at adequate volumes and cost-competitive prices for current and projected alumina facilities is an important task for RUSAL. Additional exploratory work is being undertaken to find new deposits of bauxite in the existing operational bauxite mining areas of RUSAL, in addition to further exploratory work being undertaken in new project areas.

The table below presents the bauxite nameplate production capacity and output attributable to RUSAL from RUSAL's principal mines as at and for the periods indicated:

	As at and six months ended 30 June		As at and year ended 31 December					
	2017		2016		2015		2014	
	Capacity	Production	Capacity	Production	Capacity	Production	Capacity	Production
	(thousand tonnes per annum)							
Timan Bauxite Mine (Russia)	3,200	1,610	3,200	3,065	3,200	2,861	3,200	2,815
North Urals Bauxite Mine (Russia) . . . . .	3,000	1,205	3,000	2,367	3,000	2,537	3,000	2,774
Compagnie des Bauxites de Kindia (Guinea) . . . . .	3,400	1,578	3,400	3,538	3,400	3,499	3,400	3,379
Friguia Bauxite and Alumina Complex (Guinea) . . . . .	2,100	—	2,100	—	2,100	—	2,100	—
Bauxite Co. De Guyana (Guyana) . . . . .	1,700	560	1,700	1,094	1,700	1,176	1,700	1,237
Alpart (Jamaica) <sup>(1)</sup> . . . . .	—	—	—	69	4,900	82	4,900	—
Winalco (Jamaica) . . . . .	4,000	1,007	4,000	2,054	4,000	1,957	4,000	1,903
Dian-Dian Project (Guinea) .	—	—	—	—	—	—	—	—
<b>Total</b> . . . . .	<b>12,500</b>	<b>5,959</b>	<b>12,500</b>	<b>12,187</b>	<b>22,300</b>	<b>12,112</b>	<b>22,300</b>	<b>12,108</b>

Notes:

(1) Sold in 2016.

The table below presents the nepheline output attributable to RUSAL from RUSAL's principal mines for the periods indicated:

	Six months ended	Year ended 31 December		
	30 June	2016	2015	2014
	2017			
		<b>Production</b>		
		(thousand tonnes per annum)		
Kiya Shaltyr Nepheline Syenite (Russia) . . . . .	2,166	4,432	4,111	4,396
<b>Total</b> . . . . .	<b>2,166</b>	<b>4,432</b>	<b>4,111</b>	<b>4,396</b>

*Technical Directorate*

One of RUSAL's most significant competitive advantages is its in-house engineering, procurement, construction and management service provider, the Technical Directorate ("TD"), which was established by RUSAL in April 2010. The key advantage of TD to the Group is its ability to implement in-house complex engineering and construction projects (EPCM), which provide comprehensive research and development, as well as engineering and construction services, resulting in the reduction of capital expenditure at all stages of planning and implementation of the Group's investment projects. The TD develops processing solutions for new production assets, as well as for facilities undergoing modernisation and expansion. The TD operates the Engineering and Technology Centre in Krasnoyarsk; the Engineering and Technology Centre for Alumina Production in St. Petersburg; the Institute of Light Materials and Technologies in Moscow; and centres specialising in design in Irkutsk and St. Petersburg.

The major functional areas of the TD are as follows:

- extensive research and development activities and the development of advanced aluminium production technologies, aluminium and aluminium alloy casting technologies and alumina production technologies; and
- creation of new high add-value aluminium products.

*Construction*

During the execution of RUSAL's projects, the TD acts as the EPCM contractor to RUSAL. The TD performs a full range of activities related to the execution of such projects, including detailed design documentation, the purchase of equipment and services, construction and equipment installation management, commissioning and start-up activities and production ramp-up. The TD's ability to provide centralised and comprehensive EPCM services, which are essential for the execution of large-scale EPCM projects in Siberia, Western Europe, Africa and other parts of the world, presents a major competitive advantage for RUSAL. The TD's EPCM projects provide strong support for RUSAL's existing assets and future expansion plans on a global scale.

*Packaging Division*

While RUSAL focuses on the upstream segment of the mining industry, its downstream assets nonetheless comprise a profitable niche business. RUSAL has four aluminium foil mills, with three of them located in the Russian Federation and one in Armenia. RUSAL can produce aluminium foil with thicknesses ranging from 4.5 to 200 micron, 3003 aluminium alloy straps, and a broad range of alufoil-based flexible packaging and household products. The aggregate production of aluminium foil and packaging materials from RUSAL's plants was 84,700 tonnes, 89,100 tonnes and 93,600 tonnes for 2016, 2015 and 2014, respectively.

RUSAL exports its downstream products to 46 countries on five continents and delivers them to 40 regions of the Russian Federation. RUSAL is the largest foil producer in Russia, with an estimated market share of 37% in Russia, 8% in Europe (25% of household market) and 1.5% globally in 2016, based on RUSAL's compilation of data obtained from CRU.

In July 2015, the European Commission imposed preliminary anti-dumping duties of 12.2%, in addition to 7.5% duties on foil imports, from the Russian Federation, and RUSAL had to redirect Sayanal's production to the Russian market.

## *Investments*

In 2008, RUSAL made a strategic investment through the acquisition of a 25.0% stake in Norilsk Nickel, the Russian based diversified metal producer (being the world's second largest producer of refined nickel, the largest producer of palladium and a major producer of platinum and copper). Norilsk Nickel's production of nickel and palladium in 2016 represented 12% and 40%, respectively, of total global primary production of those metals, according to Norilsk Nickel's estimates. In 2016, Norilsk Nickel produced 236 thousand tonnes of nickel and 2.6 million oz. of palladium, generating U.S.\$8.3 billion of revenue and EBITDA margin of 47% (according to Norilsk Nickel EBITDA calculation). Norilsk Nickel is the world's largest producer of platinum outside South Africa and a major copper producer according to Norilsk Nickel's estimates. In addition, Norilsk Nickel produces various other products such as cobalt, rhodium, silver, gold, iridium, ruthenium, selenium, tellurium and sulphur. Norilsk Nickel's principal mining and metallurgical facilities are located in Russia and Finland, and it has sales and distribution offices in all key markets, such as Europe, Asia and North America.

As at the date of this Prospectus, RUSAL holds 27.82% of shares in Norilsk Nickel. In December 2012, RUSAL, together with certain other major shareholders of Norilsk Nickel, entered into a shareholders' agreement, which has resulted in a strong cash inflow for RUSAL over the reporting period. As at 30 June 2017, the market value of the Group's share in Norilsk Nickel, as determined in the Interim Financial Information with reference to the quotation of shares on MOEX, amounted to U.S.\$6,012 million. For the first half of 2017, the Group recorded U.S.\$312 million in dividend payments attributable to its shareholding in Norilsk Nickel and U.S.\$320 million for 2016.

According to the Norilsk Nickel shareholders' agreement, to which RUSAL is a party, starting from 2017 the annual dividends payable by Norilsk Nickel shall be determined on the basis of the ratio of Norilsk Nickel's Net Debt as at 31 December of the preceding year to Norilsk Nickel's EBITDA for the preceding calendar year as follows: (i) 60% of EBITDA if the ratio is 1.8x and less; (ii) 30% of EBITDA if the ratio is 2.2x and more; and (iii) if the ratio falls between 1.8x and 2.2x, the percentage of EBITDA to be paid as dividends shall be calculated as follows:  $X\% = 60\% - (\text{Net Debt/EBITDA} - 1.8)/0.4 * 30\%$ . The minimum amount of the annual dividends payable by Norilsk Nickel in 2017 shall not be less than U.S.\$1.3 billion. In addition, earnings received by Norilsk Nickel from the sale of 100% of shares in Norilsk Nickel Africa (Pty) Limited (reduced by the amount of expenses associated with the sale and taxes) shall be paid as a dividend by Norilsk Nickel in 2017, or if respective earnings are received by Norilsk Nickel at such time that their distribution as dividends in 2017 is no longer possible, on the next nearest possible date for payment of dividends. Starting from 2018, the minimum amount of the annual dividends payable by Norilsk Nickel shall not be less than U.S.\$1 billion.

RUSAL also has investments in several joint ventures. RUSAL has a 50% stake in the BEMO Project, a joint venture with RusHydro, which is developed in the Krasnoyarsk region in Siberia. The BEMO Project comprises the construction of Boguchansk HPP with installed capacity of 3 GW (which generated 14.0 TWh of electricity in 2016 and is projected to generate 17.6 TWh per annum as a long-term average) and Boguchansk aluminium smelter with designed production capacity of approximately 600,000 tonnes of aluminium per annum (see "*—BEMO Project*").

RUSAL also has a 50% stake in a joint venture that includes Bogatyr Komir and Bogatyr Trans. Kazakhstan based Bogatyr Komir is one of the largest energy coal miners in the CIS, with an annual output of 35.1 million tonnes per annum. RUSAL has historically received a stable dividend inflow from Bogatyr Komir's joint venture operations.

## *Sales and distribution*

RUSAL's sales strategy has been defined to achieve higher margins through closer interaction with end-users, with a view to creating new products that meet the specific requirements of RUSAL's customers and to further improving its customer service and the quality of its products. To strengthen the strategy, the marketing team aims to anticipate customer needs through developing a deeper understanding of macroeconomic trends, market developments and customer information.

The strategy further seeks to leverage the low-carbon footprint of its aluminium smelters, as well as recognising the importance of the transportation sector globally in driving demand growth across the industry.

RUSAL has a well-established relationship and supply story with the key downstream players, who in turn represent all segments of the aluminium end-use industries, such as rolling, extrusion, casting and wiring

and cabling. The prime focus for RUSAL is to become a “supplier of choice” for key customers, through excellence in product quality, contract execution and delivery performance.

RUSAL aims to maximise the share of high value products through the optimal loading of its existing production capacities and initiating investment projects focusing on the production of higher margin products, such as primary foundry alloys, billets, slabs, wire rods and high-purity aluminium. RUSAL maintains the flexibility to switch its production between VAPs and primary aluminium in response to market conditions. More than 80% of the primary aluminium produced by RUSAL is sold through annual and longer-term contracts.

The volume of VAPs produced by RUSAL has increased over the last five years. In 2016, RUSAL sold more than 1.68 million tonnes of VAPs, highlighting its successful implementation of the strategy. VAPs comprised approximately 45% of RUSAL’s aggregate attributable saleable aluminium production in 2016.

With regard to the company’s low-carbon sales strategy, the objective is to strengthen end-user sales through promotion of RUSAL’s low-carbon footprint of less than 5 kg CO<sub>2</sub>/kg aluminium, to those sectors that have a strong sustainability profile. The consumer electronics, automotive, packaging and construction sectors are showing a tendency to preferring aluminium produced by renewable energy sources and RUSAL’s approach is to further stimulate this demand through the creation of internationally certified production standards.

The following table shows RUSAL’s sales by product for the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
<b>Products</b>					
Primary aluminium and alloys . . . . .	4,005	3,234	6,614	7,279	7,823
Alumina . . . . .	364	301	622	595	569
Foil . . . . .	141	113	240	270	303
Other revenue . . . . .	254	248	507	536	662
<b>Total</b> . . . . .	<b>4,764</b>	<b>3,896</b>	<b>7,983</b>	<b>8,680</b>	<b>9,357</b>

RUSAL’s customer base is diversified both in terms of client characteristics, as well as regional geography. RUSAL enjoys a long-term relationship with Glencore for the sale and distribution of its products, as well as the provision of export financing. The contract for primary aluminium, which represents approximately 29% of RUSAL’s total sales in 2016, will terminate in 2018. Other large scale industrial customers include Toyota Tsusho, Novelis, SAPA, Elval, Hydro Rolled Products and Arconic. In 2016, approximately 46% of RUSAL’s primary aluminium and alloys sales were made directly to end-customers and 54% were made through traders such as Mitsubishi Corporation RtM International Pte Ltd., Toyota Tsusho (Singapore) Pte Ltd., IntElorg Pte Ltd., Oddo Metals as compared to 39% and 61%, respectively, in 2015.

The main industry sectors that use RUSAL’s aluminium products are the construction, cable, packaging and transportation (automotive and aerospace) sectors. Within Russia, RUSAL focuses on stimulating demand within downstream metal processing companies (processors of rolling mills and extruders), cable producing companies and companies in the auto industry. On a global scale, RUSAL markets and sells its products primarily in the European, Japanese/Korean, South East Asian and North American markets, and RUSAL has trading offices in the United States, Gibraltar and Switzerland. In 2016, 43% of RUSAL’s revenues were attributable to Europe, 24% to CIS (including Russia), 17% to the Americas and 15% to Asia. In 2015, 53% of RUSAL’s revenues were attributable to Europe, 22% to CIS (including Russia), 15% to Asia and 10% to the Americas. In 2014, 49% of RUSAL’s revenues were attributable to Europe, 21% to CIS (including Russia), 19% to Asia and 11% to the Americas. Almost all of RUSAL’s revenues are denominated in dollars.

In 2015 and 2016, new representative offices were established in Turkey and South Korea, in addition to RUSAL’s previously established offices in Switzerland, Japan and China. In 2016, RUSAL opened Asian regional sales office in Singapore. The expansion of RUSAL’s sales and marketing footprint has been a core enabler of the growth into new markets and emerging demand sectors. RUSAL has also invested in the development of its marketing and distribution infrastructure.

Sales by RUSAL of its primary aluminium and alloys are made at prices directly linked to LME-quoted prices, which are then increased by a premium. The premium charged to the customer is a function of the market, product type, quantity, terms of delivery, payment terms, quotation period and nearby supply/demand trends. Similarly, within Russia and CIS, the prices of primary aluminium and alloys are linked to LME prices and increased by a premium, which can be renegotiated monthly. In certain cases, the total premium or upcharge over LME can be fixed for the period of the contract.

RUSAL's average realised price per tonne of aluminium is generally higher than that quoted on the LME, due to the inclusion of certain alloys in RUSAL's products (allowing for a premium over LME quotations to be earned), RUSAL's higher-grade aluminium, the supply-and-demand dynamics in the particular markets in which RUSAL operates, RUSAL's financing costs and the inclusion of certain transportation services in the final price of RUSAL's products. In 2016, the average price for aluminium on the LME was U.S.\$1,604 per tonne, while the average sales price for aluminium and alloys was U.S.\$1,732 per tonne. In 2015, the average price for aluminium on the LME was U.S.\$1,663 per tonne, while the average sales price for aluminium and alloys was U.S.\$2,001 per tonne. In 2014, the average price for aluminium on the LME was U.S.\$1,866 per tonne, while the average sales price for aluminium and alloys was U.S.\$2,219 per tonne.

RUSAL hedges sales of aluminium from time to time. The objective of RUSAL's operational hedging of its sales is to achieve the average LME official cash price for the relevant month of production or to fix a favourable level of LME. The hedging team also carries out operational hedging within the quotation periods to fix certain LME levels or to offer additional services to customers. The objective of RUSAL's operational hedging of its sales is to achieve the average LME official cash price for the month of production or to fix favourable levels of LME.

#### *Health, Safety and Environment*

As with other natural resources and mineral processing companies, RUSAL's operations create hazardous and non-hazardous waste, effluent emissions into the atmosphere, water and soil and safety concerns for its workforce. Consequently, RUSAL is required to comply with a range of HSE laws and regulations. RUSAL believes its operations are in compliance in all material respects with the applicable HSE legislation of the Russian Federation, its regions and the countries and regions where RUSAL's plants are situated and intends to upgrade where feasible to comply with international standards.

RUSAL considers health and safety a fundamental value that is central to its business. To this end, RUSAL has formulated a series of health and safety principles, policies and guidelines and established a health and safety management system. The purpose of these initiatives is to eliminate any harm caused to employees at all stages of its production activity. Ten of RUSAL's sites and facilities are already OHSAS 18001 certified, and RUSAL is considering acquiring ISO45001 "Occupational Health and Safety Management Systems" certification for its operating systems.

Care for the health of RUSAL employees is a key element of RUSAL's social policy. RUSAL provides a full range of medical services for its employees and promotes a healthy lifestyle. RUSAL emphasises preventive medicine and the reduction of lost working time resulting from occupational illnesses through corporate medical centres it has established in most regions where RUSAL operates.

Health and safety is an ongoing process and the programmes covering each area are updated and improved upon continuously, based on changing regulations and business need. Reports covering performance are generated daily, weekly, monthly and annually, according to regulatory and RUSAL reporting requirements. In the event of an injury or accident, as mandated by local law, an investigation is carried out to determine causation and corrective action. RUSAL safety standards also require an internal investigation to determine causation and any behavioural deficiencies that contributed to the accident.

Lost Time Injury Frequency Rate ("LTIFR") is used to gauge internal safety performance and to benchmark RUSAL or individual plants against peers or alternative industries. RUSAL calculates LTIFR as a sum of fatalities and lost time injuries per 200 thousand man-hours worked. In 2016, the LTIFR for RUSAL slightly increased to 0.18 compared to a level of 0.17 in 2015 and decreased as compared to a level of 0.19 in 2014, all of which are lower than the aggregate aluminium industry LTIFR of 0.26 per 200 thousand hours worked (in 2015), as reported by the International Aluminium Institute. Another indicator of RUSAL's improved safety measures is the general reduction in the number of fatalities over time, although the fatality rate tends to fluctuate widely. RUSAL had 22 fatal accidents that occurred from the period beginning 1 January 2014 and ending 31 April 2017 (15 with employees and 7 with contractors).



In addition to measures aimed at enhancing the working conditions and improving the LTIFR that are developed and implemented on an annual basis, RUSAL implements special projects designed to reduce health and safety risks and exclude cases similar to those which occurred in 2014-2016. Such projects include “Safe Mine”, “Unification of Workplace”, “Safety Culture in Production”, “Reduction of Electric Injuries”, “Improvement of Management KPIs” and “Safety Audit”. In April 2017, RUSAL’s health and safety team reported solid progress in the electric injury rate. The respective rate in 2016 was 50% lower than the average level for the period of 2012-2015.

RUSAL has also taken steps to lessen the environmental impact of its operations and comply with all applicable environmental laws and regulations. A violation of environmental laws or failure to comply with the regulations or instructions of relevant environmental authorities could lead to, among other things, a temporary shut-down of all or a portion of a mine, refinery, smelter or other plant; loss of the right to mine or operate a refinery, smelter or other plant; and/or the imposition of other costly compliance procedures.

RUSAL’s mines, refineries, smelters and other plants located in Russia are subject to statutory limits on air emissions and the discharge of liquids and other substances. Russian authorities may permit, in accordance with the relevant Russian laws and regulations, a particular RUSAL facility to exceed statutory emission limits, *provided that* RUSAL develops a plan for the reduction of the emissions or discharge and pays a levy based on the amount of contaminants released in excess of the limits. Fees are assessed on a sliding scale in accordance with the relevant laws and regulations: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits and the highest fees are imposed for pollution exceeding such limits. It is within the discretion of the Russian authorities to permit pollution in excess of the statutory limits, and any request may be denied. Moreover, the payment of fees for exceeding these limits does not relieve RUSAL from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In addition, some of RUSAL’s sites benefit from higher limits on air emissions, as agreed with the authorities, on the condition that modernisation programmes will be completed at those sites.

RUSAL is committed to investigating practicable remedies to address key environmental, health and safety issues that it faces, according to the respective Environmental and Social Performance Standards of the International Finance Corporation, and to implement such remedies within a realistic timeframe. One of RUSAL’s environmental priorities is to invest in the further modernisation of Söderberg technology in order to reduce emissions of air pollutants. RUSAL aims to comply with local emissions standards in each jurisdiction where it has operations and to exclusively use hydroelectric power generation to power its smelters. In addition, RUSAL has set itself the following environmental goals to be achieved by 2025:

- to ensure that our aluminium smelters purchase at least 95% of their electricity from hydroelectric power plants and other carbon free power sources;
- to reduce direct specific greenhouse gas emissions by 15% compared to 2014 through reduction processes at the existing aluminium smelters;
- to reduce direct specific greenhouse gas emissions by 10% compared to 2014 at our existing aluminium refineries;
- to reduce specific aluminium smelters’ power consumption by 7% as compared to 2011;
- to achieve an average level of specific direct and indirect energy related greenhouse gas emissions from reduction processes not exceeding 2.7 tonnes of CO<sub>2</sub> per tonne of aluminium at our aluminium smelters;
- to use an internal carbon price when making strategic and investment decisions starting in 2017;
- to support Russian and international initiatives and associations advocating active actions to mitigate the effects of climate change and supporting carbon prices as long as they are aligned with the strategic goals of RUSAL;
- reduce emissions, including greenhouse gases; to create a closed-circuit water supply system for the main production processes of RUSAL’s operational facilities;
- increase the volume of treated and used waste products and their safe disposal;
- replace and dispose of electrical equipment containing polychlorobiphenyls (PCBs);
- rehabilitate land that has been negatively impacted by RUSAL’s operations and take preventive measures to support biodiversity in areas where RUSAL is active; and
- create corporate systems to manage environmental considerations and risks.

To improve environmental protection across the industry, RUSAL has introduced the ‘Climate Partnership of Russia’, through which RUSAL will work closely with its partners to seek optimum solutions to enable RUSAL to prevent the damaging effects of global climate change. Similarly, the Company’s membership of the Aluminium Stewardship Initiative should enable it to take part in developing global sustainability standards for international application in the aluminium value chain.

In 2007, RUSAL signed a memorandum of understanding with the United Nations Development Programme, the aim of which is the implementation of measures to minimise the impact on climate by reducing greenhouse gas emissions. RUSAL is actively participating in the International Aluminium Institute’s activities related to greenhouse gas emissions and energy efficiency. In 2016, RUSAL has reduced specific greenhouse gas emissions from smelters by 58% since 1990.

RUSAL also participates in activities conducted by the Russian Ministry for Economic Development concerning the development of Russia’s carbon market.

RUSAL is voluntarily aiming to reduce the level of greenhouse gases that its facilities emit and replace equipment that contains polychlorinated biphenyls (a pollutant that eventually will be prohibited under the Stockholm Convention on Persistent Organic Pollutants (the “**Stockholm Convention**”). Under the Stockholm Convention, such equipment may be used until 2025 and shall then be replaced with new polychlorinated biphenyls emission free equipment. RUSAL also expects to increase the proportion of bauxite mining land it rehabilitates annually, in line with the objectives set by the International Aluminium Institute. RUSAL further plans to strengthen its environment management systems. All of RUSAL’s aluminium smelters, QAL and certain of RUSAL’s other facilities have already received ISO 14001 certification to date for their environmental management.

RUSAL’s social performance is guided by the 10 universal social and environmental principles of the UN Global Compact, to which the Company is a signatory. RUSAL measures its social performance in accordance with the requirements of the Global Reporting Initiative’s Business Guide to the Sustainability Reporting Guidelines. The principles of the Global Reporting Initiative’s reporting system are fully compatible with the principles of the UN Global Compact.

There has been no material environmental pollution incident at any of RUSAL’s sites or facilities during the period from 1 January 2014 to 30 June 2017.

#### *Transportation and logistics*

RUSAL’s production process involves complex logistics, due to its key production facilities being far from RUSAL’s sources of raw materials and end markets. The key aluminium smelting facilities of RUSAL have access to the required transportation infrastructure for supplying raw materials and hauling away finished products. RUSAL’s supply chains often employ multiple modes of transport. For example, a cargo might be shipped by sea, further transported by rail and ultimately delivered by road haulage.

Almost all of RUSAL’s land transport operations involve the use of the Russian railway network, and therefore the share of the Group’s cost of goods sold that is attributable to transport costs is affected by the pricing policy of PJSC Russian Railways, a rail infrastructure monopoly wholly owned by the Russian Federation. Cost of railway transportation comprises: (i) a fee set by the Russian Government; and (ii) the rate for the use (lease) of railcars. RUSAL expects this infrastructure fee to rise in line with inflation in Russia, and the rate for the use (lease) of railcars to increase (as a result of new regulations requiring the decommissioning of significant numbers of life-expired railcars). In addition to the PJSC Russian Railways network, RUSAL’s production facilities use private railways to link them to the public rail network. Where such private railways are owned by third-parties, RUSAL pays for their use on the basis of contractual terms agreed with the owners of such private railways.

RUSAL’s key transportation operations include the import of raw materials and export of finished products through ports located in the Russian Pacific, Baltics, Azov and Black Sea regions. Generally, finished products are delivered to Asia, Europe, Africa and America using multimodal transportation (by rail and by sea), whereas only railways are generally used for the export of finished products to CIS countries.

Outside of Russia and the CIS, products are transported from RUSAL’s production facilities to end-users in shipping containers or by bulk cargo vessels operated by the Group’s Transportation Unit. In order to secure timely delivery of raw materials and finished products, RUSAL signed, in June 2016, a three-year letter of intent for long-term cooperation in maritime transportation with Maersk Line, one of the world’s

largest container shipping companies. The letter of intent aims to further increase logistics efficiencies, optimise costs and ensure the safe delivery of RUSAL's products to its customers.

### *Quality Management and Certification*

RUSAL strictly adheres to the International and industry specific quality management standards. Aluminium from the following RUSAL smelters has been approved for LME delivery: Bratsk Aluminium Smelter, Krasnoyarsk Aluminium Smelter, Sayanogorsk Aluminium Smelter, Irkutsk Aluminium Smelter (the Shelekhov branch of the Bratsk Aluminium Smelter), Novokuznetsk Aluminium Smelter, Kandalaksha Aluminium Smelter, Nadvoitsy Aluminium Smelter, and Boguchansk Aluminium Smelter. All aluminium and alumina facilities of RUSAL are ISO 9001 certified, six smelters have ISO/TS 16949 certification for shipments to the automotive sector.

### *Insurance*

RUSAL's operations are subject to numerous operating risks, including geological conditions, seismic activity, climatic conditions, political unrest, terrorist or similar activities, interruption of power supplies, environmental hazards, technical failures, fires, explosions and other accidents at mines, refineries, smelters or other facilities. These risks and hazards could result in damage to production facilities, personal injury, fatalities, environmental damage, business interruption and possible legal liability.

In Russia, RUSAL maintains a mandatory policy covering employer's liability for death or injury to workers through the Russian state social insurance fund. RUSAL maintains mandatory third-party liability insurance for all of its vehicles and for hazardous objects registered with Russian state supervision agencies. RUSAL also maintains certain voluntary policies with Russian and international insurers, including property and business interruption insurance for losses up to U.S.\$300 million per occurrence, cargo insurance for losses up to U.S.\$60 million, directors and officers liability insurance with a limit of U.S.\$400 million and general liability insurance worldwide for losses up to U.S.\$75 million, which covers, *inter alia*, product liability and sudden and accidental pollution.

### *Employees*

The following table sets forth the aggregate average number of people (full-time equivalents) employed by RUSAL during the periods indicated.

	<u>Six months ended 30 June</u>	<u>Year ended 31 December</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
RUSAL employees . . . . .	61,138	61,088	60,758	61,235

Certain subsidiaries of RUSAL, or certain of their branches, have collective agreements with trade union representatives that primarily relate to social benefits in favour of their employees. Approximately 60% of RUSAL's employees are unionised and 95% of RUSAL's employees are covered by the collective agreements. The majority of the collective agreements have been entered into force from the beginning of 2017 up to three years and in each case apply to all employees of the relevant subsidiary or branch.

During the period under review the Group has not experienced any material labour disputes or industrial conflicts, whether collective or individual, with its RUSAL employees.

### *RUSAL Shareholders' Agreements*

In January 2010, two shareholders' agreements were concluded in respect of RUSAL: (i) the shareholders' agreement between the Company, SUAL Partners, Amokenga Holdings and Onexim Holdings Limited (each, a "**RUSAL Major Shareholder**" and together, the "**RUSAL Major Shareholders**") (the "**Shareholders' Agreement between RUSAL Major Shareholders**"); and (ii) the shareholders' agreement between RUSAL and the RUSAL Major Shareholders (the "**Shareholders' Agreement with RUSAL**" and together with the Shareholders' Agreement between RUSAL Major Shareholders, the "**RUSAL Shareholders' Agreements**"). The principal terms of RUSAL Shareholders' Agreements are described below. Unless otherwise stated in this Prospectus, references to the Company, SUAL Partners, Glencore and Onexim Holdings Limited are deemed to include references to other entities controlled by those shareholders.

### Shareholders' Agreement between RUSAL's Major Shareholders

The Shareholders' Agreement between RUSAL's Major Shareholders provides, *inter alia*, for the following rights and obligations of the Company:

- **The Company's right to appoint directors of RUSAL**

For as long as the Company holds at least 30% of RUSAL Major Shareholders' shares in RUSAL, the RUSAL Major Shareholders have agreed to use their respective voting and other rights to procure, so far as they are able, that: (i) RUSAL's board of directors shall consist of a minimum of 16 and a maximum of 18 directors; and (ii) for as long as the Company holds at least 40% of the RUSAL Major Shareholders' shares in RUSAL, directors representing at least 50% of RUSAL's board of directors shall be directors proposed by the Company (excluding independent directors), one of whom shall be the Vice Chairman. In addition, for as long as the Company holds at least 30% of the RUSAL Major Shareholders' shares, the Company shall have the right to nominate for appointment and removal of the CEO of RUSAL, subject to approval by a majority of RUSAL's board of directors. The number of directors (other than independent directors) that the Company is entitled to propose for nomination to and removal from the board shall reduce by one for as long as its shareholding, as a percentage of the RUSAL Major Shareholders' shares, is between 35% and 40% and by two for as long as such percentage is between 30% and 35%. In addition, the Company shall be entitled to propose for nomination and removal two independent directors for as long as it holds at least 40% of the RUSAL Major Shareholders' shares and one independent director for as long as that percentage remains between 10% and 40%. The Company shall have the right to veto the appointment of any independent director nominated by SUAL Partners or Onexim Holdings Limited on the grounds set out in the Shareholders' Agreement between the RUSAL Major Shareholders.

For as long as the Company holds less than 30% of the RUSAL Major Shareholders' shares, the RUSAL Major Shareholders have agreed to use their respective voting and other rights to procure, so far as they are able, that RUSAL's board of directors shall consist of between 15 and 19 directors, comprising: (i) four independent directors to be nominated in accordance with the respective rights of proposal of the RUSAL Major Shareholders; (ii) one director proposed by Vnesheconombank (if required); and (iii) directors (other than independent directors) who shall be proposed for nomination and removal by the RUSAL Major Shareholders in proportion to their respective holdings from time to time.

- **Exercise of voting rights by Onexim Holdings Limited**

At general meetings of RUSAL, with respect to certain agreed matters customarily reserved to shareholders, Onexim Holdings Limited has undertaken to exercise its voting rights in the same manner as the Company exercises its voting rights, subject to certain exceptions.

- **Veto rights**

The RUSAL Major Shareholders have agreed to exercise their voting rights with a view to giving the RUSAL Major Shareholders effective veto rights in respect of any related party transactions, or any matter proposed to be undertaken by RUSAL or any of its subsidiaries that would require a special resolution were RUSAL or the relevant subsidiary incorporated in England and Wales.

- **Dividend policy**

RUSAL Major Shareholders have agreed to procure compliance by RUSAL with the dividend policy, to the extent permissible under the terms of RUSAL's credit facility agreements, and subject to any applicable legislation.

- **Rights of first refusal**

Subject to certain exceptions, if SUAL Partners wish to sell any of their holding of shares in RUSAL in an on market transaction, they must serve notice on the Company, offering it a right of first refusal. Similarly, in the event that Glencore wishes to sell any of its holding of shares in RUSAL in an on market transaction, it must serve notice on the Company and SUAL Partners, offering them a right of first refusal. The price at which the Company will be entitled to acquire shares is the volume weighted

average price per share for the three trading days prior to the date on which the relevant notice is sent.

- **Share placing**

To the extent that RUSAL proposes to undertake a bookbuild placing or underwritten offering of shares in RUSAL in excess of 1% of its issued share capital, the RUSAL Major Shareholders have agreed to use their voting and other rights to procure that the RUSAL Major Shareholders are also entitled to sell a *pro rata* proportion of their shares as part of such placing or offering.

- **No mandatory offer**

The RUSAL Major Shareholders have agreed not to acquire or dispose of any voting rights that would be exercisable at a general meeting of RUSAL if such acquisition or disposal would trigger a mandatory obligation under the Hong Kong Codes on Takeovers and Mergers and Share Repurchases to make an offer for shares in RUSAL, and have undertaken to indemnify each other in the event of a breach of such undertaking.

- **Termination for the Company**

The Shareholders' Agreement between the RUSAL Major Shareholders shall terminate in respect of the Company if it ceases to hold at least 8.6% of the total shares in RUSAL in issue (or such lesser percentage as results from dilution on a further share issue), in which case the Company shall lose any rights to propose directors for nomination to RUSAL's board of directors. Upon such shareholding falling below 50% of the relevant minimum shareholding stated above, the Company shall lose its veto rights as described above. In addition, in the event that the Company ceases to hold at least 3% of the total shares in RUSAL in issue, for whatever reason, it shall lose all of its rights and obligations under the Shareholders' Agreement between the RUSAL Major Shareholders.

Furthermore, the Shareholders' Agreement between RUSAL Major Shareholders provides for specific termination provisions relating to the other RUSAL Major Shareholders, upon the exercise of which certain shareholders would cease to be parties. Should a RUSAL Major Shareholder, other than the Company, cease to be a party to the agreement, the Company's rights and obligations in respect of such RUSAL Major Shareholder would terminate accordingly.

#### Shareholders' Agreement with RUSAL

The Shareholders' Agreement with RUSAL obliges, *inter alia*, each RUSAL Major Shareholder to ensure that any contract between it (or any of its associates) and any company of RUSAL is entered into on an arms' length commercial basis and on terms that are not unfairly prejudicial to the interests of any RUSAL Major Shareholder or RUSAL.

In addition, under the provision of the agreement, the RUSAL Major Shareholders must offer RUSAL a right of first refusal in respect of any assets or development opportunities related to the production of bauxite, alumina or aluminium ("**Industrial Assets**") that they wish to acquire where such Industrial Asset, or a group of related Industrial Assets, has a value in excess of an amount determined by reference to the prevailing LME (high-grade premium aluminium three month offer side) price of aluminium at the time of the proposed acquisition.

#### **Research and Development Projects**

The Group holds a 50% interest in a joint venture, OJSC AKME-engineering ("**AKME**"). In December 2009, the Group, together with State Atomic Energy Corporate "Rosatom", established AKME to develop and build an experimental 100 MW reactor based on lead-bismuth fast neutron reactor (SVBR) technology, with a view to its subsequent commercialisation. The Group plans to complete its research and development efforts feeding into the design validation, to produce the engineering designs of the reactor facility and its basic equipment, to design a pilot power unit for demonstration purposes and to obtain a licence for its sitting. The pilot SVBR-100 power unit is expected to be commissioned in 2019.

#### **Litigation**

The Group's entities have been, and continue to be, the subject of legal proceedings arising from time to time in the ordinary course of business. Other than as described below, there are no governmental, legal or

arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which, during the 12 months preceding the date of this Prospectus, may have, or have had in the recent past significant effects on the Group's financial position or profitability.

#### *BFIG*

In January 2013, RUSAL 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" against some of RUSAL's subsidiaries. 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 ALSICON and the alleged loss of BFIG's earnings resulting from its failed bid for the stake in ALSICON. BFIG seeks compensatory damages in the amount of U.S.\$2.8 billion plus interest. RUSAL has filed its statement of defense and witness statements in support of its legal position. Based on a preliminary assessment of the claim, RUSAL does not expect the case to have any material adverse effect on its or the Group's financial position and operations.

## MANAGEMENT AND CORPORATE GOVERNANCE

### Directors

As at the date of this Prospectus, the Board of Directors consists of nine members (including two independent directors) as set out below.

Name	Position	Since	Age	Year of Birth	Date Appointed
Lord Barker . . . . .	Independent Director, Chair	2017	51	1966	17 October 2017
Mr. Oleg Deripaska . . .	President, Executive Director	2010	49	1968	23 December 2010
Mr. Philippe Mailfait . .	Independent Director	2009	66	1951	30 September 2009
Mr. Igor Makarov . . . .	Non-Executive Director	2015	44	1972	27 March 2015
Mrs. Olga Mashkovskaya . . . . .	Non-Executive Director	2012	42	1975	5 October 2012
Mrs. Gulzhan Moldazhanova . . . . .	Non-Executive Director	2012	51	1966	15 June 2012
Mr. Riccardo Orcel . . .	Non-Executive Director	2011	51	1965	19 September 2011
Mr. Maxim Sokov . . . .	CEO, Executive Director	2013	38	1979	5 July 2013
Mr. Anton Vishnevskiy .	Non-Executive Director	2011	39	1978	31 December 2011

Following the completion of the Offering and the Conversion Transaction, the Board of Directors is expected to be expanded by four additional members (see “—*Future Composition of the Board of Directors*”).

The business address of the Directors is 44 Esplanade, St Helier, Jersey, JE4 9WG.

#### ***Rt Hon Lord Barker of Battle PC***

##### *Independent Director, Chairman of the Board of Directors*

Lord Barker has served as the Chairman of the Board of Directors since October 2017. In August 2015, Gregory Barker was created a life Peer and since October 2015 he has been a member of the House of Lords of the UK Parliament. Lord Barker has extensive business experience in mergers and acquisitions, corporate finance, investor relations, the energy sector and private equity followed by a career as a prominent public official.

Lord Barker served as member of the British House of Commons from 2001 to 2015. From 2010 to 2014, Lord Barker served as UK Minister of State for Energy & Climate Change, becoming the longest serving British energy minister for a generation.

Lord Barker was educated at Lancing College, London University and London Business School.

#### ***Oleg Deripaska***

##### *President, Executive Director*

Oleg Deripaska has served as a member of the Board of Directors since 2010 and as President of the Company since 2011. Mr. Deripaska has been President of RUSAL since December 2014. Mr. Deripaska has served as a member of the board of directors of RUSAL since March 2007.

From January 2009 to December 2014, Mr. Deripaska served as the Chief Executive Officer of RUSAL.

Having raised his initial capital by trading in metals, Mr. Deripaska acquired shares in the Sayanogorsk Aluminium Smelter and became its director general in 1994. In 1997, Mr. Deripaska initiated the creation of the Sibirsky Aluminium Group, which was Russia’s first vertically integrated industrial group. From 2000 to 2003, Mr. Deripaska was the General Director of Russian Aluminium, which was set up as a result of the combination of the aluminium smelters and alumina refineries of Sibirsky Aluminium and Sibneft Oil Company. From October 2003 to February 2007 he held the position of Chairman of the board of directors of Russian Aluminium.

Since 2009 Mr Deripaska has been a Director of Basic Element. Since 2013, Mr. Deripaska is a member of the board of directors of Russian Machines LLC. Mr. Deripaska has been the Chairman of the board of directors of JSC AKME Engineering since 2011. From July 2011 to June 2013, Mr. Deripaska was a member of the board of directors of Norilsk Nickel.

Mr. Deripaska was born in the city of Dzerzhinsk in 1968. In 1993, he graduated with honours from the Physics Department of Moscow State University, Lomonosov, and in 1996, he received a degree from Plekhanov Academy of Economics. Mr. Deripaska is vice president of the Russian Union of Industrialists and Entrepreneurs and chairman of the executive board of the Russian National Committee of the International Chamber of Commerce. He is also a member of the Competitiveness and Entrepreneurship Council, an agency of the Russian Government.

***Philippe Mailfait***

*Independent Director*

Philippe Mailfait has served as a member of the Board of Directors since September 2009 as an Independent Director. Mr. Mailfait also currently acts as an Independent Financial Advisor in Paris, and holds the position of Independent Director at various other companies. Prior to joining the Group, he held different executive positions at Banque Worms and Banque de Gestion Privée (Paris), Morgan Grenfell & Co. (London and Paris), Marceau Investissements and Trianon Finance (Paris).

Mr. Mailfait holds a degree in Economics and Finance from Institut d'Etudes Politiques de Paris and an MBA from HEC Montreal, University of Montreal.

***Igor Makarov***

*Non-Executive Director*

Igor Makarov has served as a member of the Board of Directors since March 2015. Mr. Makarov has also been serving as Deputy CEO for Legal Affairs at Basic Element since 2012. Prior to this, Mr. Makarov acted as the Chief Legal Officer at RUSAL Global Management B.V.

Throughout the period between 2004 and 2011 he practiced Corporate and Mergers and Acquisitions law as a partner at the international law firm, Jones Day. Prior to that Mr. Makarov held the position of Director, Corporate Legal and Mergers and Acquisitions at TNK-BP Ltd. From 1999 to 2003, he served as the General Counsel of BP Russia.

Mr. Makarov has been a member of the New York Bar Association since 2000. He is a founding member of the Russian Corporate Counsel Association and is an arbitrator of the Arbitration Court of the Russian Union of Industrialists and Entrepreneurs. He also sits on the Investment Board of the Yuri Rozum International Charitable Foundation.

Mr. Makarov holds a Bachelor in Laws degree with honours from MGIMO and a Master of Laws degree from Fordham University, New York.

***Olga Mashkovskaya***

*Non-Executive Director*

Olga Mashkovskaya has served as a member of the Board of Directors since October 2012. Ms. Mashkovskaya has been the Deputy Chief Executive Officer for Finance at Basic Element since June 2012. Ms. Mashkovskaya has served as a member of the board of directors of RUSAL since September 2013.

She also served as a member of the board of directors in the following companies: LLC Voенно Promyshlennaya Kompaniya, LLC Glavstroy SPb. From 1997 to 2009, she held various positions at Basic Element, from an accountant to a director of finance for energy assets. Prior to joining Basic Element, Ms. Mashkovskaya spent three years as the Chief Financial Officer of ESN Group.

Ms. Mashkovskaya graduated from the Finance Academy under the Government of the Russian Federation with a degree in International Economic Relations. She also received an Executive MBA from Kingston University (England).

***Gulzhan Moldazhanova***

*Non-Executive Director*

Gulzhan Moldazhanova has served as a member of the Board of Directors since June 2012. Ms. Moldazhanova has been the Chief Executive Officer of Basic Element since July 2012. Ms. Moldazhanova has served as a member of the board of directors of RUSAL since June 2012.



Ms. Moldazhanova is a member of the board of directors of Basic Element. From 2009 to 2012, Ms. Moldazhanova was the Chief Executive Officer of ESN Group. From 2004 to 2009, Ms. Moldazhanova was Managing Director, Deputy Chief Executive Officer and Chief Executive Officer of Basic Element. From 2002 to 2003, Ms. Moldazhanova worked as the Deputy General Director for Strategy at RUSAL and from 2000 to 2002, the Head of Sales Department at RUSAL. From 1994 to 1999, Ms. Moldazhanova held various positions in Siberian Aluminium including accountant, financial manager and commercial director.

Ms. Moldazhanova graduated from the Kazakh State University with honours in physics in 1989, received a doctorate from the Moscow State University in 1994 and subsequently graduated from the Russian State Finance Academy. She also holds an EMBA from the Academy of National Economy (Russia) and the University of Antwerp (Belgium).

***Riccardo Orcel***

*Non-Executive Director*

Riccardo Orcel has served as a member of the Board of Directors since September 2011. Mr. Orcel joined VTB in 2011 and currently acts as Head of Global Banking, International Organisation, VTB International, and is a member of the boards of VTB, VTB Austria and VTB France. Mr. Orcel has over 30 years of experience in the banking industry, including his time with Bank of America Merrill Lynch, where he was employed for 14 years. His last role there was Head of the Structured Solution Group, Corporate and Investment Banking in Central and Eastern Europe, Middle East and Africa. Previously, Mr. Orcel also worked in Latin America, developing an extensive knowledge of global emerging markets.

Mr. Orcel holds a degree in Economics from University of Rome.

Mr. Orcel has been appointed as a Director under the Shareholders' Agreement with VTB (as defined below), whereby VTB is entitled to nominate one Director for appointment (see "*Principal and Selling Shareholder—Arrangements between the Principal Shareholders and VTB*"). It is expected that Mr. Orcel will continue to serve as a Director following the Offering and notwithstanding the termination of the Shareholders' Agreement with VTB as long as VTB remains a shareholder of the Company under the Forward Sale Agreement.

VTB is a major creditor of the Group and VTB Capital plc, a subsidiary of VTB, also acts as a Joint Global Coordinator and Joint Bookrunner under the Offering, see "*Plan of Distribution—Other Relationships*".

***Mr. Maxim Sokov***

*Chief Executive Officer, Executive Director*

Maxim Sokov has served as a member of the Board of Directors since 2013. Mr. Sokov joined the Company as First Deputy Chief Executive Officer in 2013 and has been the Chief Executive Officer of the Company since 2014. Mr. Sokov has served as a member of the board of directors of RUSAL since 2012. Mr. Sokov is also a member of the board of directors of Norilsk Nickel and EuroSibEnergO plc (a Cypriot intermediate holding subsidiary of the Company).

Prior to joining the Group, from 2008 to 2013 Mr. Sokov had worked at RUSAL and occupied various managerial positions including Director for Strategy and Corporate Development, Director for Strategic Investment Management and Advisor for Strategic Investment Management. From 2002 to 2004, Maxim Sokov worked as a lawyer for the Moscow Representative Office of Herbert Smith CIS Legal Services.

In 2000, Mr. Sokov graduated from the Russian State Tax Academy under the Russian Ministry of Taxes, majoring in law. Mr. Sokov also graduated from the New York University School of Law in 2002.

***Anton Vishnevskiy***

*Non-Executive Director*

Anton Vishnevskiy has served as a member of the Board of Directors since December 2011. Mr. Vishnevskiy joined the Group in 1998. From 1998 to 2005, he served as Deputy CFO of Basic Element. Since 2006, Mr. Vishnevskiy has held various management positions in Basic Element group of companies. Currently, he also acts as a Director of B-Finance Ltd., the majority shareholder of the Company.

Mr. Vishnevskiy graduated from the Finance Academy under the Government of the Russian Federation.

### **Future Composition of the Board of Directors**

Following the completion of Offering and the Conversion Transaction, the Board of Directors will be expanded by four members: the director of the Cornerstone Investor (see “*Plan of Distribution—Cornerstone Investor and Cornerstone Investment Agreement*”), the AHL Director (see “*Principal and Selling Shareholder—Conversion of Shareholding in RUSAL into the GDRs*”) an additional independent non-executive director of the Company and an additional non-independent director.

### **Senior Management**

The senior management of the Group as at the date of this Prospectus is set out below.

<u>Name</u>	<u>Principal Responsibilities</u>	<u>Joined</u>	<u>Age</u>	<u>Year of Birth</u>	<u>Expiry of Term</u>
Andrey Yashchenko . . . . .	CFO	2013	44	1973	unlimited
Vyacheslav Solomin . . . . .	COO, CEO of Russian EuroSibEnergo	2007	42	1975	31 May 2020
Vladislav Soloviev . . . . .	CEO of UC RUSAL	2008	44	1973	unlimited

The business address for the senior management of the Group is 44 Esplanade, St Helier, Jersey, JE4 9WG. The biographies of the senior management of the Group, as at the date of this Prospectus, are set out below. The extent to which they are not members of the Board of Directors of the Company is set out in the table below and the biographies below.

#### ***Andrey Yashchenko***

##### *Chief Financial Officer of the Company*

Mr. Yashchenko has served as Chief Financial Officer of the Company since July 2013. Between 2006 and 2010, Mr. Yashchenko acted as Deputy Chief Financial Officer and as Corporate Finance Director at Basic Element. Between 2000 and 2006, Mr. Yashchenko served as Head of Capital Markets at RUSAL.

Prior to joining the Group in 2013, Mr. Yashchenko was Chief Financial Officer of the Russian Platinum Group. Before that he held various positions with TNK and served as a research analyst at both MC Securities and Montes Auri investment companies. At the beginning of his career, Mr. Yashchenko acted as an auditor with Deloitte.

Mr. Yashchenko graduated with honours from the Lomonosov Moscow State University, Department of Economics. He is a CFA charterholder and a member of the CFA Institute.

#### ***Vyacheslav Solomin***

##### *Chief Operating Officer, Chief Executive Officer of Russian EuroSibEnergo*

Mr. Solomin has been appointed as Chief Operating Officer of the Company in October 2017. Mr. Solomin has served as Chief Executive Officer of Russian EuroSibEnergo since April 2010. During 2007-2016, he held various director positions within the Group, and has also served as a financial director at Russian EuroSibEnergo.

Prior to joining the Group, in 2006-2007, Mr. Solomin held various positions, including Chief Financial Officer, at Inter RAO.

Mr. Solomin graduated from the Far Eastern State University Vladivostok with a Diploma in International Economic Relations and University of Maryland University College with a Diploma in Science.

#### ***Vladislav Soloviev***

##### *Chief Executive Officer, Executive Director of UC RUSAL*

Mr. Soloviev has served as Chief Executive Officer of UC RUSAL since November 2014. As the Chief Executive Officer of UC RUSAL, Mr. Soloviev is responsible for the management of the production and supply-chain across its divisions; financial management and corporate finance; sales and marketing; supervising the legal, human resources and public relations functions and implementation of the

production system. Between 2008 and 2010, he was Chief Executive Officer of En+ Management LLC and from 2008 to 2015 he also acted as a director of the Company. Currently, Mr. Soloviev serves on the board of directors of Norilsk Nickel. Mr. Soloviev was appointed as the chief executive officer and the chairman of the Executive Committee of RUSAL Global Management B.V. on 15 December 2014.

Prior to joining the Group, Mr. Soloviev was Deputy Director of the department of tax policy and worked as adviser to the Minister for taxes of the Russian Federation where he was responsible for implementing amendments to Russian tax laws. From 1994 to 1998, he held various top positions in UNICON/MC Consulting and was in charge of auditing oil and gas companies.

Mr. Soloviev graduated with honours from the Higher School of the State Academy of Management and graduated from the Stankin Moscow Technical University. In 2004, Mr. Soloviev graduated from the Finance Academy under the Government of the Russian Federation and was awarded an MBA degree by Antwerp University in Belgium.

### **Compensation of Directors and Key Managers**

The Group's remuneration of the key management personnel was U.S.\$14 million for 2016, U.S.\$20 million for 2015 and U.S.\$19 million for 2014. There is no amount set aside or accrued by the Company, the Group or the Group's subsidiaries, for the purposes of providing, retirement or similar benefits to such persons.

No director or senior manager is a party to any service contract with the Group where such contract provides for benefits upon termination of employment.

Save as described in "*—Directors*" above and "*—Ownership*" below, there are no conflicts or potential conflicts between the duties of the Directors or the senior managers of the Group and their private interests or other duties. As far as the Company is aware, the Directors and the senior managers of the Company have no direct or indirect interests in the Offering other than those set out above in this section ("*Management and Corporate Governance*").

In addition, the Company intends to implement an incentive plan for its Senior Management and members of the Board of Directors in approximately six months time following the completion of the Offering.

### **Ownership**

Save in respect of the Majority Shareholder, the Company is not aware of any person who, either as at the date of this Prospectus or immediately following the Offering, exercises, or could exercise, directly or indirectly, control over the Company.

### **Litigation Statement about Directors and Senior Management**

None of the Directors or senior management:

- have any convictions in relation to fraudulent offences;
- have been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- have received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company,

in each case within the five years preceding the date of this Prospectus.

### **Shareholdings**

As at the date of this Prospectus, none of the members of the Board of Directors or senior management held any Ordinary Shares or options to acquire any Ordinary Shares.

### **Corporate Governance**

#### ***Compliance with the U.K. Corporate Governance Code***

The Board of Directors is committed to the highest standards of corporate governance. As at the date of the Prospectus, the Company has, as envisaged by the U.K. Corporate Governance Code, established three

committees: the audit committee, the corporate governance and nominations committee and the remuneration committee. Following the Offering, the Board of Directors intends to conduct a full review of its governance arrangements with a view to further aligning its corporate governance framework, including the terms of reference of its board committees, with the principles of the U.K. Corporate Governance Code.

Notwithstanding the outcome of the aforementioned corporate governance review:

- The U.K. Corporate Governance Code recommends that at least half the board of directors of a U.K. listed company, excluding the Chairman, should comprise non-executive directors determined by such board of directors to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. As at the date of this Prospectus the Board of Directors comprises 9 members, including: (i) the Chairman; (ii) one independent non-executive director; (iii) two executive directors; and (iv) five non-executive directors who are not deemed to be independent for the purposes of the U.K. Corporate Governance Code. In addition, the Company intends, in each case in due course following the Offering and/or the completion of the Conversion Transaction, to appoint: (i) the AHL Director; (ii) the director to be appointed by the Cornerstone Investor; (iii) an additional non-independent director; and (iv) an additional independent non-executive director. As a result, as at the date of this Prospectus, the Company does not and has no intention to comply with this recommendation of the U.K. Corporate Governance Code.
- The absence of a third independent non-executive director also means that the Company does not currently intend to comply with the U.K. Corporate Governance Code's recommendations regarding to the composition of the audit committee and remuneration committees.

However, the Board of Directors is satisfied that from the London Admission and following the completion of the Conversion Transaction, the Board of Directors will have sufficient balance and that no individual will dominate the Board of Director's decision-making, no undue reliance will be placed on particular individuals and the Board of Directors will be capable of operating efficiently.

#### *Overview*

All of the committees will perform their duties on behalf of the Board of Directors and the Board of Directors will be responsible for constituting, assigning, co-opting and fixing the terms of service for the committee members, this function may be delegated by the Board of Directors to the corporate governance and nominations committee.

A composition of the committees as at the date of this Prospectus, as well as a brief description of the terms of reference of the committees is set forth below. Following the Offering and the completion of the Conversion Transaction, the Board of Directors will review the current composition and change it in line with the best corporate practices.

#### *Audit Committee*

The audit committee comprises at least three members (including non-members of the Board of Directors), one of whom is an independent director, and meets at least four times a year. As at the date of this Prospectus, the audit committee is chaired by Philippe Mailfait, and Olga Mashkovskaya and Anton Vishnevskiy, all members of the Board of Directors, are the other members. The audit committee is responsible for considering, among other matters: (i) the integrity of the Group's consolidated financial statements, including its annual and interim accounts, and the effectiveness of the Group's internal controls and risk management systems; (ii) the terms of appointment and remuneration of the independent auditors. The audit committee supervises, monitors, and advises the Board of Directors on risk management and control systems, as well as on the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Company of the Group's financial information and a number of other audit related issues.

#### *Corporate Governance and Nominations Committee*

The corporate governance and nominations committee comprises at least three members (including non-members of the Board of Directors) and meets at least three times a year. As at the date of this Prospectus, the corporate governance and nominations committee is chaired by Philippe Mailfait, and Igor Makarov and Riccardo Orcel, all members of the Board of Directors, are the other members. The

corporate governance and nominations committee role is to recommend and annually review corporate governance guidelines for the Company and its consolidated subsidiaries, and to oversee corporate governance matters. The committee's responsibility also is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the corporate governance and nominations committee refers to the skills, knowledge and experience required of the Board of Directors given the Company's stage of development and makes recommendations to the Board of Directors as to any changes. The corporate governance and nominations committee also considers future appointments in respect of the composition of the Board of Directors, as well as making recommendations regarding the membership of the audit committee and the remuneration committee.

#### *Remuneration Committee*

The remuneration committee comprises at least three members (including non-members of the Board of Directors) and meets at least three times a year. As at the date of this Prospectus, the remuneration committee is chaired by Gulzhan Moldazhanova, and Olga Mashkovskaya, Anton Vishnevskiy, all members of the Board of Directors, and a non-member of the Board of Directors are the other members. The remuneration committee is responsible for determining and reviewing, among other matters, the Company's remuneration policies, compensation and benefits plans, including incentive compensation and equity-based plans. The remuneration of independent directors is a matter for the Chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

#### *Internal Auditor*

The Company's internal auditor is responsible for the recommendation of an auditing plan to the audit committee of the Board of Directors. The internal auditor carries out auditing assignments in accordance with such plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal auditor also files a half-year report with the audit committee and the Board of Directors and must be available for any meetings of the audit committee or the Board of Directors.

For details of the procedure for appointment and removal of directors of the Company, see "*Description of Share Capital and Applicable Jersey Legislation*".

#### *Share Dealing Code*

The Company will adopt, with effect from the London Admission, a code of securities dealing in relation to the GDRs, the Ordinary Shares and any other securities of the Company which is based on the requirements of the E.U. Market Abuse Regulation (EU) 596/2014. This code will apply to the Directors and other relevant employees of the Group.

#### *Company Secretary*

The current secretary of the Company is Intertrust Corporate Services (Jersey) Limited (the "**Company Secretary**") of 44 Esplanade, St Helier, Jersey, JE4 9WG. The Company Secretary was appointed on 10 April 2007.

## PRINCIPAL AND SELLING SHAREHOLDER

### General

The following table sets forth the ownership of the Ordinary Shares of the Company immediately prior to the Offering, immediately following the Offering and immediately following the exercise of the Over-Allotment Option in full.

Shareholder	Immediately prior to the Offering		Immediately following the Offering		Immediately following the Over-Allotment Option	
	Number of Ordinary Shares	Percentage	Number of Ordinary Shares	Percentage	Number of Ordinary Shares	Percentage
B-Finance Limited <sup>(1)</sup> . . . . .	307,750,000	61.55%	307,750,000	53.9%	307,750,000	53.9%
Basic Element Limited <sup>(2)</sup> . . . . .	105,500,000	21.10%	69,785,714	12.2%	64,785,714	11.3%
VTB Bank (PJSC) <sup>(3)</sup> . . . . .	21,750,000	4.35%	21,750,000	3.8%	21,750,000	3.8%
Other <sup>(4)</sup> . . . . .	65,000,000	13.00%	65,000,000	11.4%	65,000,000	11.4%
Citibank N.A. <sup>(5)</sup> . . . . .	—	—	107,142,858	18.8%	112,142,858	19.6%
<b>Total</b> . . . . .	<b>500,000,000</b>	<b>100.00%</b>	<b>571,428,572</b>	<b>100.00%</b>	<b>571,428,572</b>	<b>100.00%</b>

Notes:

- (1) B-Finance Limited is a company organised and existing under the laws of the British Virgin Islands with its registered office and principal place of business at Vanterpool Plaza, 2 Floor, Wickham's Cay, Road Town, Tortola, the British Virgin Islands. Prior to the Offering, 61.55% of the Company's issued and outstanding Ordinary Shares were held by B-Finance Limited, which is beneficially controlled by Mr. Oleg Deripaska.
- (2) Basic Element Limited is a company organised and existing under the laws of Jersey with its registered office and principal place of business at 44 Esplanade, St. Helier, Jersey, Channel Islands, JE4 9WG. Prior to the Offering, 21.10% of the Company's issued and outstanding Ordinary Shares were held by Basic Element Limited, which is beneficially controlled by Mr. Oleg Deripaska.
- (3) VTB Bank (PJSC) is a company organised and existing under the laws of the Russian Federation with its registered office and principal place of business at Ul. Bolshaya Morskaya 29, St. Petersburg, 190000, the Russian Federation. Prior to the Offering, 4.35% of the Company's issued and outstanding Ordinary Shares were held by VTB Bank (PJSC). As of the date of the Prospectus, in aggregate 32.55% of Ordinary Shares are pledged in favour of VTB under the arrangements described below (see "*—Arrangements between the Principal Shareholders and VTB*").
- (4) Prior to the Offering, 13.00% of the Company's issued and outstanding Ordinary Shares were held by the companies, which are beneficially owned by the family of Mr. Oleg Deripaska, or directly by members of his family. In October 2017, 6.9% of the Company's issued and outstanding Ordinary Shares have been transferred to Ms. Polina Deripaska. The transfer is subject to a call option whereby Mr. Oleg Deripaska may, directly or indirectly, buy the transferred Ordinary Shares (in full or in part). The transferred shareholding is subject to a lock-up arrangement (see "*Plan of Distribution—Lock-up Arrangements—Lock-up of the Company, the Selling Shareholder, B-Finance Limited and Other Shareholders*").
- (5) Such Ordinary Shares will be held by Citibank N.A. as Depositary on behalf of the Holders. Both immediately following the Offering and immediately following the Over-Allotment Option the Cornerstone Investor will hold 6.2% thereof.

### Arrangements between the Principal Shareholders and VTB

In July 2011, the Company, Basic Element Limited, B-Finance Limited and VTB entered into a shareholders' agreement regarding, *inter alia*, the corporate governance of the Company. This shareholders' agreement was amended and replaced by a new shareholders' agreement in December 2013 (the "**Shareholders' Agreement with VTB**") as a result of certain arrangements among the same parties and Eastern Carriers Trading Limited (a company controlled by the Majority Shareholder) made under the Forward Sale Agreement (as defined below) in relation to the Ordinary Shares. The Shareholders' Agreement with VTB provides, *inter alia*, for Basic Element Limited and B-Finance Limited to coordinate with VTB in connection with corporate governance matters, as well as dividend payments. Under the Shareholders' Agreement with VTB, VTB is entitled to nominate for appointment and require the removal of one Director. The Shareholders' Agreement with VTB will be terminated upon completion of the Offering (see "*Management and Corporate Governance—Directors—Riccardo Orcel*").

In December 2013, Eastern Carriers Trading Limited, Basic Element Limited, B-Finance Limited and VTB entered into a forward sale agreement in relation to the Ordinary Shares (the "**Forward Sale Agreement**"). Under the Forward Sale Agreement, VTB as seller shall deliver an exercise notice to Eastern Carriers Trading Limited to sell all Ordinary Shares owned by VTB five business days prior to 13 December 2018. Prior to 13 December 2018, VTB only in a limited number of circumstances such as

illegality, change of control or event of default, may (but shall not be obligated to) provide an early exercise notice to Eastern Carriers Trading Limited to sell all Ordinary Shares owned by VTB. At any time prior to 13 December 2018, Eastern Carriers Trading Limited as buyer is entitled to deliver an early exercise notice to VTB as seller to purchase all Ordinary Shares from the seller. It is intended that the Selling Shareholder will apply a portion of proceeds from the sale of GDRs to reduce the outstanding strike price under the Forward Sale Agreement and/or to repay a portion of the debt owed to VTB as lender under certain lending arrangements.

Under the share pledge agreements made in connection with the Forward Sale Agreement, B-Finance Limited and Basic Element Limited pledged in aggregate 7.7% of Ordinary Shares in favour of VTB to secure obligations of Eastern Carriers Trading Limited as buyer and B-Finance Limited and Basic Element Limited as guarantors under the Forward Sale Agreement. Separately, under the share pledge agreements made in connection with certain lending exposure by VTB as lender and the related guarantee, B-Finance Limited and Basic Element Limited, which are guarantors under this lending exposure, pledged in aggregate 24.85% of Ordinary Shares in favour of VTB to secure obligations of the respective obligors under the lending arrangement. Thus, in aggregate, 32.55% of Ordinary Shares are pledged in favour of VTB under the arrangements described above (see also “*Description of Share Capital and Applicable Jersey Legislation—Jersey Legislation—Mandatory bid*”).

### **Conversion of Shareholding in RUSAL into the GDRs**

On 18 October 2017, the Company and Amokenga Holdings Limited (“**AHL**”) signed a non-binding term sheet setting out the terms and conditions of a transaction whereby AHL will subscribe for the GDRs representing newly issued Ordinary Shares pursuant to a subscription agreement between AHL and the Company in consideration for which AHL will transfer to the Company its shareholding in UC RUSAL (the “**Conversion Transaction**”). As at the date of this Prospectus, AHL owns 8.75% of shares in UC RUSAL and is ultimately controlled by Glencore. Upon completion of the Conversion Transaction, which, subject to certain conditions, is expected to occur following the Offering, the Company’s shareholding in RUSAL will increase from 48.13% to 56.88%.

The conversion price is calculated with reference to a formula taking into account the Offer Price, the number of shares that AHL owns in UC RUSAL and the volume weighted average U.S.\$ price of shares of UC RUSAL over the 60-day period immediately preceding the Offering.

The definitive transaction documents necessary to consummate the Conversion Transaction will be conditional upon (a) receipt of all necessary governmental, regulatory and shareholders’ consents, approvals and waivers (if any) required for completion of the Conversion Transaction; (b) the execution of a shareholders agreement between: (i) AHL and (ii) Basic Element Limited and B-Finance Limited (and/or such other affiliated entities that hold shares in the Company at the time); and (c) receipt of a clearance from the Hong Kong regulator that no mandatory takeover offer is required to be made in relation to UC RUSAL as a result of the Conversion Transaction.

Under the shareholders agreement described above, AHL will be entitled to appoint CEO of Glencore as a director to the Board of Directors (the “**AHL Director**”). The quorum for a meeting of the Board of Directors will include the AHL Director, save that the quorum requirement will not apply to a reconvened meeting of the Board of Directors originally adjourned as a result of the failure of the AHL’s director to attend. It is expected that under the shareholders’ agreement, AHL shall be provided rights equivalent to the rights created under the Shareholders’ Agreement between the RUSAL Major Shareholders and shall have the same investor governance rights as the Cornerstone Investor under the Cornerstone Investment Agreement (see also “*Plan of Distribution—Cornerstone Investor and Cornerstone Investment Agreement*”).

### **Other**

As far as the Company is aware, as at the date of this Prospectus, there are no arrangements the operation of which may at a later date result in a change of control of the Company.

As far as the Company is aware, other than the shareholders and their beneficial owners, no person, directly or indirectly, has an interest in the Company’s capital or voting rights.

Save in respect of the Majority Shareholder, the Company is not aware of any person who, either as at the date of this Prospectus or immediately following the London Admission, exercises, or could exercise, directly or indirectly, control over the Company.

The Company does not have an agreement, and has no plans to enter into an agreement, with the Selling Shareholder or B-Finance Limited, which are beneficially controlled by the Majority Shareholder, to ensure the Majority Shareholder will not abuse its control of the Company. The Majority Shareholder may have interests that conflict with those interests of the holders of the GDRs. In addition, the Majority Shareholder, as a beneficial shareholder of the Selling Shareholder and of B-Finance Limited may in the future have investments in other businesses, including some that may compete with the Group. The Majority Shareholder may therefore have interests and exercise control of the Company in a manner which is inconsistent with, and may even be adverse to, those of Holders of the GDRs, any of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

No holder of Ordinary Shares has voting rights that differ from any other holder of Ordinary Shares.

As far as the Company is aware, there are no subscriptions, allotments or options to be given or already existing in respect of the Ordinary Shares, other than under the Forward Sale Agreement and call option described in footnote (4) to the table stating the principal shareholders of the En+ Group. (see "*— General*").



## RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24, *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group transacts with related parties, the majority of which are entities under common control of the Group or under the control of minority shareholders of main subsidiaries or entities under its control. Prices for transactions with related parties are determined on a case by case basis but are not necessarily on an arm's length basis.

### *Related party transactions for the six months ended 30 June 2017 and 2016*

The following table sets forth the Group's sales to related parties for the first half of 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(U.S.\$ millions)	
<b>Sales of primary aluminium and alloys:</b> . . . . .	<b>1,264</b>	<b>1,222</b>
Related parties—companies capable of exerting significant influence . . . . .	1,258	1,218
Related parties—companies under common control . . . . .	6	4
<b>Sales of alumina and bauxite:</b> . . . . .	<b>155</b>	<b>131</b>
Related parties—companies capable of exerting significant influence . . . . .	103	88
Related parties—associates . . . . .	52	43
<b>Sales of semi-finished products and foil:</b> . . . . .	<b>—</b>	<b>1</b>
Related parties—companies under common control . . . . .	—	1
<b>Sales of electricity:</b> . . . . .	<b>30</b>	<b>25</b>
Related parties—companies capable of exerting significant influence . . . . .	—	2
Related parties—companies under common control . . . . .	22	16
Related parties—associates . . . . .	8	7
<b>Sales of heat:</b> . . . . .	<b>16</b>	<b>17</b>
Related parties—companies capable of exerting significant influence . . . . .	1	1
Related parties—companies under common control . . . . .	15	16
<b>Other revenues:</b> . . . . .	<b>49</b>	<b>48</b>
Related parties—companies capable of exerting significant influence . . . . .	4	5
Related parties—companies under common control . . . . .	17	12
Related parties—associates . . . . .	28	31
	<u><b>1,514</b></u>	<u><b>1,444</b></u>

For the six months ended 30 June 2017 and 2016, purchases of raw materials and services from related parties were as follows:

	Six months ended 30 June	
	2017	2016
	(U.S.\$ millions)	
<b>Purchase of raw materials:</b> . . . . .	<b>(300)</b>	<b>(254)</b>
Related parties—companies capable of exerting significant influence . . . . .	(87)	(64)
Related parties—companies under common control . . . . .	(23)	(18)
Related parties—associates and joint ventures . . . . .	(190)	(172)
<b>Energy costs:</b> . . . . .	<b>(21)</b>	<b>(108)</b>
Related parties—companies capable of exerting significant influence . . . . .	(6)	(2)
Related parties—companies under common control . . . . .	(1)	(1)
Related parties—associates and joint ventures . . . . .	(14)	(105)
<b>Other services:</b> . . . . .	<b>(1)</b>	<b>(1)</b>
Companies under common control . . . . .	(1)	(1)
	<u><b>(322)</b></u>	<u><b>(363)</b></u>

Receivables from and advances paid for the six months ended 30 June 2017 and the year ended 31 December 2016 were as follows:

	<u>Six months ended 30 June</u>	<u>Year ended 31 December</u>
	<u>2017</u>	<u>2016</u>
	(U.S.\$ millions)	
<b>Current trade and other receivables, and advances issued:</b> . . . . .	<b>103</b>	<b>143</b>
Related parties—companies capable of exerting significant influence . . . . .	28	56
Related parties—companies under common control . . . . .	16	30
Related parties—associates and joint ventures . . . . .	59	57
<b>Dividends receivable from related parties:</b> . . . . .	<b>316</b>	<b>311</b>
Associates and joint ventures . . . . .	316	311
	<u>419</u>	<u>454</u>

Trade and other payables owing to related parties at the end of the period were as follows:

	<u>Six months ended 30 June</u>	<u>Year ended 31 December</u>
	<u>2017</u>	<u>2016</u>
	(U.S.\$ millions)	
<b>Current trade and other payables, and advances received:</b>		
Related parties—companies capable of exerting significant influence . . . . .	118	183
Related parties—companies under common control . . . . .	3	4
Related parties—associates and joint ventures . . . . .	35	33
Dividends payable . . . . .	—	23
	<u>156</u>	<u>243</u>

For the six-month period ended 30 June 2017, remuneration to key management personnel was represented by short-term employee benefits and amounted to U.S.\$3 million (compared to U.S.\$3 million for the six-month period ended 30 June 2016).

#### **Related party transactions for the years ended 2016, 2015 and 2014**

The following table sets forth the Group's sales to related parties for the years ended 31 December 2016, 2015 and 2014:

	<u>Year ended 31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(U.S.\$ millions)		
<b>Sales of primary aluminium and alloys:</b>			
Related parties—companies capable of exerting significant influence . . . . .	2,489	2,945	2,936
Related parties—companies under common control . . . . .	7	9	11
Related parties—associates and joint ventures . . . . .	—	1	34
<b>Sales of alumina and bauxite:</b>			
Related parties—companies capable of exerting significant influence . . . . .	186	207	235
Related parties—associates and joint ventures . . . . .	92	28	—
<b>Sales of semi-finished products and foil:</b>			
Related parties—companies under common control . . . . .	1	—	—
<b>Sales of electricity:</b>			
Related parties—companies under common control . . . . .	36	39	77
Related parties—associates and joint ventures . . . . .	14	16	14
<b>Sales of heat:</b>			
Related parties—companies under common control . . . . .	23	27	36
<b>Other revenues:</b>			
Related parties—companies capable of exerting significant influence . . . . .	11	17	53
Related parties—companies under common control . . . . .	31	27	16
Related parties—associates and joint ventures . . . . .	64	51	38

The following table sets forth the Group's trade and other receivables from the related parties and trade and other payables to the related parties as at the dates indicated:

	<u>As at 31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(U.S.\$ millions)		
<b>Trade receivables from related parties, including:</b>			
Related parties—companies capable of exerting significant influence . . . . .	56	69	43
Related parties—companies under common control . . . . .	15	12	20
Related parties—associates and joint ventures . . . . .	11	7	5
<b>Advances paid to related parties, including:</b>			
Related parties—companies capable of exerting significant influence . . . . .	—	—	6
Related parties—companies under common control . . . . .	10	2	1
Related parties—associates and joint ventures . . . . .	44	42	61
<b>Other receivables from related parties, including:</b>			
Related parties—entities under common control . . . . .	5	60	12
Related parties—associates and joint ventures . . . . .	2	—	—
<b>Dividends receivable from related parties—associates and joint ventures . . . . .</b>	<b>311</b>	<b>189</b>	<b>14</b>
<b>Accounts payable to related parties, including:</b>			
Related parties—companies capable of exerting significant influence . . . . .	18	20	24
Related parties—companies under common control . . . . .	4	1	13
Related parties—associates and joint ventures . . . . .	25	33	2
<b>Advances received from related parties, including:</b>			
Related parties—companies capable of exerting significant influence . . . . .	165	165	405
Related parties—associates and joint ventures . . . . .	—	—	1
<b>Other payable and accrued liabilities to related parties, including:</b>			
Related parties—companies capable of exerting significant influence . . . . .	—	—	3
Related parties—associates and joint ventures . . . . .	8	7	—

The following table sets forth the Group's purchases of raw materials and services from related parties for the periods indicated:

	<u>Year ended</u> <u>31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(U.S.\$ millions)		
<b>Purchase of raw materials:</b>			
Related parties—companies capable of exerting significant influence . . . . .	(146)	(129)	(196)
Related parties—companies under common control . . . . .	(24)	(38)	(55)
Related parties—associates and joint ventures . . . . .	(229)	(62)	(27)
<b>Energy costs:</b>			
Related parties—companies capable of exerting significant influence . . . . .	(5)	(23)	(42)
Related parties—companies under common control . . . . .	(11)	(12)	(100)
Related parties—associates and joint ventures . . . . .	(111)	(143)	—
<b>Other services:</b>			
Related parties—companies under common control . . . . .	(3)	(4)	(10)
Related parties—associates and joint ventures . . . . .	(126)	(141)	(152)

As at 30 June 2017, the Group pledged 15% of the shares of the Russian EuroSibEnergO in favour of the unrelated bank. This pledge secures the performance of corporate guarantee issued by related parties under common control with regard to loans provided to the related parties under common control up to 20 December 2019. In October 2017, the pledge was released.

The total key management personnel remuneration represented by short-term employee benefits amounted to U.S.\$3 million for the first half of 2017, U.S.\$14 million, U.S.\$20 million and U.S.\$19 million for 2016, 2015 and 2014, respectively. This compensation is paid to 12, 11 and 12 individuals who are key members of the management, for their services in full time positions, for 2016, 2015 and 2014, respectively.

For further information on related party transactions, see Note 16 to the Interim Financial Information and Note 24 to the Annual Financial Statements included elsewhere in this Prospectus.

In addition to the transactions with related parties recorded in the consolidated statement of comprehensive income and the consolidated statement of financial position described above, as a matter of the Group's accounting policy certain transactions with related parties are recorded in the consolidated statement of changes in equity.

In 2016, the Group's other distributions amounted to U.S.\$318 million. In June and December 2016, the Group companies entered into loan agreements to settle indebtedness of companies under common control in the amount of U.S.\$312 million. These loans were considered non-recoverable and were recorded as other distribution in this consolidated financial information.

In 2015, the Group recorded an accrual of provision for guarantees in the amount of U.S.\$95 million, of which U.S.\$89 million was attributable to a guarantee in respect of certain loan obligations of several borrowers which are not Group companies, in favour of a Russian financial institution. The obligations of the Company are limited to: (i) an aggregate amount of up to U.S.\$89 million (RUB6,500 million) for repayment of the principal amounts of all guaranteed loans; and (ii) interest payments under one of the guaranteed loans of the related company under common control. The guarantee matures simultaneously with the loans with final maturity in December 2020. The Group's management assessed the probability of making a payment under these guarantees and recognised a provision for the whole amount, directly in equity. In September 2017, these guarantees have been terminated.

In 2014, the Group's other distributions amounted to U.S.\$64 million. In 2014, the Company entered into loan agreements with its related party to grant two loans, one for U.S.\$20 million and another, for U.S.\$44 million. These loans were considered non-recoverable and were recorded as other distribution.

## RUSSIAN POWER INDUSTRY OVERVIEW

### Macroeconomic Overview

From 1999 to mid-2008 the Russian economy benefited from favourable commodity prices, political stability and low tax rates, which contributed to strong growth in gross domestic product (“GDP”), from \$264 billion in 1998 to \$1,457 billion in 2008, according to IHS Market. The growth in the economy provided the Russian Government with significant budget surpluses, which enabled increased public investment in infrastructure and accumulation of foreign exchange reserves.

Starting from the second half of 2008, the Russian economy was adversely affected by the global economic downturn. However, significant foreign exchange reserves, as well as significant stimulus packages put in place by the Russian Government and other governments around the world helped the Russian economy to endure the global economic downturn.

The Russian economy officially exited recession in October 2009, and real GDP growth in 2010 was 4.5% as compared to a 7.9% decline in 2009, according to Rosstat. The Russian economy continued to grow strongly over the 2011 to 2014 period with an average real GDP growth of 2.4% per annum.

Owing to the sharp decline in global oil prices in 2014, coupled with sanctions imposed on Russia, the Russian economy slipped back into recession in 2015 with real GDP declining by 2.8% in 2015 and 0.2% in 2016 as compared to a 0.7% growth in 2014, according to Rosstat.

Following a two year recession, Russia’s economy stabilised and inflation was brought back down. Early evidence of economic recovery came in spring 2016 with industrial production registering a return to a growth trend and the whole Russian economy returned to growth in Q4 2016 registering a 0.3% real GDP growth compared to Q4 2015, according to Rosstat. This was mainly due to a combination of a tight monetary policy, continued political stability, a floating Russian rouble exchange rate, and supported by strengthening oil prices. Economic recovery was generally supported by several key industrial sectors, but in particular, mining of natural resources, chemical production, and the production and distribution of utilities.

### Overview of the Russian Power Sector

The Russian Federation’s power sector is among the largest in the world, ranking fifth in terms of installed electricity capacity and fourth in electricity output. By the end of 2016, the aggregate installed electric power capacity in the Russian Federation (inclusive of isolated power systems and non-grid industrial power plants) was 244.1 GW with output amounting to 1,071.7 TWh.

Rank	Country	Installed electricity capacity for the year ended 31 December 2016 (GW)	Rank	Country	Electricity output for the year ended 31 December 2016 (TWh)
1	China . . . . .	1,646	1	China . . . . .	5.989
2	U.S. . . . .	1,183	2	U.S. . . . .	4.079
3	India . . . . .	314	3	India . . . . .	1.352
4	Japan <sup>(1)</sup> . . . . .	295	<b>4</b>	<b>Russia</b> . . . . .	<b>1,049</b>
<b>5</b>	<b>Russia</b> . . . . .	<b>244<sup>(2)</sup></b>	5	Japan <sup>(1)</sup> . . . . .	1.054
6	Germany . . . . .	196	6	Germany . . . . .	648

Source: SEEPX.

(1) SEEPX calculations based on 2014 data.

(2) Including isolated power systems (mostly in the far eastern parts of Russia) and non-grid industrial power plants.

### Electricity capacity and output

According to the System Operator, as at 1 January 2017, Russia’s aggregate installed electricity capacity of seven Integrated Power Systems (“IPS”) that make up the Unified Energy System (“UES”) of Russia amounted to 236.3 GW (exclusive of isolated power systems and non-grid industrial power plants). The UES of Russia comprises thermal power plants, HPPs and nuclear power plants. The table below shows

the breakdown of Russia's total installed electricity capacity by different generation types as at 1 January 2017.

	<u>Installed electricity capacity</u> (GW)	<u>% of total installed</u>
Thermal power plants . . . . .	160.2	67.8%
HPPs . . . . .	48.1	20.4%
Nuclear power plants . . . . .	27.9	11.8%
Renewables . . . . .	0.1	<0.1%
<b>Total</b> . . . . .	<b>236.3</b>	<b>100.0%</b>

Source: The System Operator.

Note: Excluding isolated power systems (mostly in the far eastern parts of Russia) and non-grid industrial power plants.

According to the System Operator, between 1998 and 2008, electricity output in Russia grew at a compounded annual growth rate of approximately 2.3%, with a peak rate of increase of 4.5% in 2006.

Since the economic crisis in 2008-2009, power production has been steadily growing at an average annual rate of 1.3% between 2009 and 2016, which is above the trends in consumption during the same period. This is explained by the steadily growing electric power export market. According to the System Operator, in 2016, total electricity output in Russia increased by 2.1% in comparison to 2015 amounting to 1,048.5 TWh (excluding isolated power systems and non-grid capacity).

The table below shows the breakdown of electricity production in Russia by the type of generation.

<u>(TWh)</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Av. annual growth</u>
Thermal . . . . .	627.2	675.8	691.0	699.5	675.7	677.3	671.4	673.7	1.0%
Hydro . . . . .	166.8	158.9	155.5	155.4	174.7	167.1	160.2	178.3	1.0%
Nuclear . . . . .	163.1	170.0	172.9	177.5	172.4	180.5	195.3	196.4	2.7%
Renewable . . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	N/A
<b>Total</b> . . . . .	<b>957.1</b>	<b>1,004.7</b>	<b>1,019.4</b>	<b>1,032.3</b>	<b>1,022.9</b>	<b>1,024.9</b>	<b>1,026.9</b>	<b>1,048.5</b>	<b>1.3%</b>

Source: System Operator, SEEPX.

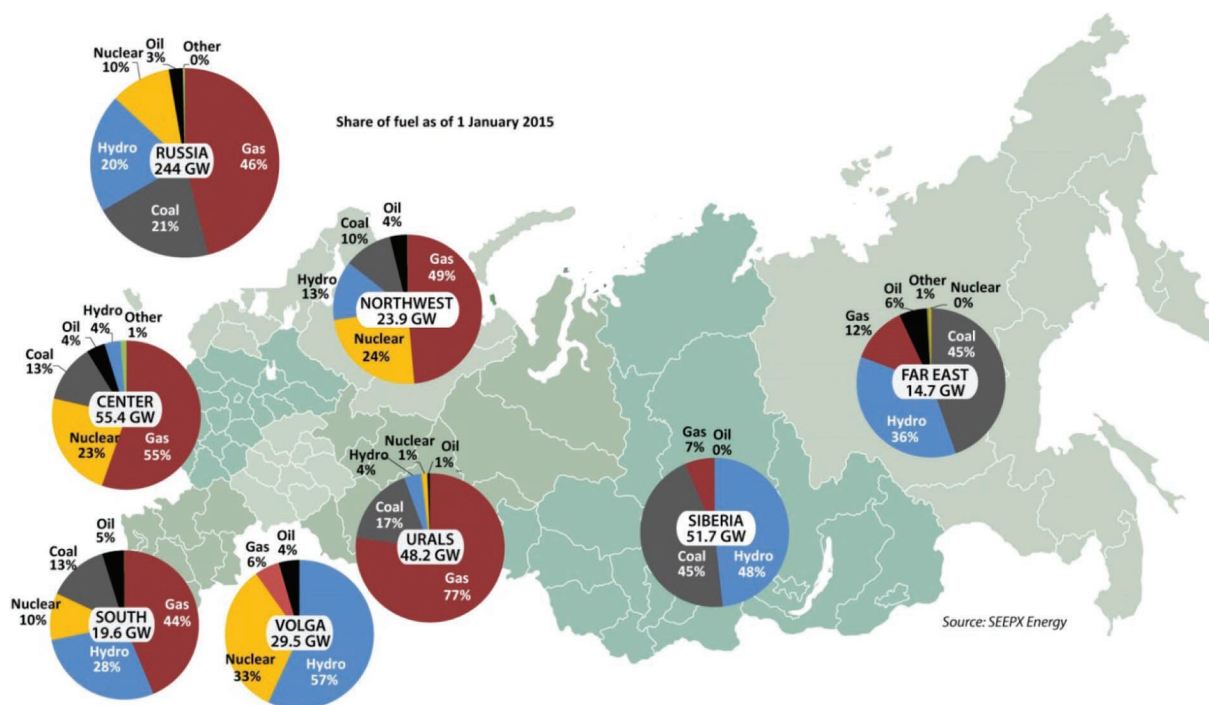
Note: Excluding isolated power systems (mostly in the far eastern parts of Russia) and selected industrial power plants.

### **Fuel balance**

The majority of Russia's electricity demand is met by thermal power plants that use natural gas and thermal coal as their primary fuel. Most thermal power plants are also capable of using fuel oil as a back-up fuel, which they primarily utilise when there is a disruption in primary fuel supplies. Approximately 46% of Russia's power capacity is primarily gas-fired, while the share of coal-fired (as a primary fuel) is about 21%.

In Siberia, the fuel mix is largely dominated by hydropower accounting for almost half of the installed regional capacity, followed by coal, representing 45%, and gas, representing 7% of the total.

The figure below shows share of fuel for installed capacity in Russia as at January 2015.



Source: SEEPX.

Note: Includes isolated power systems and non-grid capacity.

Russia is extremely rich in natural gas, ranking first on a global basis in terms of both total gas reserves (32.3 trillion cubic metres) and second in total gas production (573.3 billion cubic metres) in 2015. The Russian gas-supply market is dominated by the state-owned Gazprom, which owns the vast majority of supplies, reserves, production, and transportation. However, other gas suppliers have been taking significant share of the domestic gas market in Russia from Gazprom (in particular, Rosneft, NOVATEK, LUKOIL and Surgutneftegas) although they rely on Gazprom’s transportation pipelines to deliver gas to their customers.

Russia is also rich in coal, ranking second on a global basis in terms of total coal reserves (157 billion tonnes), and sixth in terms of total coal production (385.7 million tonnes) in 2016. Siberian production in 2016 was about 327 million tonnes, which represents 85% of all coal produced in Russia.

In 2016, deliveries of coal to Russia’s power sector amounted to about 105 million tonnes, out of which 85 million tonnes was derived from Russian coal deposits.

Most of Russia’s imported coal comes from Kazakhstan (almost 20 million tonnes in 2016), in particular the Ekibastuz basin. Imports of coal from Kazakhstan, which is almost exclusively thermal coal for Russian power plants and mainly destined to the Urals IPS, has been in decline in recent years owing to Russia’s general shift to using gas, or the use of domestic resources over imported resources.

Coal is supplied at free market prices by a number of large private producers. The major Russian coal suppliers include SUEK, KRU, SDS-Coal, Kuzbass Fuel Company, Belon, Rapsadskaya Coal Mine and Russian Coal.

### **Electricity demand**

Russia experienced significant economic growth between 1998 and 2008. Owing to a strong correlation between industrial consumption and GDP and power demand in Russia, power consumption surged during this period. According to the System Operator, between 1998 and 2008, electricity consumption in Russia grew at an average rate of 2.2% per annum. Electricity demand declined by 4.9% during the economic crisis in 2008. However the downturn in power demand was brief with power consumption bouncing back to pre-crisis levels by the first quarter of 2010. During the following period from 2011 up until 2016, electricity consumption in Russia maintained an average annual growth rate of approximately 0.6%.

The Russian power sector has proven to be resilient to the economic downturn of 2015 and 2016. Even with the additional uncertainty placed by the imposed political sanctions, the general economic situation had minimal effect on the electricity consumption. In 2015, Russian GDP declined by around 2.8% compared to the previous year. In contrast, total electricity consumption contracted only marginally by 0.6%. In 2016, while GDP declined by 0.2%, the System Operator confirmed that Russia's power consumption grew by 1.85%, reaching 1,026.9 TWh.

The table below illustrates Russia's GDP annual growth rate, electricity consumption and growth in electricity consumption and elasticity of electricity consumption to GDP for the periods indicated.

	<b>GDP annual growth rate</b>	<b>Electricity consumption</b>	<b>Growth in electricity consumption</b>	<b>Elasticity of electricity consumption to GDP<sup>(1)</sup></b>
	(%)	(TWh)	(%)	
1998	(5.1)%	778	(0.5)%	0.1
1999	6.0%	802	3.1%	0.5
2000	10.1%	833	3.9%	0.4
2001	5.1%	844	1.3%	0.3
2002	4.7%	847	0.4%	0.1
2003	7.4%	872	3.0%	0.4
2004	7.2%	892	2.3%	0.3
2005	6.3%	908	1.8%	0.3
2006	8.1%	949	4.5%	0.6
2007	8.5%	971	2.3%	0.3
2008	5.5%	990	2.0%	0.4
2009	(7.9)%	943	(4.8)%	0.6
2010	4.5%	989	4.9%	1.1
2011	4.2%	1,000	1.1%	0.3
2012	3.5%	1,016	1.6%	0.5
2013	1.3%	1,010	(0.7)%	(0.5)
2014	0.7%	1,014	0.4%	0.6
2015	(2.8)%	1,008	(0.6)%	0.2
2016	(0.2)%	1,027	1.9%	(9.3)

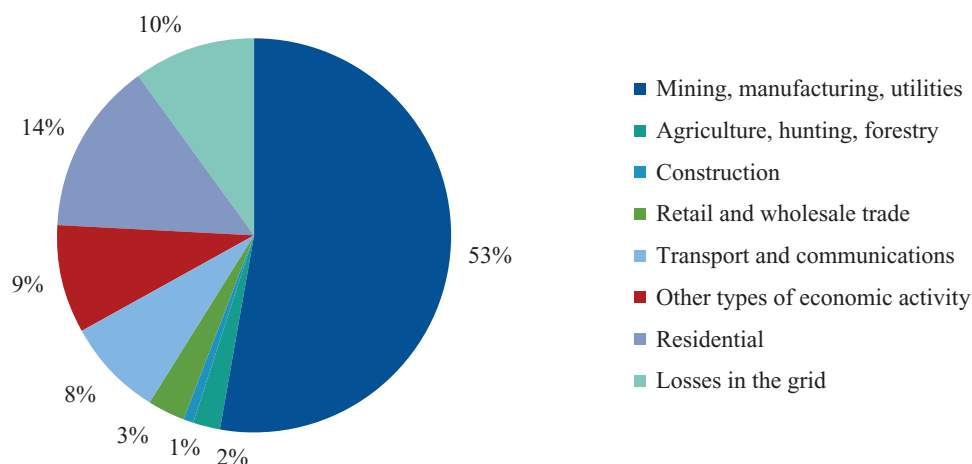
Source: SEEPX, the System Operator.

(1) Calculated as growth in electricity consumption divided by GDP annual growth rate for each respective year.

The structure of electricity demand in Russia is characterised by the comparatively high share of consumption attributed to industrial consumers, which accounts for over 50% of total electricity consumed in 2015, according to Rosstat. Evidently, much support for power demand came from Russia's most power intensive export-orientated industries which benefited from the recent decline in the Russian rouble (in particular, the production of natural resources and the metallurgical and chemical sectors).



The following table shows the breakdown of total electricity consumption by consumer type for the year ended 31 December 2015.



Source: SEEPX, Rosstat.

### *New construction programme*

In order to mitigate the risk of potential power shortages, the Russian Government regularly sets out medium-term capacity targets for the Russian power sector. In part, the government's overall generation capacity targets were satisfied by a scheme to introduce new capacity which was launched during the privatisation process in 2006-2008. The strategic investors who bought thermal generating companies also agreed to an obligatory investment program to construct new thermal capacity, with the support of a special capacity investment mechanism (agreements to supply capacity known as "dogovory predostavleniya moschnosti" ("DPM")). Since these DPM capacity projects started coming on line they have formed a significant part of the government's approved strategy. For instance, since 2011, thermal DPM capacity has made up some 61% of all capacity launched on the grid network. Later the DPM mechanism was extended to hydropower and nuclear capacity. The DPM scheme is nearing its completion in 2017 and capacity additions are expected to slow. Furthermore, the recent uplift in new capacity has enabled a more aggressive decommissioning program.

As shown in the table below, since 2011 thermal DPM capacity has made up 61% of all newly launched capacity.

(MW)	2009	2010	2011	2012	2013	2014	2015	2016
DPM capacity . . . . .			4,139	2,870	2,720	4,696	2,481	1,693
Non DPM capacity . . . . .	1,268	2,886	459	3,264	1,018	2,600	2,229	2,568
Decommissioning . . . . .	(288)	(1,007)	(1,507)	(1,911)	(684)	(1,763)	(2,357)	(3,753)
<b>Total . . . . .</b>	<b>980</b>	<b>1,879</b>	<b>3,091</b>	<b>4,223</b>	<b>3,054</b>	<b>5,534</b>	<b>2,353</b>	<b>508</b>

Source: System Operator, SEEPX.

### *Regional structure of Russian power sector*

The Russian power sector is made up of producers and consumers of electric power, national transmission grid, interregional and regional distribution grids and related facilities, as well as technological and commercial infrastructure. The Unified Energy System of Russia covers most of the Russia's territory, but there are also isolated power systems, mainly in the northerly and far eastern parts of Russia. The UES of Russia is one of the most extensive in the world, and consists of seven regional IPSs; namely, the Northwest, Centre, South, Urals, Volga, Siberia, and Far East IPS. Grid interconnections between different power systems are limited, so some IPSs (in particular, the Siberian IPS and the Far East IPS) should be considered as quasi-isolated regional power markets.

The map below illustrates the location of each IPS.



Source: SEEPX.

Note: Grey areas denote isolated zones.

Each IPS differs from the other due to consumption dynamics, varied capacity mix, size, and network constraints. For example, thermal power plants dominate the Urals IPS (generating 95% of Urals production), HPPs make up a considerable share of the Siberian IPS (generating 49% of Siberian production), while nuclear power plants play an important role in the Northwest, South, Volga, and Centre IPSs (producing 36%, 25%, 32%, and 39% respectively).

The Centre, Urals and Siberian IPSs are the largest systems in terms of both installed electricity capacity and electricity consumption. Electricity consumption in the Centre IPS is mainly driven by the accelerated development of various industries as well as by growing residential demand, while consumption in Urals and Siberian IPSs is mainly driven by heavy industries. The table below shows key indicators for each of Russia's seven IPS for 2016.

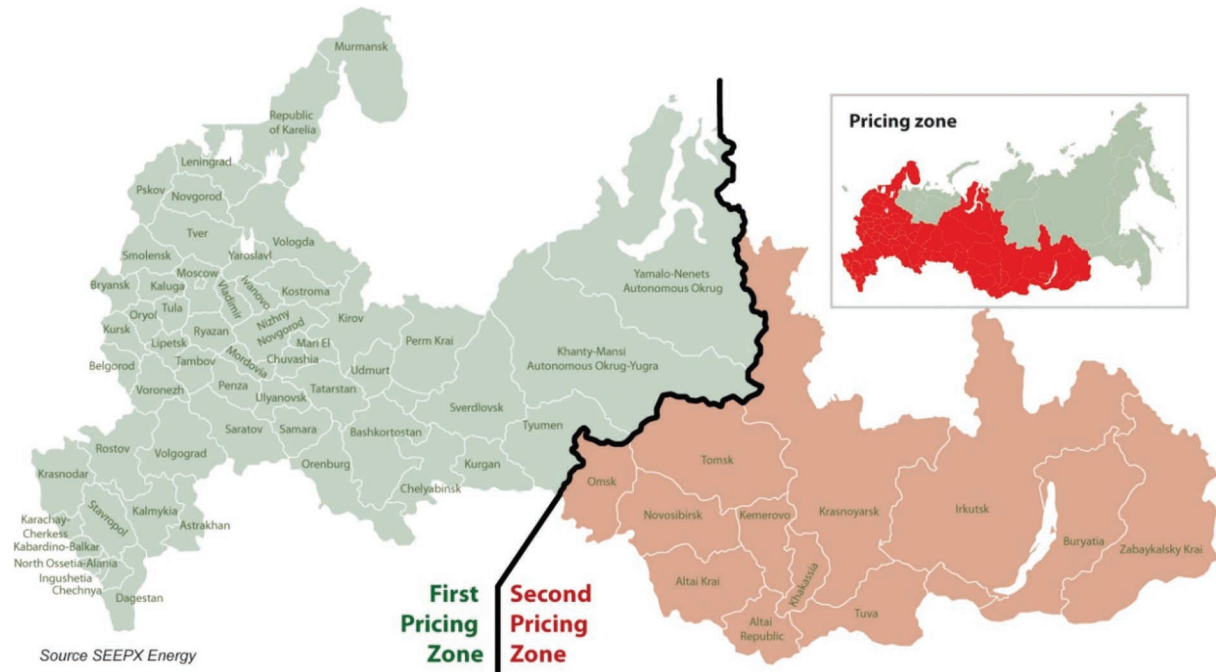
IPS	Installed capacity (GW)	Available capacity (GW)	Electricity output (TWh)	Electricity consumption (TWh)
North West IPS	23.6	22.5	107.3	92.9
Centre IPS	52.9	53.7	236.6	237.3
South IPS	20.6	19.6	96.2	90.7
Volga IPS	27.0	25.9	106.3	106.3
Urals IPS	51.1	50.6	258.4	259.4
Siberian IPS	52.0	41.5	206.9	207.2
Far East IPS	9.2	9.2	36.8	33.2
<b>Total for Russia</b>	<b>236.3</b>	<b>223</b>	<b>1,048.5</b>	<b>1,026.9</b>

Source: The System Operator.

Note: Excluding isolated power systems (mostly in the far eastern parts of Russia) and non-grid industrial power plants.

Due to limited grid interconnection, the Russian wholesale power (capacity) market is split into two pricing zones. The first pricing zone includes the territory of the European part of Russia (including the Urals), and the second pricing zone overlays Siberia. Difference in capacity structure and fuel mix defines electricity price drivers in each of the price zones in Russia.

The remaining parts of Russia are non-pricing zones. The geography of the two pricing zones is illustrated on the map below.



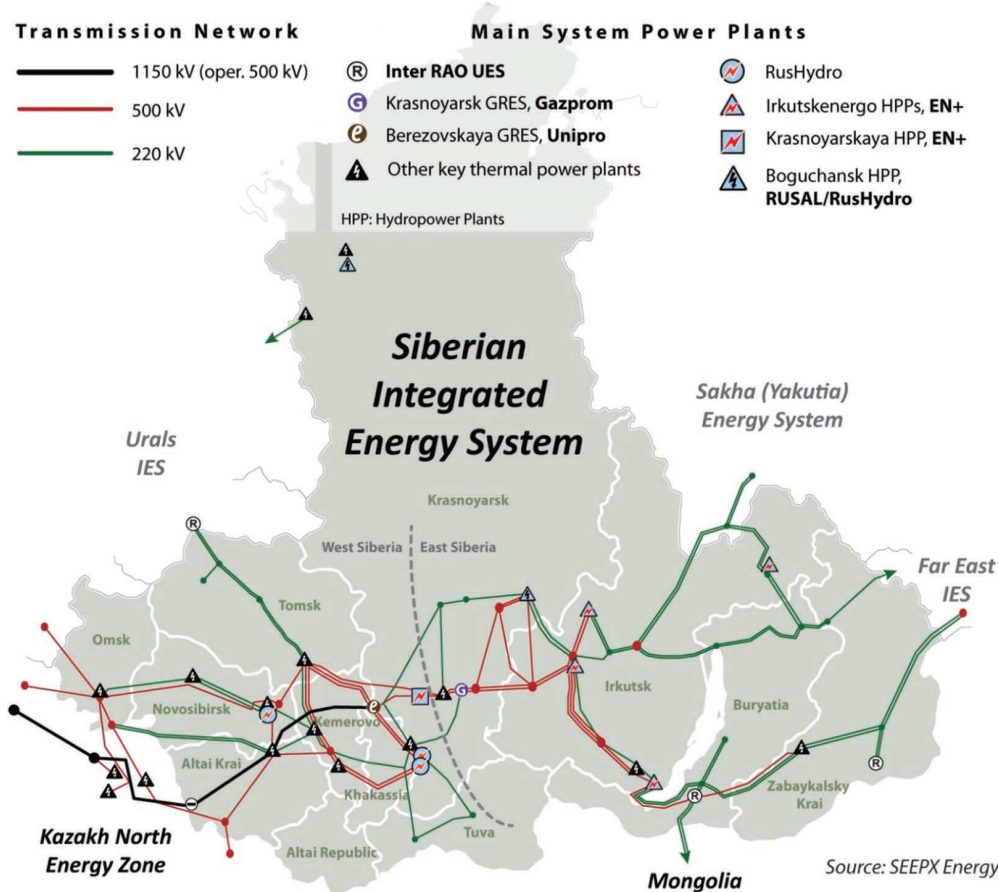
In Russian regions where the operation of a wholesale electricity and capacity market is not yet feasible for technological and/or ownership structural reasons (e.g., Arkhangelsk, Kaliningrad, Komi Republic, and some other northern regions of Russia and the Far East), the sale of electricity and capacity is regulated with tariffs set by the FAS (non-pricing zones).

### Siberian IPS Overview

Geographically, the Siberian IPS overlaps the Siberian federal district covering an area of 5,115,000 square km with a population of approximately 20 million people over the following 12 provinces of Russia: the Republic of Altai, Buryatia, Tuva, Khakassia, Altai, Zabaykalsky Krai, Krasnoyarsk, Irkutsk, Kemerovo, Novosibirsk, Tomsk, and Omsk.

The Siberian federal district is one of the main industrial regions in Russia with focus on oil and gas, metallurgy and machine building, contributing to approximately 10% of Russia’s total GDP. According to Rosstat, the Siberian federal district’s nominal gross regional product (“**GRP**”) has increased from 3.4 billion roubles in 2009 to 6.8 billion roubles in 2015. In 2015, manufacturing and natural resources industries have accounted for 20% and 14% respectively of GRP for the Siberian federal district, followed by wholesale and retail (11%) and real estate (10%) sectors.

The Siberian power system comprises of 109 power plants with a total installed capacity of 51.97 GW, 2,189 electrical substations of 110-500 kV and 1,548 of 110-1150 kV transmission lines with a total length of 96,030 km. The map below shows Siberia’s main power infrastructure.



Source: SEEPX.

### Siberian IPS electricity capacity and output

The Siberian IPS is the second largest power system in Russia in terms of installed capacity and third in terms of power production and consumption, accounting for 20% of overall power consumption and production in Russia. Although the Siberian IPS appears to have a relatively favourable ratio of installed capacity versus consumption compared to other IPSs, Siberia’s available capacity over installed capacity is significantly less owing to the naturally lower availability of hydropower. This means that in reality the supply and demand ratio in Siberia is actually the lowest in the UES of Russia.

A unique feature of the Siberian IPS is the significant role of HPPs in both the structure of installed electricity capacity and electricity output—49% and 48%, respectively, according to the System Operator. Siberian hydropower production accounts for 56% of Russia’s total hydropower production. The table below shows the structure of Siberian IPS installed capacity and the structure of electricity output in 2016.

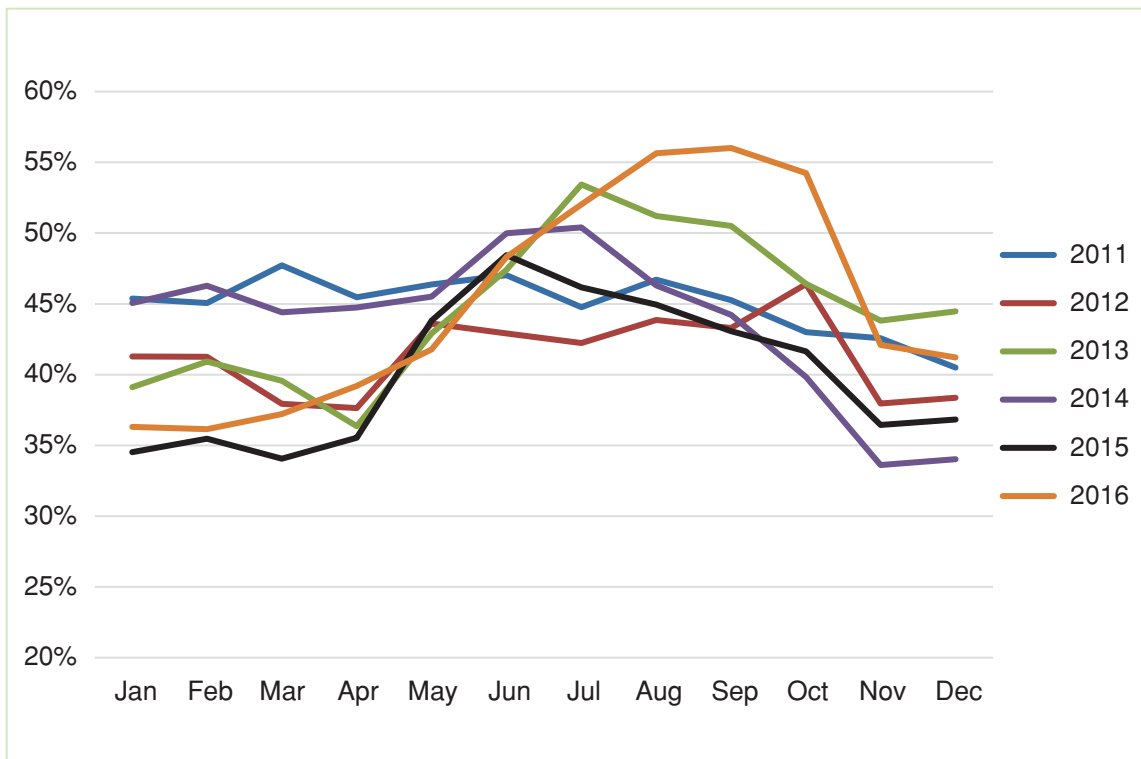
	Installed electricity capacity		Electricity output	
	Total (GW)	% of Total	Total (TWh)	% of Total
Thermal power plants . . . . .	26.7	51.3%	97.0	46.9%
HPPs . . . . .	25.3	48.6%	99.8	48.3%
Renewable power plants . . . . .	<0.1	0.0%	<0.1	0.0%
Industrial <sup>(1)</sup> . . . . .	—	—	10.0	4.8%
<b>Total Siberian IPS . . . . .</b>	<b>52.0</b>	<b>100.0%</b>	<b>206.9</b>	<b>100.0%</b>

Source: The System Operator.

(1) Industrial complexes with own power production.

Due to the significant share of hydropower, the energy balance in Siberia is driven by fluctuations in river flow across different seasons, by the cyclical alternation of dry and wet years and by low winter temperatures. During the summer, the share of hydro generation comprises 60-65% of total electricity output.

The chart below presents monthly utilisation of Siberian HPPs for the periods indicated:

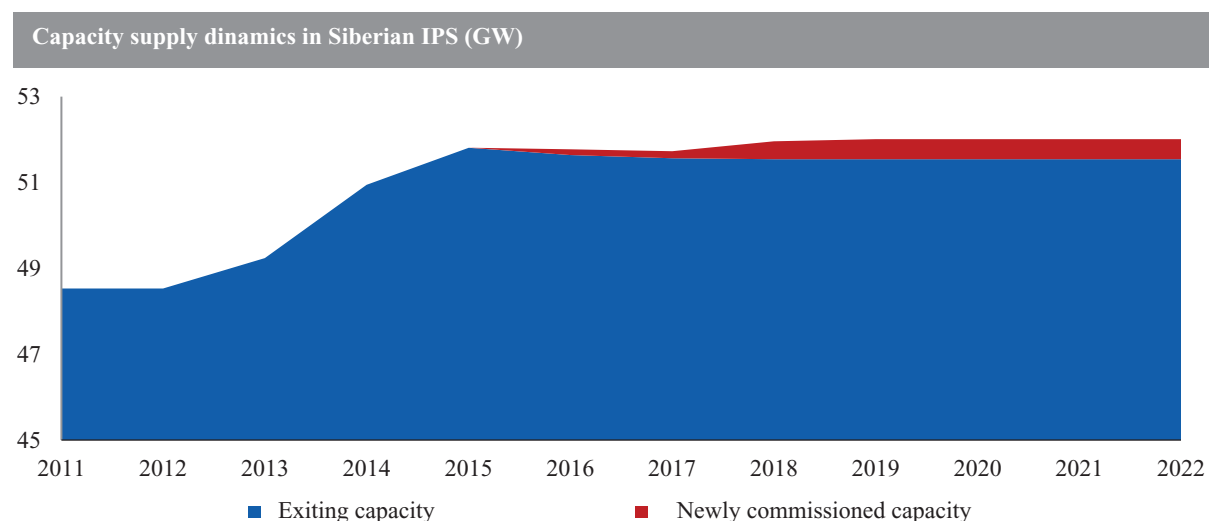


Source: ATS, System Operator, SEEPX.

Thermal power in the Siberian IPS is generated mostly through coal-fired power plants. Coal-fired power plants are primarily located in proximity to regions where coal is mined, such as, the Kemerovo region, the Irkutsk region and the Krasnoyarsk region. Many Siberian coal-fired power plants were designed to use coal of a specific grade, and thus certain generation companies are dependent on specific coal suppliers.

Installed capacity in the Siberian IPS increased over the 2011 to 2016 period reaching 52GW in 2016. However, capacity is expected to remain flat in the 2016 to 2022 period with small new capacity additions

to be offset by decommissioning of the old capacity. The chart below shows the historical evolution of the Siberian IPS' installed capacity and its anticipated changes from 2016 to 2022.



Source: System Operator, SEEPX.

### Siberian IPS electricity demand

According to Rosstat, in the years from 2001 to 2015, electricity consumption in the Siberian IPS increased at an average growth rate of 0.3%. In 2016, electricity consumption increased by 1.8% due to support from export orientated industries (e.g. metallurgy, particularly aluminium). The table below illustrates Siberia's GRP annual growth rate, electricity consumption (and growth in electricity consumption) and the elasticity of electricity consumption to GRP.

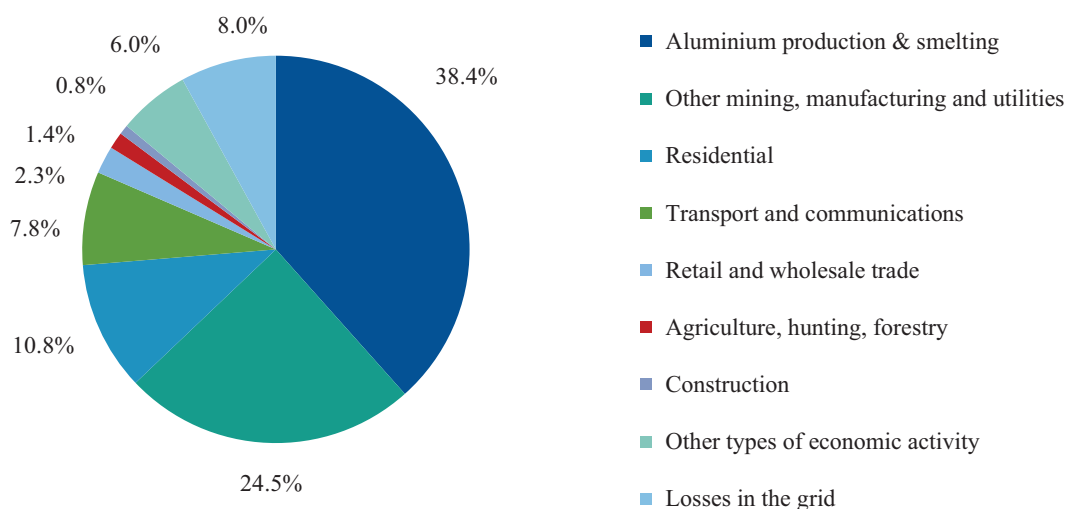
	GDP annual growth rate	Electricity consumption	Growth in electricity consumption	Elasticity of electricity consumption to GDP <sup>(1)</sup>
	(%)	(TWh)	(%)	
2001	6.9%	197	0.9%	0.1
2002	4.1%	193	(2.1)%	(0.5)
2003	7.5%	195	1.1%	0.1
2004	8.3%	200	2.2%	0.3
2005	4.8%	203	1.7%	0.4
2006	6.2%	207	2.0%	0.3
2007	7.5%	212	2.4%	0.3
2008	4.1%	209	(1.3)%	(0.3)
2009	(4.1)%	201	(4.0)%	1.0
2010	4.4%	208	3.7%	0.8
2011	5.0%	205	(1.6)%	(0.3)
2012	3.0%	210	2.5%	0.8
2013	2.1%	205	(2.3)%	(1.1)
2014	1.6%	204	(0.6)%	(0.4)
2015	(1.2)%	204	(0.3)%	0.3

Source: Rosstat, System Operator.

(1) Calculated as growth in electricity consumption divided by GDP annual growth rate for each respective year.

The structure of electricity demand in the Siberian IPS is characterised by a high share of consumption attributed to industrial enterprises such as metals and mining companies, coal mining companies and timber companies. Such companies accounted for approximately 63% of total electricity consumed in 2015, according to Rosstat, when compared to Russia's overall average of 53%. The residential consumption in Siberia represents only 11% versus the national average of 14%. This illustrates a particularly close relationship between Siberia's GRP, industrial production and power demand.

The chart below shows the breakdown of the Siberian IPS 2015 electricity consumption by consumer type.



Source: Rosstat.

According to the base case assumptions by SEEPX, electricity consumption in the Siberian IPS will be growing at an annual average rate of 0.59% based on the System Operator’s expectations as per the scheme and programme for the power sector development, 2016-2022. (see “*Historical power prices and SEEPX forecast outlook*” for more details). This demand growth is expected to be largely supported by new development projects in aluminium, oil and gas, mining and manufacturing in Siberia. Electricity consumption forecast takes into account only 0.15mt of operating aluminium smelter capacity at the Boguchansk aluminium smelter. It does not take into account electricity consumption from an additional 0.45mt of aluminium smelter capacity at Boguchansk aluminium smelter and 1.0mt potential full plant capacity at Taishet aluminium smelter. Full completion of Boguchansk and Taishet aluminium smelters will further increase electricity consumption in the Siberian IPS by up to 20.7TWh. The anticipated dynamics of future supply and demand balance in Siberia suggest that power demand growth is expected to exceed capacity additions between 2016 and 2022.

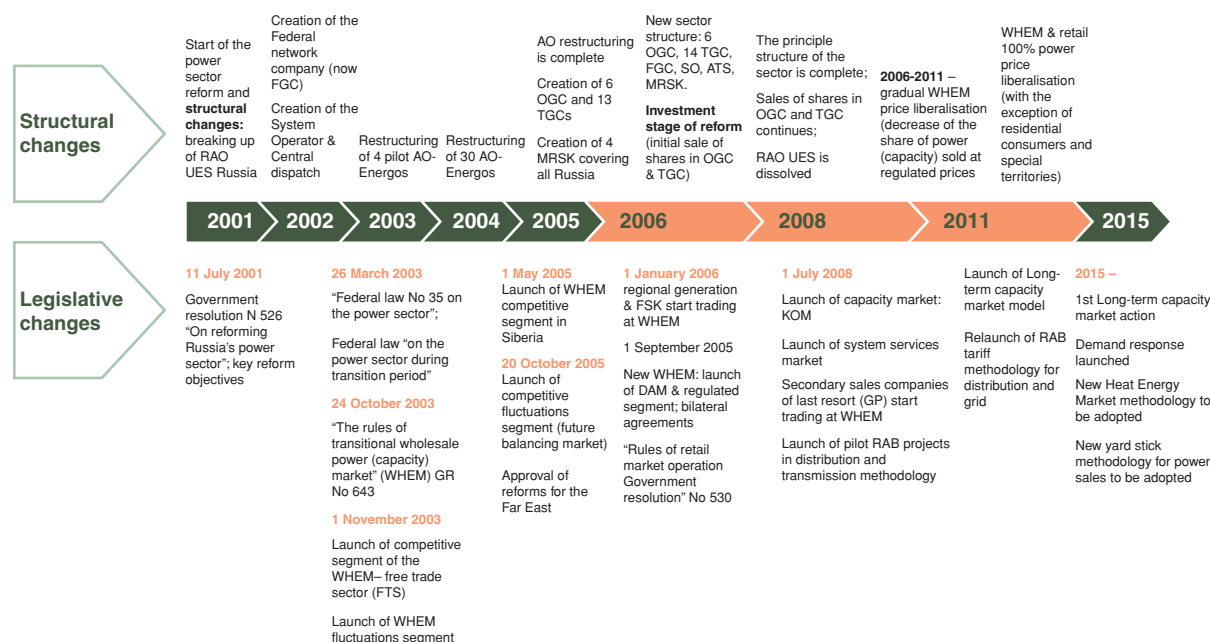
### Russian Power Sector Reform

Over the last two decades Russia’s power sector has undergone a major restructuring from centralised planning to a market based system. Following the first announcement of the reform in 1998, the Resolution of the Government of the Russian Federation No. 526 of 11 July 2001 “On Restructuring the Electricity Power Industry of the Russian Federation” (“**Resolution No. 526**”) outlined the major transitional steps to be taken in the period from 2001 to 2008. Resolution No. 526 was intended to: (i) reform the market structure; (ii) implement the liberalisation of the competitive segments of the power sector, including generation, electricity supply, and ancillary services (e.g., repair services); and (iii) improve regulatory pricing for the non-competitive lines of business of the power sector.

The implementation of Resolution No. 526 completely transformed the overall structure of the power industry through the breaking-up of almost all of the regional vertically-integrated power companies which were natural monopolies, the AO-Energos, controlled by their holding company RAO UES Russia (“**RAO UESR**”) and the formation of new mono-profile enlarged companies with the following major activity types: generation, transmission, distribution, retail sales and repairs and other servicing operations.

The industry restructuring process was substantially completed on 1 July 2008 when RAO UESR was broken-up into more than 20 stand-alone companies each engaged in either the competitive sector (power generation, electricity supply) or in the non-competitive sector (electricity transmission and distribution). Following that, continuous market deregulation required further adjustments to the legislation and policies, which were undertaken in 2008, 2011 and 2015.

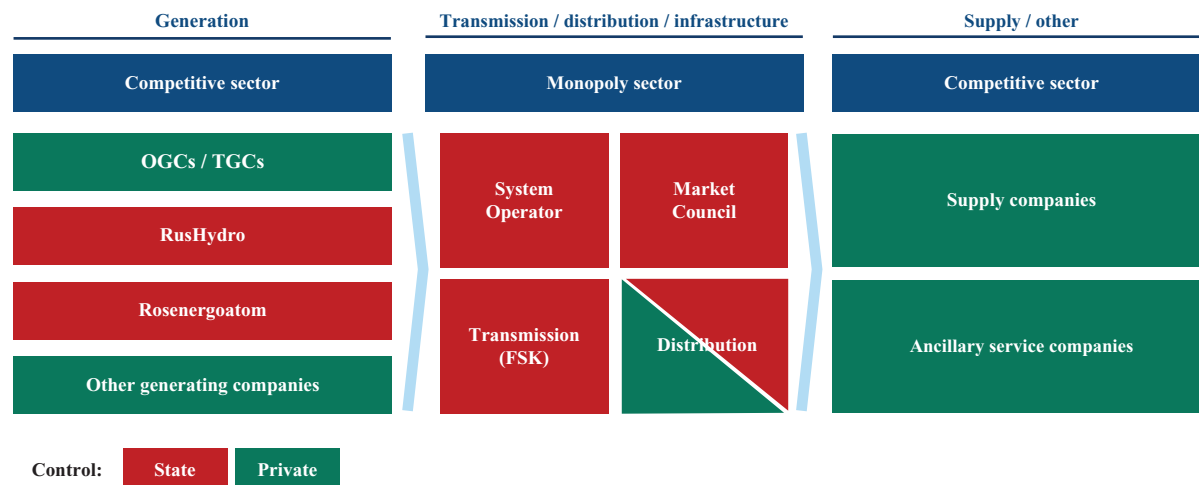
The diagram below illustrates the main changes along the timeline of the reform.



Source: SEEPX.

During the power sector restructuring, RAO UESR attracted private investments in the thermal generation companies (so called “OGKs” and “TGKs”) through public offerings or private sales of the respective companies, so as to fund the large investment programmes of these companies. Strategic investors (including E.On (now Unipro), Enel, Fortum, Gazprom, LUKOIL, IES Holding and Norilsk Nickel), who participated in additional share issues of generating companies, were given opportunities to buy additional shares from RAO UESR and to obtain control of OGKs or TGKs in order to encourage competition among the generation companies. Most strategic investors gave binding obligations to invest in the construction of new power plants as a part of these privatisation deals.

In the course of reform, the industry structure prescribed by Resolution No 526 was successfully achieved. The figure below illustrates the post-reform industry structure:



Source: SEEPX.

In addition to structural changes, Russia’s wholesale power market underwent a transition from electricity tariff regulation to market-based price formation. The two-tier power market structure (wholesale and retail) and two-tier product trading (electric power and capacity) formed the foundation of the new power market. Between 2006 and 2011, Russia’s wholesale power and capacity market went through a gradual liberalisation of prices and tradable volumes, excluding volumes related to sales to residential consumers.



In spite of Russia’s wholesale power market liberalisation, until 2014, HPPs in Siberia were obliged to sell capacity at regulated prices. Naturally, the effect placed considerable downward pressure on Siberian capacity price growth. However, since 2014 HPPs were gradually liberalised: 65% of their capacity was sold at liberalised (KOM) capacity prices in 2014-2015, and 80% until May 2016, and 100% since May 2016, excluding volumes related to sales to residential customers.

See the “*Regulation of the Power Industry*” section for the details on the power market structure and trading segments following power market reform.

### Generation

The majority of Russian thermal generating assets were privatised during the power sector reform either through large capital raisings or through direct sale of RAO UESR’s stakes in generation companies (or through a combination of both methods). Some strategic investors acquired controlling stakes in two or more generation companies (including Gazprom Group, IES Holding and SUEK).

Following the power market reform, from an ownership perspective, the key players in the generation segment can be divided into the following three groups: (i) state-controlled companies, including Gazprom Group, RusHydro, and Rosenergoatom; (ii) companies controlled by Russian strategic investors, including Russian EuroSibEnergo, T Plus (previously IES Holding) and SUEK; and (iii) companies controlled by foreign strategic investors, including Unipro (previously E.On), Enel and Fortum.

The top three largest players control approximately 45% of the total installed electricity capacity in Russia, while the top five players control approximately 63%. The table below illustrates the top 10 largest players in the Russian power generation sector by installed electricity capacity under their respective control.

Rank	Investor	Ownership	Key assets	Installed capacity under control (GW)	% of Russia’s capacity
1	Gazprom . . . .	State	Mosenergo, TGK-1, OGK-2, OGK-6	39.0	17%
2	RusHydro . . . .	State	62 HPPs, RAO Energy System of the East <sup>(1)</sup>	38.9	16%
3	Rosatom . . . . .	State	10 Nuclear Power Plants (Rosenergoatom)	27.9	12%
4	Inter RAO . . .	State	Inter RAO EG, BGK, TGK-11	23.7	10%
5	<b>EuroSibEnergo</b>	<b>Russian</b>	<b>15.1 GW hydropower, Irkutskenergo</b>	<b>19.7</b>	<b>8%</b>
6	T Plus Group .	Russian	Volzhskaya TGK, TGK-5,6,9, Orenburg TGK	15.1	6%
7	Unipro . . . . .	Foreign	5 Thermal power plants (formerly OGK-4)	11.1	5%
8	Enel Russia . .	Foreign	4 Thermal power plants (formerly OGK-5)	9.5	4%
9	SGK . . . . .	Russian	Kuzbassenergo (TGK-12), TGK-13	7.8	3%
10	Fortum . . . . .	Foreign	8 Thermal power plants (TGK-10), 25% in TGK-1	4.2	2%

Source: Companies’ annual reports, The System Operator.

(1) Including Boguchansk HPP (2,997 MW), which is owned 50% by RusHydro and 50% by RUSAL, and operated by RusHydro.

In the Siberian IPS, the top three largest players control approximately 73% of the total installed electricity capacity, while the top six players control approximately 90%. Foreign strategic investors have a limited presence in the Siberian power market; the only power plant controlled by a foreign investor is Unipro’s Berezovskaya power plant (2,400MW, including unit 3 currently under maintenance).

The table below presents the largest players in the generation sector of the Siberian IPS.

Rank	Investor	Ownership	Key assets	Installed capacity under control (GW)	% of Siberian IPS capacity
1	EuroSibEnerg	Russian	15.1 GW hydropower, Irkutskenergo	19.1 <sup>(1)</sup>	37%
2	SGK	Russian	Kuzbassenergo (TGK-12), TGK-13	7.8	15%
3	RusHydro	State	3 HPPs (excluding Boguchansk HPP)	7.5	14%
4	Inter RAO	State	Inter RAO EG, BGK, TGK-11	4.1	8%
5	RusHydro/RUSAL	Russian	Boguchansk HPP <sup>(2)</sup>	3.0	6%
6	Sibeco	Russian	Novosibirsk CHPs	2.5	5%
7	Unipro	Foreign	Berezovskaya GRES	2.4	5%
8	Other	—	—	5.5	11%

Source: Companies' annual reports, The System Operator.

(1) Excluding EuroSibEnerg assets operating outside of Siberia.

(2) Boguchansk HPP is owned by a 50%/50% joint venture established by RusHydro and RUSAL, and operated by RusHydro.

### **Transmission, distribution and infrastructure**

Russian Grids (known in Russian as “Rosseti”) is the operator of Russia’s energy grid and one of the largest power network companies in the world. It maintains 2.3 million km of power transmission lines, 490,000 substations with transformer capacity of more than 761 GVA (gigawatt amperes). In 2015, the net power output to consumers amounted to 720.5 billion kWh, an increase by 5.2 billion kWh when compared to 2014. In 2015, the overall transmission losses within Russian Grids declined by 0.14 points and reached 9.2%.

The asset portfolio of Russian Grids includes 37 subsidiaries and affiliates, inclusive of 14 interregional distribution companies (“MRSKs”) and the transmission company (Federal Grid Company (“FGC”). The state owns 87.9% of the Russian Grids’ share capital. The FGC and MRSKs are part of UES’ technological infrastructure, the dispatch and operation of which is executed by the System Operator.

Today, MRSKs own and operate approximately 70% of all Russia’s power distribution assets. Approximately 30% of Russia’s other electricity distribution assets are owned and operated by grid companies of the formerly independent AO-Energos, as well as by numerous smaller regional and municipal companies.

The national interregional and regional power network companies provide power transmission and distribution services, as well as technological connections of consumers and generators’ equipment to the power grid. The activity of network companies falls under the state regulation of natural monopolies with regards to the price formation for the provided services, and for non-discriminative access of consumers to the electric power grid network.

See “Electricity Industry Structure” section for details on industry infrastructure participants, including the System Operator, Market Council and Commercial Operator.

### **Supply**

Russian retail customers currently purchase electricity from energy supply companies, which have been either spun-off from the AO-Energos and subsequently sold by RAO UESR in public auctions, or were formed as independent energy supply companies (including RusEnergSbyt, TNS Energo, and MAREM+). Most former AO-Energos sales companies were granted the status of “guaranteeing suppliers” (i.e., the energy supply companies of last resort) in their respective geographical regions, and therefore are obligated to enter into contracts with any retail consumer on demand.

The energy supply companies that do not have the status of guaranteed supplier tend to be independent and are free to choose their consumers without obligation. By the end of 2016, the number of these companies was reduced from around 3,000 to approximately 1,900.

## Heat Energy Market

The Russian heat energy market represents approximately 21% of Russia's final energy consumption. For public safety, particularly during the winter season, it is critical to maintain the heat infrastructure in good operational condition.

Heat energy producers in Russia primarily include CHPs and heat boilers; both fossil-fuel (gas, coal, fuel oil, and diesel) and electric. A substantial portion of heat energy produced in Russia is produced by CHPs in a combined cycle mode. The table below shows the heat energy production structure over the periods indicated.

	2012		2014		2015		2016	
<b>Heat energy production</b> (thousand Gcal) . . . . .	<b>1,312,198</b>	<b>100%</b>	<b>1,296,979</b>	<b>100%</b>	<b>1,250,479</b>	<b>100%</b>	<b>1,272,839</b>	<b>100%</b>
<i>out of which:</i>								
Nuclear power plants . . . . .	3,598	0.3%	3,517	0.3%	3,398	0.3%	3,505	0.3%
Boiler houses . . . . .	624,991	48%	622,733	48%	595,373	48%	590,323	46%
Industrial complexes . . . . .	77,848	5.9%	74,705	5.8%	78,935	6.3%	86,040	6.8%
Other power plants . . . . .	2,062	0.2%	2,790	0.2%	3,284	0.3%	4,072	0.3%
Heating power plants (CHPs) . . . . .	600,150	46%	590,112	45%	566,413	45%	586,405	46%
Electric boilers . . . . .	3,369	0.3%	2,949	0.2%	3,017	0.2%	2,494	0.2%

Source: Rosstat, SEEPX.

Heat energy demand is subject to considerable fluctuations and varies significantly across different seasons as well as during a single day. Peak consumption occurs during the winter months, with relatively low consumption during the summer months, which dictate the load of power generating capacity.

In the structural mix of the heat energy consumption, the largest share of total consumption is represented by industry users and the residential population with 38% and 39% respectively. The table below shows the heat energy consumption structure over the periods indicated.

	2012		2013	
	(million Gcal)	(%)	(million Gcal)	(%)
<b>Heat energy consumption (centralised)</b> . . . . .	<b>1,336.0</b>	<b>100%</b>	<b>1,292.8</b>	<b>100%</b>
Heat energy losses during production and transportation . . . . .	98.4	7.3%	97.4	7.5%
End-user consumption by category: . . . . .	1,238.0	92.7%	1,195.4	92.5%
Agriculture . . . . .	25	1.9%	22.5	1.7%
Industry . . . . .	532.5	39.8%	494.5	38.2%
Construction . . . . .	8.5	0.6%	10	0.8%
Transport and communications . . . . .	23.6	1.8%	23.2	1.8%
Residential (population) . . . . .	507.6	38.0%	505.9	39.1%
Other . . . . .	140.8	10.5%	139.2	10.8%

Source: Rosstat.

Heat energy is transmitted and distributed through local heat networks that are mainly owned and operated by the heat energy producers, wholesale retailers, or municipalities. According to Rosstat, in 2014, 28.7% of Russia's heat network required replacement, out of which, 22% risked heat supply disruption. In Siberia, 33.2% of the heating network required replacement.

In contrast to electricity, heat energy is characterised by exponentially increasing losses during transportation, particularly as distances increase. Consequently, heat energy supply is generally restricted to areas located in close proximity to heat production. Therefore, the heat energy market is a parochial retail market.

See the "Russian industry regulation" section for details on heat market regulation and pricing.

## Historical power prices and SEEPX price forecast outlook

### Key macroeconomic assumptions

In the following macroeconomic outlooks, SEEPX's calculations are based on data from the Central Bank of Russia, The Ministry for Economic Development, IHS Market, and the International Monetary Fund.

In line with overall expectations, SEEPX assumes a gradual (linear) rise in the international oil prices towards \$90/barrel by 2026, and a removal of the dampening effects of sanctions by 2020. As a result, SEEPX expects the Russian rouble to strengthen against the U.S. Dollar. Moreover, the analysis assumes that the Russian Government will maintain a relatively tight monetary policy until 2022. The overall lower and more stable inflation would add greater predictability for longer term investment planning and an improvement in the overall economic climate that will significantly contribute to industrial output.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Inflation % chg., y/y . . . . .	5.4	4.7	5.2	4.6	4.4	5.0	4.9	5.4	5.2	4.8	4.2
Real GDP % chg. y/y . . . . .	(0.2)	1.3	2.0	2.1	2.8	2.5	2.0	2.8	3.3	3.6	3.4
Industrial production % chg. y/y . . . . .	0.4	2.3	3.0	3.3	1.9	2.4	2.2	2.8	3.5	3.6	3.2

Source: SEEPX.

### Day-ahead market prices

The day-ahead market (DAM) is an auction of price bids and volumes submitted by the power producers and consumers a day in advance of actual delivery. The prices and volumes are set for every hour of the day-ahead for each of Russia's pricing nodes. In other words, the price is set for every hour for every node across the two pricing zones (more than 8,500 nodes).

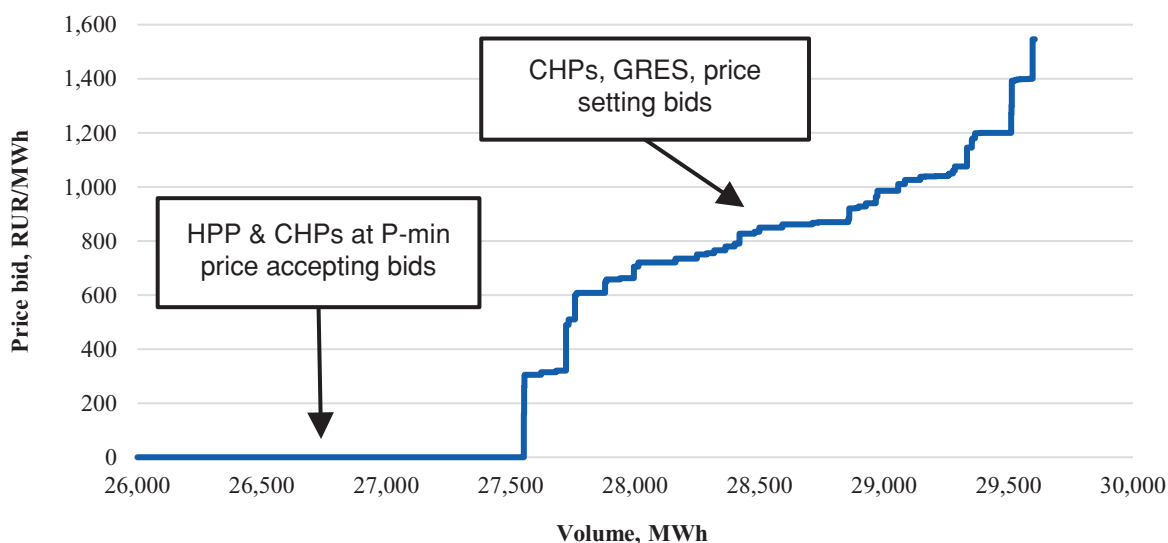
The price formation at the DAM is marginal, which means that a single price is set by the most expensive capacity that satisfies supply and demand. Naturally, the lower the power plant's marginal cost to produce power then the higher the profit potential. Therefore, the key factors that impact the day-ahead power prices are cost of fuel (gas, coal, fuel oil, diesel, and water tax for hydropower generation), efficiency, and merit order for loading certain types of capacity.

Power producers submit price-taking and price-setting bids. Hydropower, nuclear, and thermal power plants (in the volume equal to their technological minimum production when in heating mode is known as P-min) submit price-taking bids. The rest can submit price-setting bids. The ATS gives priority for capacity loading to price-taking bids.

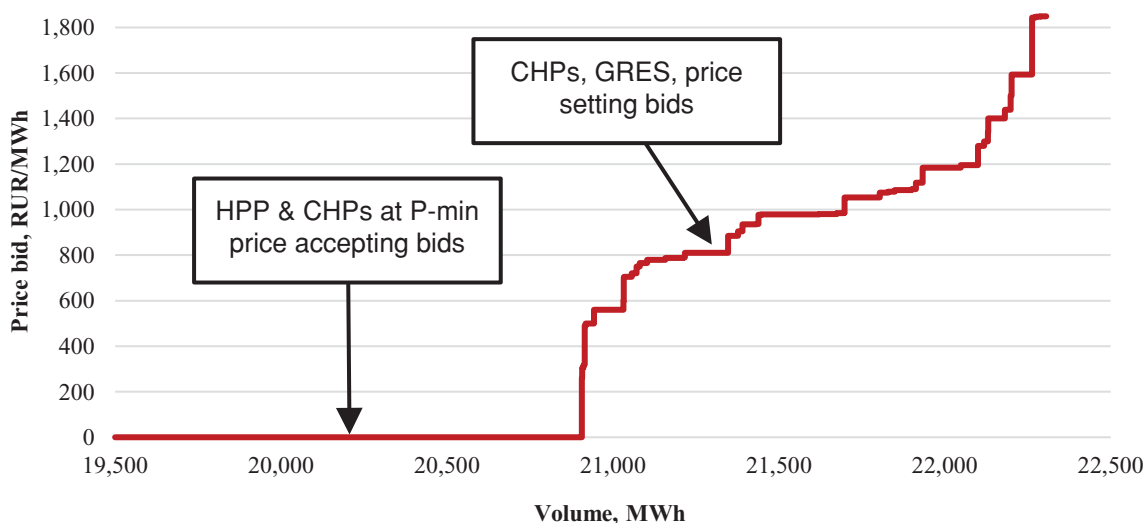
The HPPs are ranked second in terms of loading merit order for price-taking bids. In the second pricing zone there are no nuclear power plants and the amount of system plants are insignificant, therefore the pricing bids by HPPs (e.g., Irkutsk cascade HPPs, Krasnoyarsk HPP, Boguchansk HPP, etc.) and thermal power plants have a selection priority and are fully cleared by the market.

The figures below illustrate the merit order of a typical producers' price curve formation in the second pricing zone for winter and summer.

Price curve formation in the second pricing zone at 16:00 on 27 January 2016



Price curve formation in the second pricing zone at 16:00 on 27 July 2016



Source: ATS, SEEPX.

The price-taking bids by HPPs (full volume) and thermal CHP power plants (in the volume equal to their technological minimum production when in heating mode, known as P-min) reflect that these producers are prepared to sell power at any price that would settle at DAM for each hour. Thus as seen in the price-formation (merit order) charts below, their aggregate price-taking offer is accounted for first, prior to the ranging of the price-setting bids. All others price bids are selected on a principle of least cost to the consumer, and are ranked from the lowest to the highest until the demand (plus reserve) is fully met—which is the point where the price sets.

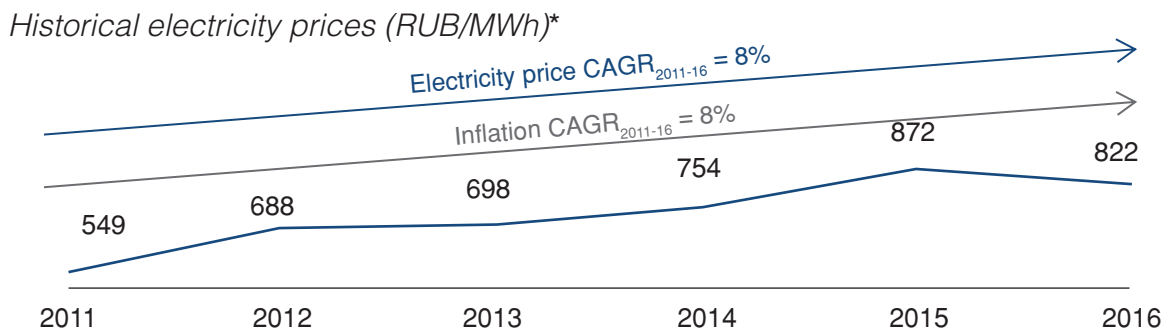
The planned power production priority is given to the lowest price bids, and, in terms of planned consumption—to the volumes that consumers are prepared to buy either at the highest price or at a price acceptance (e.g., reflecting a consumer's readiness to buy the required volume at any price that settles at the DAM).

Typically, more than 80% of buyers submit price-taking bids (driven by sales companies buying power on behalf of residential consumers (population) and fully translating the wholesale price on to them). As a

result, consumers' bids have relatively little impact on the DAM price. However, in areas where large industrial consumers dominate, their large consumption weight—trading volume—can significantly influence DAM prices (particularly in the second pricing zone). Price fluctuations on the wholesale electricity market are monitored by the state authorities.

If the magnitude of a price increase exceeds a predetermined level within a specified period of time or other extraordinary situations arise that result in significant increases in prices for electricity, price smoothing or state regulation of the electricity industry may be implemented as a protective price control measure.

The chart below shows weighted average wholesale (DAM and balancing) producer electricity prices for the second pricing zone.



Source: ATS, SEEPX.

Note: Weighted average wholesale (DAM and balancing) producer electricity prices.

#### **SEEPX Siberian electricity price outlook**

SEEPX has calculated two scenarios for the power price outlook until 2027: the base case and the conservative case.

- The base case scenario is based on the annual average growth of consumption of 0.59% (based on the System Operator's expectations as per the scheme and programme for the power sector development, 2016-2022). The output of HPPs in the base case scenario is in line with their annual average output, and accounts for a slower than anticipated replenishment of water in the reservoirs.
- The conservative scenario is based on the assumption that in 2017 to 2020, power consumption growth will remain at the annual rate of 0.1%, due to a more modest Russian economic recovery. SEEPX assumes that Siberia's power consumption will grow at an annual average of approximately 0.45% in 2021-2023, and at an annual average of 0.5% in 2024-2027. The hydropower output is higher when compared to the base case scenario by approximately 3%, with a more rapid replenishment of reservoir water. These factors would lead to a lower producer price when compared to the base case scenario.
- Both base case and conservative case electricity consumption forecasts take into account only 0.15mt of operating aluminium smelter capacity at the Boguchansk aluminium smelter. They do not take into account electricity consumption from additional 0.45mt of aluminium smelter capacity at Boguchansk aluminium smelter and 1.0mt potential full plant capacity at Taishet aluminium smelter. Full completion of Boguchansk and Taishet aluminium smelters will further increase electricity consumption in the Siberian IPS by up to 20.7TWh.

SEEPX's day-ahead and balancing market price outlooks are calculated using a simplified Siberian market balance scheme and direct current model, adjusted for the following assumptions:

- Annual growth of fuel prices: Owing to the price formation methodology, all hydropower volume and a predetermined share of thermal power plants (technological minimum) are price-taking bids, but the remaining share of thermal capacity that is needed to satisfy demand is sold at market prices. Thus the coal power plants dominate in forming the power price in the second pricing zone. Non-export coal price growth is assumed to average just below inflation at about a 3% increase a year.
- Hydropower output: In the base case scenario SEEPX assumes a more gradual replenishment of reservoir water than could be assumed based on average 6-10 year water cycles. The hydropower

output is based on average annual output for hydropower generation over the last decade. In the conservative scenario, Siberian hydropower output is increased by 3% (when compared to the base case price outlook), and a more rapid reservoirs water replenishment.

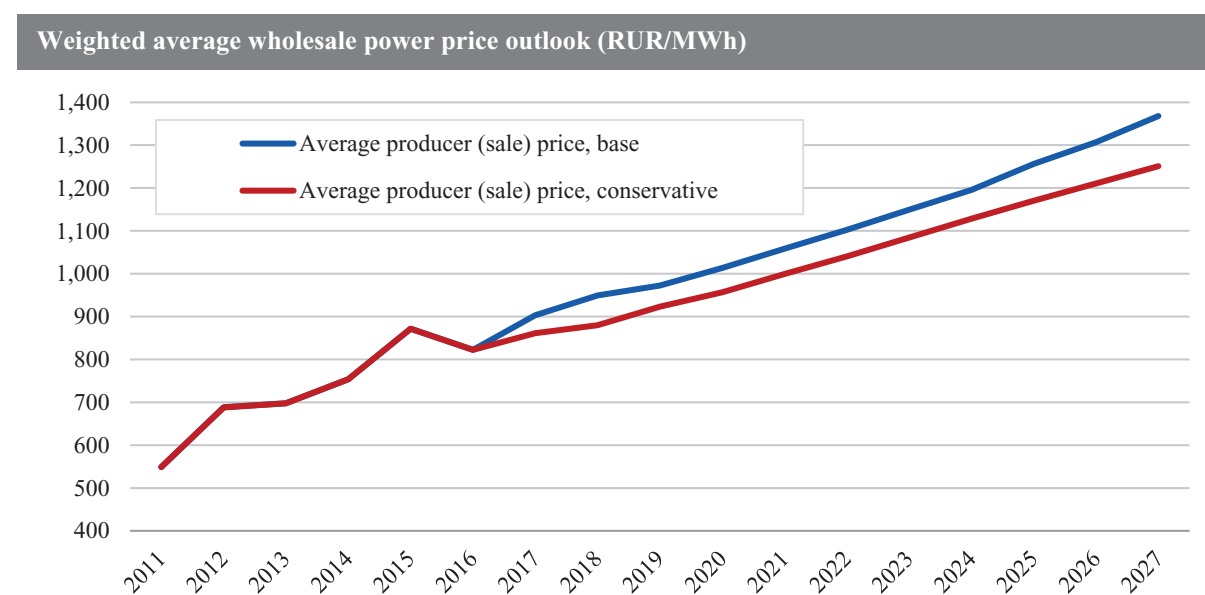
- **DPM launches:** The launch of assets under the DPM mechanism has impact on Siberia even if they are located in the first pricing zone. The flow between the two price zones ranges  $\pm 2,000$  MWh. Therefore, SEEPX accounts for price influencing factors such as DPM capacity from the first pricing zone given the potential diversion of flow towards Siberia and high level price-taking bids in the second pricing zone.
- **Capacity decommissioning:** Capacity that failed capacity auction selection would be due for decommissioning.
- **Grid congestion:** No short-term change in the flow constraints between the Urals and the second pricing zone, and East and West Siberia.

Power prices are calculated for wholesale consumers and wholesale producers. The wholesale power price for a wholesale consumer differs by approximately 5% from a producer price. This is to account for the cost of losses, congestion, extra payments for unit commitment and other payment imbalances.

Taking into account all the factors influencing power price formation in the wholesale and balancing markets, the outlook for the second pricing zone is estimated as follows:

**Producer (sale) price outlook:**

- **Base case:** the average producer power price will grow from 822 roubles/MWh in 2016 to 1,368 roubles/MWh in 2027; and
- **Conservative case:** the average producer power price will grow from 822 roubles/MWh in 2016 to 1,251 roubles/MWh in 2027.



Source: SEEPX.

**Capacity market prices**

In Siberia, the majority of capacity is traded at the capacity auction (KOM). The capacity auction is held by the System Operator, and is key to which capacity is selected in the market, and consequently paid for. See “Wholesale Capacity Market” and “Pricing on Electricity and Capacity Markets” for more details.

The table below shows the capacity auction volumes and prices set for the second pricing zone from 2011 onwards. Prices for 2017-2021 are shown in real terms and to be indexed to CPI minus 1% (effective from 1 January 2018 prices are to be indexed CPI minus 0.1%).

	Capacity auctioned volume	Weighted average capacity auction price
	(GW)	(RUB/MW)
2011 . . . . .	23.9	126,368.0
2012 . . . . .	32.1	156,858.4
2013 . . . . .	32.4	161,776.1
2014 . . . . .	32.0	112,635.3
2015 . . . . .	33.8	181,766.7
2016 . . . . .	32.9	189,191.2
2017 . . . . .	34.0	181,760.7
2018 . . . . .	35.9	185,739.5
2019 . . . . .	36.0	190,281.3
2020 . . . . .	36.3	190,512.3
2021 . . . . .	37.9	225,339.7

Source: System Operator.

Until 2015, capacity auctions were held only annually for the capacity supply the following year. Since 2015, the auction is held annually for the capacity supply in four years' time. The first auction was held in December 2015 for delivery in 2017-2019, followed by auctions in September 2016 and September 2017 for supply in 2020 and 2021, respectively. The capacity price is subject to annual indexing (by applying a formula, CPI minus 1% (effective from 1 January 2018—CPI minus 0.1%)) with the exception of the year that follows.

**SEEPX Siberian capacity (KOM) price outlook**

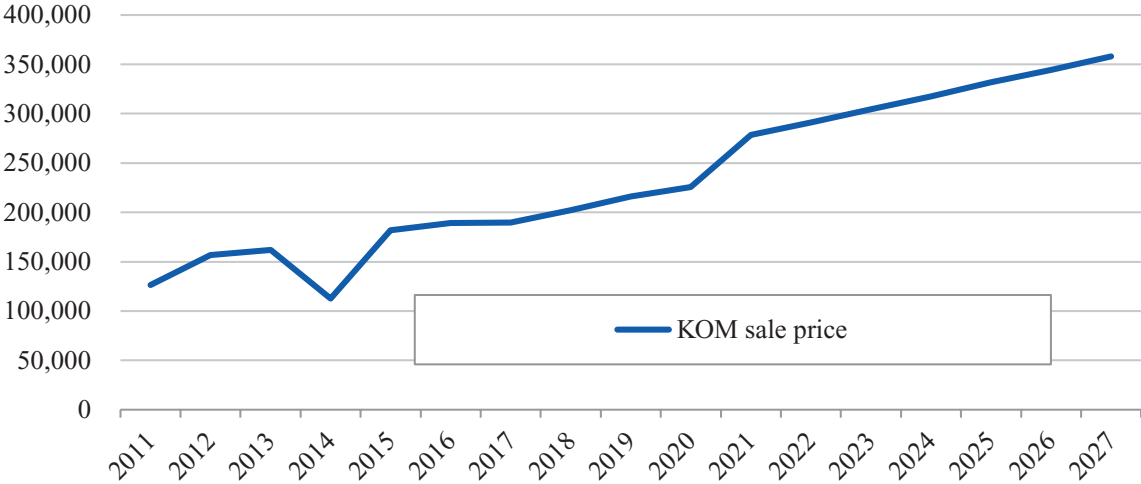
In the calculations of the capacity price outlook, SEEPX assumed:

- the total cost of KOM, free bilateral agreements and forced-to-run capacity are a compensation of producers' fixed costs;
- KOM and forced-to-run prices are set by the System Operator until 2021;
- KOM prices grow on average at 8.0% per annum from 2016 to 2021 in nominal terms;
- free bilateral agreements capacity is included in KOM volumes;
- the producers have no intention to submit low price bids that would decrease the overall cost of capacity in the market;

Taking into account the above factors that impact capacity availability and capacity price on the market, SEEPX estimates the Siberian KOM prices to grow from 278,669 roubles per MW per month in 2021 to 358,057 roubles per MW per month in 2027 in nominal terms.



KOM price outlook, second pricing zone, RUR/MW/month



Source: SEEPX.

## ALUMINIUM INDUSTRY OVERVIEW

### General Overview of the Aluminium Industry and its Applications

The aluminium industry is the world's second largest metals industry, after steel. The global consumption of primary aluminium in 2016, according to CRU, was 59.7 million tonnes.

Primary aluminium is made from alumina, which in turn is made from bauxite. One tonne of aluminium will require approximately 2 tonnes of alumina. Aluminium is transformed into fabricated products, for example rolled coil, sheet and plate, extruded bars and sections, wire-rod, castings and forgings, before final use in manufacturing.

Applications of aluminium increased in number rapidly during the Second World War. Civil applications then grew quickly between 1945 and 1970 and by the 1980s the uses of aluminium were very diverse. The main uses currently include transport (road vehicles, aircraft, railcars and marine uses), packaging (drink cans, aluminium foil), construction (windows, doors, cladding and facades), electrical (cable and wire) and consumer durables and general engineering. The key properties of aluminium that allow this wide array of applications are its light weight, high strength to weight ratio, good electrical conductivity and machinability. Aluminium may compete with a variety of materials, depending on the application. Its main substitutes are steel (in transport, construction, packaging and engineering), plastics (in packaging and construction) and copper (in electrical applications and heat exchangers).

Aluminium is an abundant element in nature, but its principal commercial ore is bauxite. Bauxite is largely found in tropical areas of the world, with the main global reserves located in Guinea, Australia and Brazil. China is a big bauxite producer currently, although the country's reserve base is small relative to its mining volumes.

Bauxite mining is usually a simple operation, and the cost of bauxite forms only a small proportion of the total cost of producing primary aluminium. From bauxite, aluminium is produced in two stages. First, bauxite is processed in an alumina refinery to produce alumina ( $Al_2O_3$ ), an oxide of aluminium. 2-3 tonnes of bauxite are typically required per tonne of alumina. Secondly, alumina is processed into aluminium in an electrolytic smelter. The main costs of converting bauxite into alumina are power (in the form of process steam and fuel for calcination), labour and caustic soda. CRU estimates that global alumina production reached 122.5 million tonnes in 2016.

For the conversion of alumina into aluminium, the main costs are electricity, labour and carbon products (coke and pitch). Electricity represents the largest variation in production costs between smelters and forms the main basis of competitive advantage. The relative costs of production and freight tend to favour the processing of alumina close to the source of bauxite ores, and the processing of aluminium close to a source of low cost electricity. In the last fifteen years, China broke these industry norms by building up its domestic refining and smelting capacity despite not having a particular energy cost advantage.

### Overview of Global Aluminium Demand and Supply Trends

There has been a strong demand for aluminium in the last several years; it has had a compound annual growth rate of 6.4% over the last six years, according to CRU, which exceeds that of many commodities. According to the Company's analysis in conjunction with the data from SMM and CRU, global aluminium demand grew by 5.5% in 2016 year-on-year to 59.7 million tonnes as a result of strong demand in China, Europe, Asia and North America. Global demand (excluding China) increased by 3.4% to 27.3 million tonnes, while China's growth alone increased by 7.3% to 32.4 million tonnes.

According to the Company's analysis, aluminium demand in 2017 is estimated to grow at 5.9% year-on-year to 63.2 million tonnes driven by growth in EMEA, North America and Asian economies.

Aluminium use in the automotive sector continues to grow at a steady rate. According to the China Association of Automobile Manufacturing, total vehicle production in China reached 28.12 million units in 2016 (an increase of 14.5% year-on-year), while total vehicle sales reached 28.03 million units (an increase of 13.7% year-on-year). According to CRU, global aluminium consumption in the transport sector is expected to increase at a compound annual growth rate of 4.9% from 2016 to 2021.

The environmental aspect of aluminium production is becoming more and more important and will benefit producers utilising clean energy sources, according to CRU. Due to tight environmental standards, there is increasing demand for secondary and so called 'green' aluminium in OECD countries. As environmental concerns increase, and because the transport sector is often regarded as a significant pollutant, tighter

environmental regulations have been introduced in order to reduce, for example, CO<sub>2</sub> emissions. Car producers are becoming increasingly focused on new applications of aluminium, to save weight.

As a result, fundamentals for aluminium demand growth appear relatively strong, and there is growing confidence that this trend is to continue for the next decade. According to the Company's analysis, global demand for aluminium is expected to grow at a compound annual growth rate of approximately 4-5% in the next five years.

According to the Company, global aluminium supply grew at a slower pace in 2016, increasing by 3.9% to 59.2 million tonnes, compared to 6% growth in 2015 due to Chinese supply slowdown. According to CRU, during 2016, primary aluminium production in the world ex-China rose 2.4% to 27.0 million tonnes mostly due to growth in Asia, Malaysia and Eastern Europe. In 2017, the Company expects the global aluminium market deficit to widen to ca. 0.9 million tonnes in 2017 vs. ca. 0.5 million tonnes in 2016.

The growth in China's primary aluminium production slowed in 2016 and fell to the lowest rate in the last 10 years. According to CRU, China's primary aluminium production rose 3.3% year-on-year to 31.8 million tonnes in 2016. At the same time, demand increased by 7.3% year-on-year (adjusted for the number of days in the year) in the same period, according to CRU.

The Company believes that the Chinese market will become more balanced due to the new environmental measures against pollution including outlined capacity closures (below 300KA) and illegal capacity closure as well as a significant decline in new capacity additions. The steel sector has recently been subject to similar measures.

In December 2015, under the Paris Agreement, China committed to decrease carbon emissions by 60%, to 65% per unit of GDP, from 2005 to 2030. China has launched a national carbon trading scheme in seven pilot zones that will expand across the country in 2017. The aluminium and power generation industries are included within its scope. As, according to the International Aluminium Institute, the aluminium industry increased CO<sub>2</sub> emissions by 240% over the last 10 years (compared to an increase of 95% across the whole economy), the price of carbon allowances are expected to increase the cost of power and aluminium.

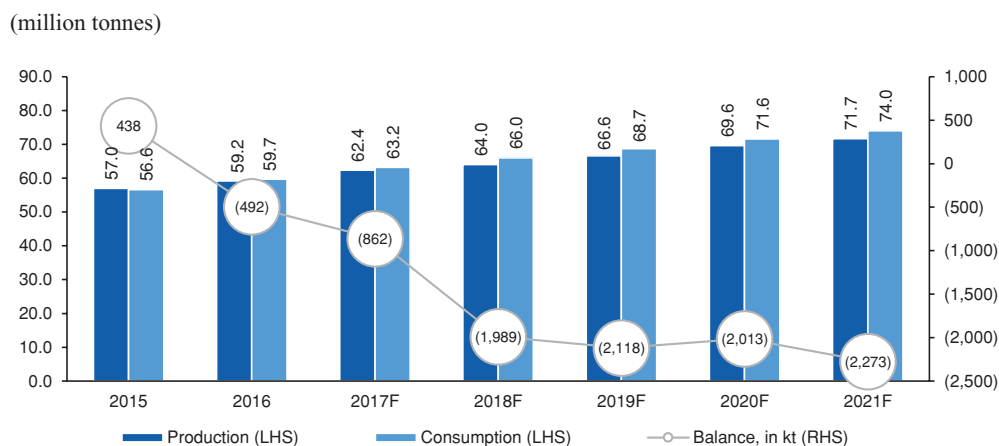
In 2017, Chinese supply is expected to be challenged by significant cost inflation, environmental regulation, as well as the continuation of supply side reform. According to the Company, in 2016, Chinese semis export declined by 3.2% year-on-year with a further downside risk in 2017 due to anti-dumping tensions and the ongoing WTO case.

According to the Company, global aluminium supply is expected to grow by 5.4% to 62.4 million tonnes in 2017 vs. 3.9% growth in 2016 and will be affected by a tight supply in China due to the adoption of the new antipollution plan. According to the Company's analysis, it would result in an approximately 1.2 million tonnes impact in the first full year of the policy implementation and could potentially affect further key raw materials prices appreciation used for the aluminium production.

In terms of additional regulatory measures of supply side reform, on 12 April 2017, the Chinese government issued a regulation aimed at controlling overproduction and putting an end to the unlicensed primary aluminium operations. Following the announcement, the regional government of Xinjiang has issued a notice for the immediate suspension of unlicensed aluminium operations with a capacity of 2 million tonnes per annum. The Company estimates that operations representing a further 6 million tonnes of existing annual capacity in China are at obvious risk of suspension as a result of the joint regulation.

The chart below shows the world's aluminium market balance forecast for 2017-2021. According to the Company's analysis owing to relatively strong demand growth, continued supply side reform and tight environmental control in China coupled with more moderate new capacity growth, as well as a moderate

reduction in stocks, the global aluminium market is expected to move into deficit of approximately 2 million tonnes over the outlook period.



Source: Company's data based on internal analysis

### Aluminium Demand

The demand for primary aluminium is driven by the consumption of semi-fabricated products. These are in turn determined by changes in industrial production and GDP. Aluminium consumption is also impacted by inventory building and the reduction thereof throughout the manufacturing value chain.

The main uses of aluminium include transport (in road vehicles, aircraft, railcars, marine uses), construction (windows, doors, cladding, facades), packaging (beverage cans, foil), electrical (cable and wire), consumer durables, and general engineering. CRU estimates that in 2016 the transport and construction sectors accounted collectively for over half of world aluminium semis consumption.

World consumption of aluminium semis by sector, 2010, 2016-2021 ('000t)

	2010	2016	2017	2018	2019	2020	2021	CAGR <sup>(1)</sup>
Transport	15,035	21,360	22,403	23,461	24,730	25,873	27,075	4.9%
Construction	15,052	21,493	22,314	23,112	23,838	23,845	23,892	2.1%
Packaging	4,813	6,111	6,347	6,574	6,808	7,008	7,192	3.3%
Foil stock	4,451	6,482	6,681	6,814	7,010	7,214	7,402	2.7%
Electrical	7,743	11,618	12,312	12,896	13,412	13,877	14,309	4.3%
Consumer durables	3,180	4,136	4,324	4,488	4,630	4,764	4,905	3.5%
Machinery and Equipment	5,482	7,839	8,271	8,581	8,942	9,309	9,654	4.3%
Other	2,976	3,828	3,944	4,042	4,146	4,260	4,352	2.6%
	<b>58,733</b>	<b>82,867</b>	<b>86,596</b>	<b>89,968</b>	<b>93,516</b>	<b>96,150</b>	<b>98,781</b>	<b>2.6%</b>

Source: CRU.

Note:

(1) CAGR 2016-2021.

Over the period 2010-2016, worldwide consumption of primary aluminium grew at an average annual growth rate of 6.4%, fueled by strong demand from China, India, Turkey and the U.S. Demand in Central and South America and Australia fell over the period.

In more recent years, consumption in China has benefited from the strong performance of the automotive sector, combined with government stimulus measures which have proven more effective and more immediate than many programmes announced in the developed economies.

In 2016, CRU estimated that primary consumption in China reached 31.4 million tonnes, representing 53% of the global total. Asia (ex. China) accounted for 10.8 million tonnes or 18% of global primary

consumption. Total Asian demand therefore totalled 42.2 million tonnes, or 71% of global primary consumption.

World consumption of primary aluminium by region, 2010, 2015-2021 ('000t)

	2010	2015	2016	2017	2018	2019	2020	2021	CAGR <sup>(1)</sup>
<b>Africa</b> . . . . .	552	653	697	728	759	790	822	854	4.2%
<b>Asia</b> . . . . .	25,631	39,588	42,240	44,802	46,757	48,899	50,415	51,833	4.2%
<i>of which China</i> . . . . .	16,902	29,292	31,440	33,551	35,033	36,658	37,708	38,620	4.2%
<i>of which Japan</i> . . . . .	2,153	1,964	2,030	2,069	2,094	2,108	2,101	2,107	0.8%
<i>of which Middle East</i> . . . . .	1,684	2,377	2,474	2,590	2,748	2,918	3,077	3,240	5.5%
<i>of which India</i> . . . . .	1,557	1,892	2,083	2,225	2,364	2,535	2,707	2,900	6.8%
<b>Australasia</b> . . . . .	353	236	245	249	250	248	246	245	-0.1%
<b>Central &amp; South America</b> . . . . .	1,461	1,231	1,157	1,214	1,265	1,321	1,378	1,438	4.4%
<b>Europe</b> . . . . .	7,942	8,579	8,865	9,195	9,404	9,560	9,685	9,793	2.0%
<i>of which Russia</i> . . . . .	5,111	6,343	6,456	6,671	6,868	7,168	7,365	7,522	3.1%
<b>North America</b> . . . . .	4,219	5,812	5,856	6,004	6,171	6,426	6,578	6,709	2.8%
<i>of which U.S. and Canada</i> . . . . .	552	653	697	728	759	790	822	854	4.2%
<b>Total world</b> . . . . .	<b>41,050</b>	<b>56,631</b>	<b>59,660</b>	<b>62,859</b>	<b>65,303</b>	<b>67,986</b>	<b>69,912</b>	<b>71,685</b>	<b>3.7%</b>
<b>World ex. China</b> . . . . .	24,148	27,338	28,219	29,309	30,269	31,329	32,204	33,065	3.2%

Data: CRU.

Note:

(1) CAGR for 2016-2021.

Growth in Chinese primary consumption has dominated the global industry over the last two decades, and the country still offers enormous potential for further aluminium demand growth. The construction sector is expected to remain an important driver of Chinese demand over the medium and longer term, but further penetration of aluminium into the transport sector will bolster growth.

Other countries, and especially India, also offer a particularly strong growth potential. India constitutes a major opportunity for the aluminium industry, fuelled by an increasing number of inhabitants expected to live in urban areas. Primary consumption in India reached 2.1 million tonnes in 2016, with the country overtaking Japan and making India Asia's third largest consuming country. CRU forecasts that primary demand in India will increase to 2.4 million tonnes in 2018 and to almost 3 million tonnes by 2021.

Higher energy prices and more stringent regulation on carbon emissions encourage light-weighting in the automotive sector, which presents attractive opportunities for substitution from steel to aluminium. CRU expects that the largest contribution to the growth of semis over the outlook period, in both percentage and tonnage terms, will be from the transport sector. Total vehicle production in China reached 28.12 million units in 2016 (an increase of 14.5% year-on-year). By 2021, CRU forecasts that the total car population in China will be at the same level as the USA. In the mature economies, the switch to aluminium automotive body sheet (ABS) offers substantial growth opportunities: shipments in North America of aluminium ABS to the passenger car market rose by 35% y-o-y in 2016, and CRU forecasts an increase of 35% in 2017. Demand is expected to remain strong through to 2021.

### Aluminium Supply

The biggest change in aluminium production since the turn of the century has been the emergence of China as the major primary producing country. China became the world's largest primary producer in 2001 and by 2016 accounted for 54% of global primary output. While China relies primarily on thermal coal and does not benefit from the world's lowest power costs, it has been able to increase production to feed its rapidly growing domestic market due to a combination of low capital and labour costs. Over the same

period, the Middle East and other Asian countries, notably India, have also increased primary output, while smelter closures in Australia and Latin America have led to lower production.

World production of primary aluminium by region, 2010, 2015-2021 ('000t)

	2010	2015	2016	2017	2018	2019	2020	2021	CAGR <sup>(1)</sup>
<b>Africa</b> . . . . .	1,742	1,681	1,688	1,699	1,696	1,700	1,702	1,705	0.2%
<b>Asia</b> . . . . .	22,641	39,751	41,559	46,087	47,418	49,359	51,125	52,609	4.8%
<i>of which China</i> . . . . .	17,046	30,766	31,773	35,675	36,416	37,985	38,948	40,010	4.7%
<i>of which India</i> . . . . .	1,610	2,355	2,722	3,217	3,657	3,702	3,832	3,980	7.9%
<i>of which Middle East</i> . . . . .	3,080	5,536	5,647	5,716	5,821	6,077	6,588	6,725	3.6%
<b>Australasia</b> . . . . .	2,277	1,997	1,978	1,869	1,969	2,009	2,011	2,015	0.4%
<b>Central &amp; South America</b> . . . . .	2,305	1,316	1,343	1,401	1,421	1,431	1,468	1,512	2.4%
<b>Europe</b> . . . . .	8,383	7,901	8,138	8,135	8,231	8,416	8,540	8,812	1.6%
<i>of which Russia</i> . . . . .	3,951	3,550	3,710	3,709	3,725	3,872	3,976	4,184	2.4%
<b>North America</b> . . . . .	4,689	4,463	4,036	4,012	4,059	4,243	4,367	4,382	1.7%
<i>of which U.S.</i> . . . . .	1,727	1,589	826	759	763	913	1,035	1,043	4.8%
<b>Total world</b> . . . . .	<b>42,037</b>	<b>57,111</b>	<b>58,742</b>	<b>63,202</b>	<b>64,795</b>	<b>67,158</b>	<b>69,212</b>	<b>71,034</b>	<b>3.9%</b>
<b>World ex. China</b> . . . . .	24,991	26,345	26,970	27,527	28,379	29,173	30,264	31,024	2.8%

Data: CRU.

Note:

(1) CAGR 2016-2021.

On 12 April 2017, the Chinese National Development and Reform Commission (the “NDRC”), the Chinese Ministry of Environmental Protection (the “MEP”) and the Ministry of Land and Resources issued a joint regulation aimed at bringing unlicensed primary aluminium operations into compliance with the approvals regime announced by an order of the NDRC in 2015. Following announcement of the joint regulation, the regional government of Xinjiang has issued a notice for the immediate suspension of unlicensed aluminium operations with a capacity of two million tonnes per annum. Other projects and capacities are potentially under risk of termination.

The rapid growth in China of aluminium smelting (and many other industries) has come at a significant external cost, with air pollution now a major concern for policymakers and the general public alike. In light of this concern, the MEP has announced a winter shutdown of 30% of aluminium smelting and 50% of alumina refining capacity in Shandong, Shanxi, Hebei and Henan provinces. These provinces account for over 20% of global output. While air pollution is a major concern in China, it is arguably of less concern to policymakers than the health of the overall economy. A trade-off is therefore likely that will see some cuts and probably slow the development of new greenfield and brownfield capacity. Over the next two years, the potential impact of environmentally-driven cuts in China poses the largest uncertainty to the global supply outlook.

CRU forecasts Chinese production will total 35.7 million tonnes in 2017 after adjustment for unallocated closures. New projects and restarts are estimated to add 4.3 million tonnes per year of operational capacity to Chinese production. 73% of the expansion will come from new projects and eight of the top ten expansions within the year are new projects. Hongqiao Group will remain as the fastest growing producer before mandated closures. CRU has considered possible 570,000 tonnes mandated closures from the Ministry of Industry and Information Technology (MIIT) and MEP. These unallocated closures along with the four implemented cuts by East Hope, Jiarun, Jinlian and Hongqiao incorporate 2.8 million tonnes per year of supply-reform cuts in Q4 2017. CRU estimates that winter cutbacks will reduce Chinese output by 115,000 tonnes in Q4 2017 and by 150,000 tonnes in Q1 2018. CRU believes that Xinfu and Hongqiao will avoid winter closures as they are expected to close 600,000 tonnes per year and 900,000 tonnes per year of operational capacity as a result of the MIIT driven supply-reform.

Chinese production is projected to increase by 3.6 million tonnes annualised between 2018 and 2021 such that production will reach 40.0 million tonnes in 2021 after adjusting for unallocated closures. Private producers are expected to contribute to 56% of this projected expansion. Their expansions are riskier than those of state-owned enterprises (SOEs) as mandated closures from the MIIT have been imposed exclusively on private producers.

CRU previously forecast that these five companies mentioned above would produce 14.5 million tonnes in 2017 and 15.6 million tonnes in 2018. CRU now estimates the impact of the central government supply-reform policy will reduce output at these companies by 442,000 tonnes in 2017 and 3.032 million tonnes in 2018, respectively.

Outside China, India will add a further 0.9 million tonnes, or 15.5% of the global total, with most of this contribution from Vedanta’s Jharsuguda smelter expansion. With smelters in the Middle East, led by Aluminium Bahrain (Alba) adding a further 0.3 million tonnes, China, India and the Middle East will account for 95% of the global additions over the next two years. Over the medium term, 2016-2021, China, India and the Middle East will account for 10.6 million tonnes of the 12.3 million tonnes additional production, or 86% of the global total.

### Global Primary Aluminium Production and Consumption by Regions

As shown in the table below, over the next five years, Russia, Middle Eastern countries, Australia and New Zealand are expected to maintain their positions as the leading suppliers of primary aluminium to the global market. Russia and Canada are currently the major aluminium supply regions with competitive and clean power.

The table immediately below also shows that: (i) supply from China and India is expected to be largely balanced with domestic demand in these economies; and (ii) the aluminium deficit in North America, Europe and South East Asia is increasing substantially. The Company believes that the deficit will be met by supply from the traditional exporters and by the consumption of existing inventories.

	Production (million tonnes)		Consumption (million tonnes)	
	2016	2021F	2016	2021F
China . . . . .	32.3	41.0	31.4	40.4
Middle East . . . . .	5.6	6.6	1.4	1.8
Europe . . . . .	4.4	4.6	9.1	10.0
North America . . . . .	4.0	4.4	6.7	7.6
Russia . . . . .	3.7	4.0	0.7	1.0
India . . . . .	2.6	3.8	2.0	3.0
Australia & New Zealand . . . . .	2.0	1.8	0.2	0.2
Africa . . . . .	1.7	1.7	0.7	0.9
Other Asia . . . . .	1.4	1.8	6.2	7.0
Central & South America . . . . .	1.3	1.4	1.4	1.5

Source: Company estimates.

Russia and the Middle East are currently the two largest net exporters of primary aluminium. Although there are limited further investments in new smelting capacity in both regions, they will nonetheless remain the largest net exporting regions over the medium term. Both regions will target metal shipments of ingot and value added shapes into Europe, North America and Asia. Significantly, primary production in Russia is supplied with electricity from hydro-electric sources—emphasizing its value as a low-carbon aluminium producer. Furthermore, medium term demand in Russia is subject to further upside growth potential arising from the development of the industrial park “Aluminium Valley” project in Krasnoyarsk region announced, in June 2016.

Africa and Australasia are the next two largest exporters of primary metal. According to CRU, in 2016, exports were 1 million tonnes and 1.7 million tonnes, respectively. Neither region has any capacity additions planned over the next ten years. Instead, Africa will shrink as a net exporter of primary metal as its local demand rises. In Australasia, a number of smelters have already closed and there is risk of further closures as the smelters are older, labour costs are high and several smelters rely on more expensive coal-fired power. If closures were to occur, its net export position would shrink accordingly.

India will transition from a net exporter of metal to a net importer as domestic demand rises robustly over the medium term. According to CRU, The country will become the world’s third largest producer and consumer.

North America will see its net import requirement increase over the medium term due rising primary demand, smelter closures and limited investment in new projects. While Canada will remain in large

surplus over the outlook period, its proximity to the U.S., together with the U.S.'s large deficit means that the Canadian surplus will largely go its neighbour.

## Secondary Aluminium

CRU produces a more comprehensive estimate of global secondary consumption by calculating the total metal requirement (from semis production data), and subtracting primary consumption. On this basis, we estimate that consumption of secondary aluminium in 2016 was 24.7 million tonnes, compared to 59.6 million tonnes of primary consumption. Thus, secondary material supplied 41.4% of the total demand for aluminium.

The historical tendency has been for this secondary percentage to rise. In the 1960s, secondary material provided 21-22% of global aluminium consumption. This proportion held steady until the mid 1970s, when it began a long and gradual rise over the next 25 years. The secondary proportion peaked in 2001 at 33.1%, since when it has declined to the current 30.5%. This long term increase from the 1970s onwards can be ascribed to two main factors: the increased demand for secondary alloys in automotive production and the rapid growth in market share for aluminium beverage cans. This provided a new source of post-consumer scrap that returned to the market quickly. The slowdown in the last decade follows a marked slowdown in the rate of growth of aluminium consumed in beverage cans.

The decline in scrap share is expected to continue in 2017 as the rate of growth in Chinese scrap demand ebbs lower, with global secondary aluminium demand expected to account for 29% of total demand. However, CRU does not expect to see growth in recycled metal until 2021.

Global sources of metal ('000t) and growth rates (%)

	TMR <sup>(1)</sup>	Primary consumption	Recycled material <sup>(2)</sup>	% Recycled material	TMR <sup>(1)</sup>	Primary consumption	Recycled material <sup>(2)</sup>
2010 . . . . .	59,610	41,041	18,569	31.2%	18.9%	19.5%	17.6%
2011 . . . . .	65,151	44,976	20,176	31.0%	9.3%	9.6%	8.7%
2012 . . . . .	69,652	47,493	22,158	31.8%	6.9%	5.6%	9.8%
2013 . . . . .	74,013	50,788	23,226	31.4%	6.3%	6.9%	4.8%
2014 . . . . .	78,331	54,572	23,759	30.3%	5.8%	7.5%	2.3%
2015 . . . . .	81,140	56,661	24,480	30.2%	3.6%	3.8%	3.0%
2016 . . . . .	85,021	60,014	25,007	29.4%	4.8%	5.9%	2.2%
2017 . . . . .	88,978	63,217	25,760	29.0%	4.7%	5.3%	3.0%
2018 . . . . .	92,487	66,051	26,436	28.6%	3.9%	4.5%	2.6%
2019 . . . . .	95,941	68,559	27,382	28.5%	3.7%	3.8%	3.6%
2020 . . . . .	98,692	70,584	28,108	28.5%	2.9%	3.0%	2.7%
2021 . . . . .	101,523	72,448	29,075	28.6%	2.9%	2.6%	3.4%

Data: CRU.

Note:

- (1) Total Metal Requirement—semis production, grossed up by 2% melt loss.
- (2) This includes global secondary consumption, direct use of scrap, but excludes primary for secondary. It will exclude losses in the secondary manufacturing process; global scrap supply is therefore a higher number.



## Evolution of Aluminium Production Costs

CRU estimates that the average aluminium business operating costs for all aluminium smelters fell by 5.9% from the 2015 level to reach U.S.\$ 1,353/tonne in 2016. However, CRU expects average business costs to increase by a total of U.S.\$277/tonne for the whole of 2017 to approximately U.S.\$1,629/tonne.

Aluminium production cost components (U.S.\$/tonne)

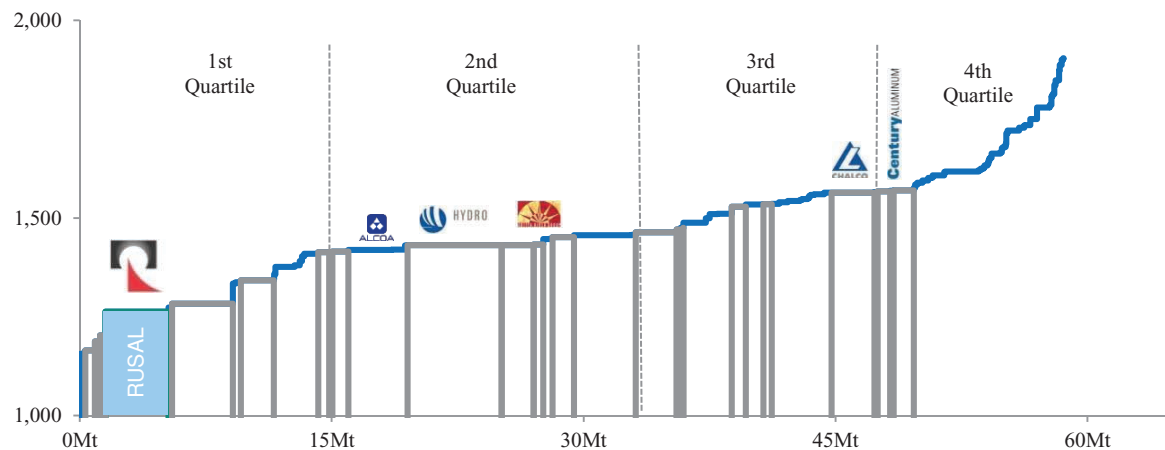
	2015	2016	2017	2018	2019
Alumina . . . . .	657	588	677	699	745
Labour . . . . .	91	86	84	85	89
Power . . . . .	527	472	522	539	571
Carbon . . . . .	183	158	208	245	257
Other . . . . .	165	158	163	166	171
<b>Liquid metal cost</b> . . . . .	<b>1,623</b>	<b>1,462</b>	<b>1,654</b>	<b>1,734</b>	<b>1,834</b>
Casthouse . . . . .	63	58	63	65	69
<b>Site cost</b> . . . . .	<b>1,686</b>	<b>1,521</b>	<b>1,721</b>	<b>1,805</b>	<b>1,912</b>
Net realisations . . . . .	(248)	(168)	(92)	(69)	(107)
<b>Business Cost</b> . . . . .	<b>1,438</b>	<b>1,353</b>	<b>1,629</b>	<b>1,736</b>	<b>1,805</b>

Data: CRU.

CRU estimates the average cost of alumina was U.S.\$588/tonne in 2016, and the average conversion cost was U.S.\$874/tonne, giving a total average site cost of U.S.\$1,521/tonne. Thus, alumina accounted for 39% of total smelting costs, power for 31% and carbon materials for 10%. However, the largest source of variation between smelters is in their power costs, and these are therefore the major source of competitive advantage.

The chart below shows aluminium liquid stage metal production global cost curve for 2016.

(U.S.\$ per tonne)



Source: CRU.

## Evolution of Aluminium Prices

Global aluminium prices are subject to pronounced cycles. Over the 2010-2016 period, the LME three month price ranged from a high of U.S.\$2,773/tonne in April 2011 to a low of U.S.\$1,435/tonne in November 2015. Having trended negatively through 2015, LME prices by December 2015 were below U.S.\$1,500/tonne, compared with over U.S.\$2,000/tonne in the prior year. Prices steadily edged up through 2016, and by November 2016, aluminium had effectively moved into a bull market, with the LME price moving up 20% above its 2016 lows.

Prices since late 2016 have been aided by speculation that cuts driven by environmental concerns will occur in China, which will lead to cuts in both alumina and primary output. The LME three month price has demonstrated strong performance in 9M 2017. It moved on an upward trajectory during the year and rose 29.0% YTD to \$2,177/t in September 2017, the highest level since March 2012.

The main driving factors for the price growth were “supply-side’ reforms in China’s aluminium industry (real and potential Chinese smelter cuts), Chinese environmental protection policy, global economic recovery, a weakening dollar and falling aluminium stocks at the LME warehouses.

CRU forecasts that the aluminium price will rise steadily after 2018. The major factors supporting the price from 2018-2021 are falling inventories outside China—even after higher Chinese exports, increases in operating costs and moderate declines in Chinese economic growth.

**Historical aluminium prices (2000-September 2017)**  
**LME 3 months (U.S.\$/tonne)**



## RUSSIAN INDUSTRY REGULATION

*Below is a brief summary of the rules and regulations applicable to the Group in Russia, which is the Group's principal market. The following summary does not purport to be complete and is subject to the new and existing regulations in Russia.*

### General

All participants in the Russian energy generation and metals production industries are required to comply with extensive government regulation at federal, regional and local levels. In particular, the Russian electricity market is subject to significant levels of regulation, including restrictions on prices and tariffs, anti-monopoly regulations, health and safety and environmental protection regulations and employment restrictions. These rules and regulations are extremely complex and may require further review and clarification by regulatory or judicial authorities.

### Applicable Law

The Russian power and metals production industries are primarily governed by the following federal laws, regulations and resolutions:

- Federal Law No. 35-FZ “On the Electric Power Industry” of 26 March 2003 (the “**Electric Power Industry Law**”);
- Federal Law No. 190-FZ “On Heat Supply” of 27 July 2010 (the “**Heat Supply Law**”);
- Federal Law No. 261-FZ “On Energy Saving and Enhancing Energy Efficiency and Introduction of Amendments to Certain Legislative Acts of the Russian Federation” of 23 November 2009;
- Federal Law No. 36-FZ “On Specific Features of the Electric Power Industry Operations during the Transitional Period, and on the Introduction of Amendments into Certain Laws of the Russian Federation and on Abolishing Certain Laws of the Russian Federation in Connection with the Adoption of the Transitional Period Law” of 26 March 2003;
- Federal Law No. 147-FZ “On Natural Monopolies” of 17 August 1995 (the “**Natural Monopolies Law**”);
- The Russian Civil Code, as amended (the “**Russian Civil Code**”), establishes the general legal framework for commercial relations between legal entities. In particular, the Russian Civil Code regulates property relations between commercial parties and sets out procedures for establishing, amending, performing and terminating contracts.
- The Federal Law No. 184-FZ “On Technical Regulation” dated 27 December 2002, as amended, establishes general requirements for and conformity assessment of products, equipment, processes, works and services.
- Federal Law No. 117-FZ “On Safety of Hydraulic Constructions” of 23 June 1997 (the “**Hydraulic Constructions Safety Law**”).
- Federal Law No. 7-FZ “On Environmental Protection” dated 10 January 2002, as amended (the “**Environmental Protection Law**”).
- Federal Law No. 116-FZ “On Industrial Safety of Dangerous Industrial Facilities” dated 21 July 1997, as amended (the “**Safety Law**”).
- Federal Law No. 69-FZ “On Fire Safety” dated 21 December 1994, as amended, establishes a general legal framework of fire safety measures and provides for the general powers of state authorities to perform audits and check compliance by organisations with fire safety regulations.
- Federal Law No. 89-FZ “On Production and Consumption Waste” dated 24 June 1998, as amended, sets general rules for handling waste.
- Federal Law No. 2395-1 “On Subsoil” dated 21 February 1992, as amended (the “**Subsoil Law**”). The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the licence-based regulatory framework, and outlines the rules governing the issuance, transfer, suspension and termination of subsoil licences.

In addition, there are a number of Resolutions of the Government of the Russian Federation that provide further regulatory framework in respect of the Russian power industry:

- the Wholesale Market Rules;
- Resolution of the Government of the Russian Federation No. 442 “On approval of the general provisions regulating retail electricity markets” dated 4 May 2012 (the “**Retail Market Rules**”);
- Resolution of the Government of the Russian Federation No. 1075 “On Pricing in Heat Supply Area” dated 22 October 2010 (“**Resolution No. 1075**”);
- Resolution of the Government of the Russian Federation No. 1178 “On Pricing in Electricity Area” dated 29 December 2011 (“**Resolution No. 1178**”);
- Resolution of the Government of the Russian Federation No. 117 “On Procedure of Selection of Electric Energy Industry Entities and Electricity Consumers, Providing Services to Ensure System Reliability, and Rendering Such Services, and Approval of the Amendments to be Introduced to the Acts of the Government of the Russian Federation Regarding Services to Ensure System Reliability” dated 3 March 2010 (“**Resolution No. 117**”); and
- Resolution of the Government of the Russian Federation No. 861 “On Approval of Rules on Non-Discriminatory Access to the Electricity Transmission Services and Rendering Such Services, Rules on Non-Discriminatory Access to the System Dispatch Services in the Electric Power Sector and Rendering Such Services, Rules on Non-Discriminatory Access to Trade System Administrator’s Services and Rendering Such Services, and Rules on Technological Connection of Power Receivers of Companies and Individuals to the Electricity Grids” dated 27 December 2004 (“**Resolution No. 861**”).

In the ordinary course of business, the Group is subject to numerous federal, regional and local laws and regulations relating to its financial and business operations, including its operating licences, facilities and services, maintenance of personal data, etc. As at the date of this Prospectus, the Group was in compliance with all such material federal, regional and local laws and regulations.

## **Regulation of the Power Industry**

### **Overview**

In 2001, facing a significant deterioration in power sector facilities due to chronic underinvestment and looming capacity deficits, the Russian Government decided to launch large-scale power sector reform with the aim of creating a competitive and sustainable power industry.

Accordingly, the Russian electricity industry underwent a major restructuring which completely transformed the overall structure of the power industry through the breaking-up of almost all of the regional vertically-integrated power companies, the AO-Energos, controlled by RAO UESR and the formation of new mono-profile enlarged companies with the following major activity types: generation, transmission, distribution, retail sales and repairs and other servicing operations. The industry restructuring process was substantially completed on 1 July 2008 when RAO UESR was broken-up into more than 20 stand-alone companies, each of which engaged in either the competitive sector (power generation, electricity supply) or in the non-competitive sector (electricity transmission and distribution).

The Russian electricity market is currently in the final stages of the restructuring process and its regulation is subject to renewal and amendments. With regard to heat market regulation, in 2014 the Russian Government approved a new roadmap “On Implementation of the Target Model of the Heat Market” (the “**Heat Market Roadmap**”) for heat energy reforms and market transition to long-term incentive mechanisms and tariff deregulation.

The statutory framework with respect to the Russian electricity and heat industries is provided by the Electric Power Industry Law and the Heat Supply Law, which define key terms used in the various implementing regulations and establish primary principles and elements of regulation of the power sector in Russia. They also provide for the competence of the state authorities in the electricity and heat industries.

### **Regulatory authorities**

The power sector in Russia is subject to both federal and local governmental regulation. According to the Electric Power Industry Law, the Russian Government is the principal body responsible for the regulation

of the electricity market in Russia, at the federal level. Its authority, among other things, includes the following:

- approval of the electricity (capacity) wholesale and retail markets rules;
- approval of rules regarding non-discriminatory access to the electricity transmission services, dispatching services and wholesale market administration services;
- approval of rules for the execution and performance of public agreements in the wholesale and retail markets;
- approval of principles of pricing and rules determining the tariffs for the electricity industry and market;
- determination of the order for submitting pricing bids by participants in the wholesale market, their selection and determination of equilibrium prices for the wholesale market;
- determination and modification of pricing zone borders in the wholesale market; and
- approval of the rules for antimonopoly regulation and control in the power sector.

The Ministry of Energy of the Russian Federation is responsible for the development and implementation of public policy and legal regulation in the fuel and energy sector; including the electric power industry. Among other things, it exercises supervision over compliance by wholesale and retail markets participants with statutory requirements, as well as control over activities carried out by commercial infrastructure entities and over the dispatch control system.

The FAS monitors compliance with antimonopoly laws by wholesale and retail electricity market participants, and generally has broad authority to initiate, examine and settle cases regarding the violation of antimonopoly regulations, as well as impose certain sanctions. The Electric Power Industry Law enables the FAS to apply a variety of specific measures in respect of companies that occupy a dominant position or an exclusive position or manipulate prices in the wholesale electricity (capacity) market. The FAS also exercises supervision over compliance by electricity market participants with restrictions to combine electricity generation and electricity sale and purchase activities with electricity transmission and dispatch management activities, set forth by the Transitional Period Law.

The FAS is also the main tariff-setting authority. On the wholesale market, the FAS sets the regulated prices (tariffs) for electricity and capacity sold under regulated contracts. It has no control over the electricity and capacity price traded on the free (liberalised) market and/or sold under non-regulated contracts. On the retail market, the FAS establishes a range for regulated tariffs at which electricity and heat can be sold to retail consumers. The FAS also approves tariffs for the electricity transmission and dispatch management services.

The Russian power industry is also regulated both at the regional level and by local governmental authorities. Their authority with respect to the retail electricity and heat markets includes, among others, determining tariffs for heat and electricity sold to retail consumers, as well as tariffs for transmission and distribution of electricity and heat within the local grids.

### *Electricity industry structure*

#### Generation

Generation involves the conversion of fuels (such as coal and gas) or other sources of energy (such as nuclear, hydro or renewable) into electricity in a power station. The output from a generator is passed into the electricity transmission grids owned, operated or managed by the FGC and/or independent grid companies. Generation companies earn revenue either from the provision of generating capacity or the sale of electricity generated by them to retail electricity supply companies.

In the course of the reform of the power sector, the large thermal power plants which predominately generate electricity and were formerly owned by RAO UESR or AO-Energos, became assets of the thermal OGKs or TGKs. As a result of attracting private capital to the power generation sector, controlling stakes in almost all thermal OGKs were sold to private investors.

### Supply

Supply involves the purchase of electricity and its marketing and sale to end customers. Energy supply companies earn their revenue from the sale of electricity to end customers.

Russian retail customers currently purchase electricity from energy supply companies, which have been spun-off from the AO-Energos and sold by RAO UESR in public auctions, as well as from independent energy supply companies. Most former AO-Energo sales companies were granted the status of “guaranteeing suppliers” (i.e., supply companies of last resort) in their respective geographical regions and therefore are obligated to enter into contracts with any retail end consumer on demand.

### Transmission and distribution

Transmission is recognised as a natural monopoly activity and involves the transfer of electricity from a power station through the electricity transmission grids, to distributors and end customers. During transmission, both electricity demand and electricity supply are continuously matched to ensure a reliable and efficient supply of electricity.

The national interregional and regional power network companies provide power transmission and distribution services, as well as technological connections of consumers and generators’ equipment to the power grid. The activity of network companies falls under the state regulation of natural monopolies with regards to the price formation for the provided services, and for non-discriminative access of consumers to the electric power grid network.

### Dispatching

In 2004, the majority of dispatching functions of the Russian electricity sector, previously performed by the regional dispatch administrations, were transferred from AO-Energos to the System Operator. Currently, the System Operator handles three major tasks: (i) management of technological modes of the Russia power system in real time, including the dispatch of generation facilities; (ii) ensuring the future development of the UES of Russia; and (iii) ensuring the unity and the effective operation of technological mechanisms for the wholesale and retail electricity markets. The Russian Federation holds 100% of the shares in the System Operator.

The System Operator is the key managing organisation of the Unified Energy System of Russia and provides operational dispatch control services to all market participants and is authorised to give mandatory instructions and directives in respect of the supply of electricity to all entities. Dispatching control services are recognised as a natural monopoly activity.

The actual load of each generation facility in Russia’s energy system is allocated by the System Operator through the three principal stages set out below.

In the first stage, the System Operator, a week in advance, assigns a list of generation facilities to an operating list. The System Operator compiles this list on the basis of power plants’ bids (which include both electricity production costs and power unit start-up costs) in order to minimise the total cost of electricity supply. Certain generation facilities do not have their bids considered and are instead included in the operating list based on system safety and reliability considerations, or the technical characteristics of particular power units.

In the second stage, the ATS, based on the System Operator’s model, assigns loads for the next day for each particular generation facility from the operating list according to the bids submitted by the power generation companies.

In the third stage, the System Operator uses the balancing market to manage Russia’s energy system in real time, as it is required to balance generation and consumption in order to support a uniform electric frequency in Russia’s energy system.

### Commercial infrastructure

#### Market council

The Market Council is a self-regulated body which maintains the register of the wholesale market participants, organises pre-trial dispute resolutions in the wholesale market, works in partnership with the System Operator, participates in the preparation of the rules of the wholesale market and monitors

compliance with the rules. The Market Council is an association whose members are participants of the electricity (capacity) wholesale market.

#### Commercial operator

The Commercial Operator manages the organisation of the trading system of the wholesale electricity (capacity) market. Currently, the functions of the Commercial Operator are performed by the ATS, which is 100% owned by the Market Council.

#### Electricity market

The Russian electricity market consists of the wholesale and retail markets where capacity and electricity, while interrelated, are treated as separate products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

Whereas electricity and capacity can be traded separately on the wholesale market, on the retail market these two goods are sold to retail customers together.

#### Wholesale electricity market

Wholesale market participants include:

- sellers of electricity and capacity, including generation companies (the OGKs, RusHydro, TGKs and various other generators) and energy trading companies which re-sell in the market electricity and capacity bought from other market participants; and
- purchasers of electricity and capacity, including major power consumers, energy supply companies and generation companies, which, at certain points in time, may purchase electricity in the market, rather than generate such electricity, to fulfil their supply obligations under existing contracts.

In order to become a participant in the wholesale market, each producer of electricity with an installed generating capacity of at least 5MW in each proposed group of supply points, must meet the requirements outlined in the Wholesale Market Rules and in the accession agreement to the trading system of the wholesale market to be entered into with the Market Council. Wholesale market participants have the right to sell, buy and trade electricity and capacity in each segment of the market.

The wholesale market encompasses a significant portion of the territory of the Russian Federation, and principally operates in two pricing zones. The wholesale market also provides a framework for the trading of both electricity and capacity.

The first pricing zone includes the territory of the European part of Russia and the Urals; the second pricing zone includes Siberia. There are several key differences, including the capacity structure and dispatching characteristics, which determine the specifics of each pricing zone and consequently, the different pricing levels. In the remaining regions of Russia, where for technological reasons, the operation of a wholesale electricity and capacity market is not yet feasible, the sale of electricity and capacity is carried out by special rules under tariffs determined by the FAS.

Market participants can trade electricity on the following trading segments of the market:

#### Regulated contracts

Regulated contracts are signed between power producers and energy supply companies (including guaranteed suppliers), who buy on behalf of residential consumers or consumers in the territories subject to power price regulation (e.g. North Caucasus).

Key terms of the regulated contracts are described in the Wholesale Market Rules. The regulated contracts are based on take-or-pay principles. Tariffs are set by the FAS on an annual basis. The scheme and schedules for regulated contracts are set by the ATS.

The sellers of electricity are required to cover the volumes prescribed in the regulated contracts either through their own generation or through purchases of electricity on the wholesale market. Similarly, the buyers under regulated contracts receive planned electricity volumes and can freely trade the surplus balance, if any, between their demand for electricity and the supply as provided under their regulated contracts. If a buyer needs additional electricity, it can buy it either through unregulated contracts or in the

day-ahead and balancing market. If the buyer cannot consume the full volume of electricity as stipulated by its regulated contract, it must still pay in full but may seek to recover its costs through the sale of its excess contracted volumes in the day-ahead and balancing market.

#### *Unregulated bilateral contracts*

Market participants are free to enter into unregulated bilateral contracts on either a short-term or long-term basis and at either fixed or floating prices. Market participants determine counterparties, price and volume of delivery at their sole discretion.

In addition to unregulated electricity contracts, market participants may enter into unregulated contracts for the supply of electricity and capacity. These contracts imply the sale of a certain amount of electricity and the simultaneous payment to the supplier for a certain amount of capacity.

#### *Day-ahead market*

The day-ahead market is managed by the ATS which performs a competitive selection of bids of suppliers and buyers a day before the actual delivery of electricity, for every hour of the next day. Participants in the wholesale market may submit price bids for buying or selling electricity specifying volume and price for each hour of the next day. The ATS selects the winning bids using the minimum price criteria, and thus determines the electricity volume and the equilibrium price (i.e., the price which balances supply and demand), for each hour of the following day. The wholesale electricity market covers two pricing zones and each of them has a number of sub-regions and sale points where the equilibrium price differs from the average price for the respective pricing zone.

The ATS ranks all generators by “merit orders”, which prescribe the priority in which these generators are loaded. The priority categories assigned to individual power plants’ bids in the ATS’ merit order may vary depending on various factors, including, without limitation, the mode of operation of such power plants, safety requirements and weather conditions. As a result, bids of individual power plants may at the same time fall into more than one priority category, and their priority categories may change over time. The general supply priority categories are as follows:

- The first priority is given to suppliers’ price-taking bids, which are submitted with respect to power producers that ensure system reliability, nuclear power plants (to the extent necessary to meet the requirements of safe operation process regulations) as well as electricity volumes generated at the minimum safe output level. This priority applies to the necessary volume required to meet the aforementioned requirements;
- The second priority is given to suppliers’ price-taking bids, which are submitted with respect to CHP power plants for the electricity generation volumes corresponding to the minimum safe output level of the relevant generating unit including bids involving operation in a combined cycle and bids by HPPs for electricity generation volume, which needs to be generated due to process reasons and/or in order to ensure environmental safety and which is scheduled for the respective hour in the forecast dispatch schedule;
- The third priority is given to suppliers’ price-taking bids, which are submitted in respect to the minimum output levels, according to the requirements for the maintenance of optimal operational regimes of the dependent industrial equipment of the participants’ regulated consumption controlling facilities, or for groups of supply points for generation of the participants purchasing and selling electricity on the wholesale market, both in respect of generating and power receiving equipment simultaneously; with respect to volumes in the suppliers’ consumption groups of supply points as well as volumes, not exceeding the priority volumes under regulated contracts and as determined in accordance with the agreement on accession to the wholesale market system;
- The fourth priority is given to suppliers’ price-taking bids which are submitted with respect to volumes not exceeding the priority volumes under unregulated bilateral contracts (including unregulated contracts for the sale and purchase of electricity and capacity), as determined in accordance with the agreement on accession to the wholesale market system and subject to certain conditions provided therein; and
- The fifth priority is given to other volumes specified in price-taking bids.

The price-taking bids by HPPs (full volume) and thermal CHP power plants (in the volume equal their technological minimum production when in heating mode) reflect that these producers are prepared to sell



power at any price that would settle at DAM. Thus, their aggregate price-taking offer is accounted for first prior to the ranging of the price-setting bids. All others price bids are selected on a principle of least cost to the consumer, and are ranked from the lowest to the highest until the demand (plus reserve) is fully met—which is the point where the price sets.

As a result, both the capacity load factor of individual power plants and their competitive positions within the day-ahead market are significantly influenced by their position in the ATS' merit order.

Price fluctuations on the wholesale electricity market are monitored by the state authorities. If the magnitude of a price increase exceeds a predetermined level within a specified period of time or if certain other extraordinary situations arise that result in significant increases in prices for electricity, price smoothing or state regulation of the electricity industry may be implemented as protective price limiting mechanisms.

#### *Balancing market*

The balancing system is a real-time market for electricity based on competitive bids submitted by suppliers and market participants. The balancing system is intended to cover the deviations from planned power volumes on the day-ahead market from the actual generated or consumed volumes.

The prices on the balancing market are subject to considerable fluctuations both during the year and during the course of a day, due to fluctuations in demand and in supply (for example, for the period from August to September, when the majority of thermal generation facilities and nuclear power plants are undergoing regular annual maintenance). However, the seasonality effect is less notable in Siberia due to a higher portion of industrial demand, which is characterised by a more stable load.

#### *Wholesale capacity market*

The wholesale capacity market is operated separately from the wholesale electricity market. The main purpose of treating capacity separately is to improve the efficiency of operation and ensure the timely commissioning of generation facilities. One of the key instruments of the wholesale capacity market designed to encourage new investments is the competitive selection of the capacity: capacity not selected during the competitive selection of the capacity, as the general rule, is not entitled to capacity payments and can be decommissioned. Where decommissioning of the capacity is impossible for technical and/or social reasons a generation company operating such capacity receives the status of forced-to-run generator and is compensated by regulated forced-to-run generation tariff payable under regulated capacity contracts.

When selling capacity, generation companies are obliged to maintain their generation equipment in appropriate condition so that they are able to produce electricity in the required volumes and to the required specifications at any time. If the obligation to maintain generation equipment in good working order is not fulfilled by a generation company, the price of its capacity will be reduced. Capacity may be traded in the following segments:

#### *Regulated contracts*

Similar to the power regulated contracts, the terms of regulated capacity contracts are determined individually for each generator, and are based on “take-or-pay” principles. The terms are set by the FAS on the basis of the generator's fixed costs divided by planned and preliminarily dispatched electricity capacity as would allow the generator to operate even when it does not generate and sell any electricity. Remaining capacity, as well as capacity from all generation equipment commissioned in 2008 or later, is sold under unregulated contracts.

#### *Unregulated contracts*

A competitive capacity market, allowing the sale of capacity on the wholesale capacity market at unregulated prices, was launched in July 2008 pursuant to the Resolution of the Russian Government: “On Amendments to Certain Provisions of the Acts of the Russian Government On the Organisation of Competitive Trade of Electricity Capacity on the Wholesale Market” No. 476 dated 28 June 2008.

Since 1 July 2008, the sale of capacity in the competitive sector has been undertaken through the “competitive selection of the capacity” (the “KOM”), conducted by the System Operator. In general, wholesale market players admitted to the KOM may apply to sell through the KOM an amount of capacity

not exceeding their maximum available capacity (as registered in the forecast balance for the corresponding period, subject to the proportion of available capacity that must be sold on regulated markets). Under this procedure, the System Operator selects customer bids and determines the demand for capacity in a certain region and for a certain period. The System Operator selects those suppliers, which: (a) stated the lowest price in their bids; and (b) ensure the necessary available capacity with the required technical specifications.

Until 2015, capacity auctions were held only annually for the capacity supply the following year. Since 2015, the auction is held annually in December for the capacity supply in four years' time. The first auction was held in December 2015 for the delivery in 2016-2019, followed by the auction in December 2016 for the supply in 2020.

The key objectives of having an efficient long-term capacity market according to the Market Council are the following:

- to prevent a deficit in the power system;
- to form the most effective generation structure with the lowest cost of electricity and capacity for consumers;
- to create opportunities for long-term bilateral relations between market participants; and
- to form regional price indicators to develop electricity consumption (industry and residential) and output.

Capacity is selected at the volume levels sufficient to meet projected consumption, inclusive of reserves, and taking into account technical characteristics and parameters of the power plants that are required to meet the anticipated demand. Out of the latter the System Operator identifies the plants whose pricing bids would ensure the least total cost of capacity for the consumers. The auction is held by pricing zone, and accounts for the capacity supply constraints between them. The System Operator holds a correction auction closer to the delivery date should the anticipated capacity demand exceed the volume of selected capacity.

All suppliers whose capacity is selected during the auction process have an obligation to ensure the readiness of their generation facilities and receive a guarantee of payment at the equilibrium auction price. The auction price is set per pricing zone, it is the same for all power plants selected during the auction, and equals the highest selected bid. The capacity price is subject to annual indexing (by applying a formula, CPI minus 1% (effective from 1 January 2018 prices are to be indexed CPI minus 0.1%)) with the exception of the year that follows. Those suppliers whose capacity has not been selected during the competitive auction will not receive a guarantee of payment, but can receive payments in the electricity market. If such a supplier decides to close its capacity but does not receive permission for the closure, it will be paid for capacity at regulated tariffs under a forced-to-run generator status.

### Retail electricity market

The Retail Market Rules govern the interaction between retail market participants. It is envisaged that the deregulation of the retail electricity market will be carried out simultaneously with the deregulation of the wholesale market.

Under the Electric Power Industry Law and the Retail Market Rules, the main participants to the retail market are consumers of electricity, guaranteeing suppliers and other retail suppliers, grid companies, entities organising dispatching operations at the retail level and those generating companies that are not entitled to participate in the wholesale electricity market.

The Retail Market Rules give consumers an opportunity to choose their energy supply company. However, not all energy supply companies are under an obligation to enter into contracts with requesting consumers, only guaranteeing suppliers have this obligation. Guaranteeing suppliers are obliged to enter into a contract at the request of any end-consumer within the guaranteeing suppliers' area. Guaranteeing suppliers enjoy certain privileges as compared to other energy supply companies. Guaranteeing suppliers are entitled to demand both the sale of excess power generated by other retail market participants and compensation for electricity losses that occurred in transit. Guaranteeing suppliers are selected through open tenders held every three years by the regional authorities or, in limited circumstances, by the federal authorities. The winner of a tender undertakes to fulfil certain obligations, including undertakings with respect to its financial condition and reduction of equity capital. Breach of such undertakings may lead to the status of a guaranteeing supplier being revoked.

## **Heat Market**

Heat producers in Russia primarily include CHPs and heat boilers (both fossil-fuel and electric). A substantial portion of the heat produced in Russia is produced by CHPs in the combined cycle. Heat supply activities are governed by the Heat Supply Law.

Heat is transmitted and distributed through local heat grids that are mainly owned and operated by the heat producers, wholesale retailers or municipalities. Heat producers sell heat either: (i) directly to consumers that are connected to the heat grids owned by producers or leased from municipalities, or (ii) to wholesale resellers that own heat grids to which respective customers are connected.

In contrast to electricity, heat is characterised by exponentially increasing losses during transportation as distance is increased. Consequently, supply is generally restricted to areas located in close proximity to heat generators. Accordingly, heat markets are regional retail markets.

For the purposes of efficient and safe operation of heat supply systems, their development and increase of energy efficiency, the Heat Supply Law envisages development and approval of heat supply schemes for each such system. Allocation of heat energy consumers among the sources of such energy within a particular heat supply system is administered by a competent authority by way of annual adjustments made to the heat supply scheme. Where it is possible to supply consumers with heat energy from various sources, while assuring reliable heat supply, the heat load shall be allocated among heat energy sources on a competitive basis with reference to minimum differential costs incurred by such sources for heat energy production.

In order to establish a procedure for interaction to ensure the operation of the heat supply system, the Heat Supply Law entrusts power suppliers and heat network operators operating within the same heat supply system, with the obligation to enter into agreements for the management of such system annually prior to a heating season. Such agreements shall, *inter alia*, determine the hierarchy of dispatch services departments of the relevant entities and procedure for their interaction, the procedure for arranging heat networks maintenance, operational control of the heat supply system and procedures for access to heat networks for these purposes and for interaction between these entities in emergency situations.

The Heat Supply Law envisages that designated heat suppliers shall be determined within heat supply schemes by the federal executive authority responsible for implementing the state heat supply policy or by a municipal authority. For a designated heat supplier, the heat supply agreement constitutes a public agreement. It shall, therefore, enter into such agreements with any consumer willing to do so.

The Heat Supply Law envisages services on reserve heat capacity maintenance. A reserve heat capacity maintenance fee is charged if a consumer does not consume heat energy but has not disconnected its heat-consuming units from the heat network in order to retain the ability to resume consumption in the future. The imposition of the reserve capacity maintenance fee will result in a partial reallocation of heat energy production expenditure among “consuming” and “non-consuming” consumers; such reallocation is not expected to reduce tariff revenues from the sale of heat energy.

CHPs are under an obligation to maintain fuel reserves throughout the year as prescribed by the statutory standards approved by the Russian Government or an authorised federal executive authority. Failure to maintain statutory fuel reserves or to follow the procedure for creating and using such reserves, may lead to administrative liability in the form of a fine imposed upon officers, or their disqualification, as well as a fine imposed on the heat supplier equalling the value of the lacking fuel reserve that is necessary to meet the statutory requirement.

### ***Tariff Setting***

Tariff setting in the power industry is effected mainly on the basis of the Electric Power Industry Law, Heat Supply Law, Natural Monopolies Law, Wholesale Market Rules, Retail Market Rules, Resolution 1075 and Resolution 1178.

## **Pricing on Electricity and Capacity Markets**

### **Wholesale Market**

Tariffs for electricity and capacity supplied on the wholesale market under the regulated contracts are established by the FAS annually for each wholesale market participant. The tariffs for electricity sold on the wholesale market are calculated using various methods specified in Resolution No. 1178 which

specifies that any of the following methods may be used to regulate electricity tariffs: cost-plus method, indexation method, regulated asset base (“**RAB**”)-based method, comparative method and method of long-term indexation of gross proceeds.

The FAS chooses a method of regulation with respect to a particular entity taking into account a proposal made by such entity whose tariffs are subject to regulation.

#### *Retail market*

Tariffs for each region are set by regional tariff authorities and are subject to the minimum and maximum levels established by the FAS. The retail pricing regime envisages that the electricity volumes supplied in the retail electricity market to residential consumers are supplied at regulated prices, while the remaining electricity volumes are supplied at prices which reflect the cost of electricity in the competitive wholesale electricity markets within the maximum unregulated prices, and calculated according to a specific formula which is based on the average weighted price of electricity in the wholesale market in the previous month, as published monthly by the Market Council. The retail power price also includes tariffs for transmission and distribution services, services provided by the Commercial Operator, and the retail sales mark-up.

The price of power supplied by the guaranteeing suppliers to the retail consumers also includes sales surcharges (set by the regional tariff authorities), which are intended to cover the expenses of the guaranteeing suppliers incurred in relation to their participation in the guarantee system in the wholesale electricity market.

#### *Transmission and distribution*

Transmission and distribution tariffs and services on connecting to the transmission and distribution grids are regulated by the state, which sets the price cap and provides the guidance for the tariff growth, based on its forecasts for Russia’s social and economic development.

Until recently, transmission and distribution tariffs were set on a “cost-plus” basis. However, this system provided few incentives for improving operational efficiency and developing asset bases. As a result, investment in distribution and transmission assets in the post-Soviet era has been limited. Accordingly, the electricity transmission and distribution segment as a whole requires a significant level of investment to preserve supply stability and to meet growing demand.

Driven by the fatigued state of the grid assets in Russia, the Government of the Russian Federation decided to introduce RAB-based regulation. In contrast to the “cost-plus” methodology, the RAB-based regulation allows electricity transmission and distribution companies to obtain a return on their investments in grids at the level determined by the state regulator, facilitated by the inclusion of an investment component in the tariffs. Under this methodology, tariffs are approved for three-to five-year periods to encourage improvements in operational efficiency and investments in the modernisation of the asset base.

Since 2010, transmission and distribution tariffs are set long term for the five years ahead. The regulation provides relative freedom in terms of tariff methodology. Subject to the decision of a regional regulatory authority, tariffs could be calculated using the following methodologies: tariff indexation (based on “cost-plus” basis), tariff benchmarking, RAB, or long-term indexation of required revenues.

- The tariff indexation methodology was developed as an alternative to the original cost-plus methodology (the compensation of all actual incurred expenses and investment costs) and is based on an annual increase of distribution tariffs to inflation forecasts. However, unlike the original cost-plus methodology, (where the tariff is reset annually downward if a distribution company achieves costs savings) the annual indexation of operational expenses to the inflation allows distribution companies to retain any savings as a result of cost optimisation.
- The tariff benchmarking methodology is based on benchmarking distribution companies’ operational expenditure against the best practice in the segment. Nevertheless, in practice it is challenging to apply owing to a range of structural differences and nuances between selected distribution companies.
- The long-term indexation of required gross revenues is among the most commonly used in Russia; the control period of tariffs under this methodology is five years with annual adjustments. The gross revenue (made of controllable and uncontrollable expenses) is adjusted subject to the reliability and quality criteria. Although the gross revenue indexation methodology is geared towards cost reduction, it does not provide enough incentives for aggressive cost optimisation and target achievement

(e.g., transmission losses reduction). This methodology is not geared towards attracting additional investment, as the investment is limited to 12% of gross revenue.

- The RAB methodology is based on the principle of long-term control periods (from five to eight years) with incentive-regulation that would attract investment. Under RAB, investors receive a guaranteed return on investment and required fixed revenue. An investor is encouraged to beat the regulators estimation of required revenue in retaining any savings as a result of cost optimisation during the long-term control period.

Although the government has provided a relative freedom in choosing tariff methodology for the distribution companies, it recognises that, with the exception of RAB, they are not geared towards attracting additional investment into the segment. Therefore, to have better control over transmission and distribution tariff growth, while ensuring cost efficiency, and quality control and investment, the government plans to develop a new long-term incentive tariff methodology in 2017-2018. The government also continues to improve the regulation on new grid connections to reduce the length of procedures, reduce costs, and simplify the required procedures.

### **Pricing on Heat Market**

The FAS is responsible for setting the minimum and maximum tariff limits with respect to heat energy sold on the retail markets for each particular region, which are established for periods of at least one year. The heat tariffs are set for each heat generating unit by regional tariff authorities within the minimum and maximum limits approved by the FAS. Currently tariffs are determined according to a “cost-plus” methodology, which means that the tariffs are supposed to cover a producer’s costs and provide an allowance for certain profit.

Usually tariffs for residential and industrial customers are different. Heat tariffs for residential consumers are generally substantially lower than heat tariffs for industrial consumers due to cross-subsidisation between industrial and residential consumers.

The state regulation of heat supply will be applied in respect of the following groups of services:

- heat energy (capacity) produced in the combined cycle by heat energy sources with installed electric power generating capacity of at least 25-MW, as well as heat energy (capacity) and heat transfer media supplied by heat suppliers to consumers or to other heat suppliers; and
- services involving connection to the heat supply system, maintenance of reserve heat capacity for certain categories of socially significant consumers and transmission of heat energy and heat transfer media.

Certain tariff ceilings for heat energy (capacity), other than the heat energy (capacity) supplied by heat suppliers to other heat suppliers, are set for the relevant region by a competent federal executive authority, while specific tariffs are set by regional authorities for each supplier individually. Tariffs for all other types of heating-related commodities and services are also set by competent regional authorities. In accordance with the laws of respective regions, certain tariff-setting powers of regional authorities may be delegated to municipal authorities.

The Heat Supply Law provides for the possibility of setting two-part tariffs for both heat energy (capacity) and heat energy transmission services in addition to one-part tariffs, while tariffs for heat transfer media are only set in the form of a one-part tariff. The main distinction between two-part and one-part tariffs is that, in the case of a two-part tariff, the company’s expenditure constituting the heat energy tariff is allocated between two rates, namely, the heat energy rate and the heat capacity (load) rate. The heat energy rate includes the company’s variable costs that depend on the heat volumes produced (mainly, fuel costs), while the capacity rate is based on the company’s fixed costs incurred regardless of the heat volumes produced (payroll, rental payments, etc.). In the case of a one-part tariff, all costs are treated as variable and are included in the heat energy rate, whereby the revenues of heat suppliers depend directly on the volumes of heat produced.

In 2014, the government has outlined the Heat Market Roadmap of the future deregulation of the heat market with the transition of the state regulation of all tariffs to simply setting a tariff cap from 2018 onwards. The price cap is going to be based on the suppliers’ costs and equal to the price of heat energy produced and supplied by an efficient energy source, a so-called “alternative boiler house”. This methodology of heat energy price benchmarking has been developed by the Market Council and is based

on the concept that the cost of heat energy produced by a centralised producer (a power plant) cannot exceed the cost of an alternative heat energy source available to the end consumer.

The calculation of the price cap would be based on the following compensation:

- Fuel costs associated to the production of the heat energy: gas, fuel oil, coal (calculated as a ratio of fuel consumption to the unit of heat energy production).
- Actual end cost of fuel, inclusive of its delivery and cost indexation.
- Return of capital expenditure related to the construction of new boiler houses and heat network.

It would take up to six years for the current consumer tariffs to reach the target price cap level, according to the Ministry of Energy calculations. The current tariffs will have to go through an annual increase of 1.73% above inflation. The quicker transition to the target price cap would require an increase of 3.62% above inflation.

The shift to the “alternative boiler house” methodology by 2023 will alter both the price setting and the relationship between the heat energy supply participants, and primarily the role of a single heat energy supply company (“ETO”). In addition to its functions as a single buyer and supplier of heat energy in its respective territory, an ETO is to become a centre of quality control for heat energy supply, and therefore it would have the opportunity to make an impact on the optimisation and development of the heat energy supply scheme within its territory.

Prices for the produced heat energy (capacity) and the tariff for the transmission of heat energy will be set by the parties to the heat energy supply agreement, which should stimulate ETOs and other participants to improve efficiency of heat energy supply.

The new model will be introduced gradually starting with pilot projects prior to unrolling it nationwide. The pilot projects were planned to be launched in 2016 in the territories where heat energy production by CHPs exceeds 50%, however the launch has not yet occurred as regional authorities have not been willing to voluntarily transition to a new framework.

The existing long term tariffs will be in operation until the end of the transition period in 2020-2023.

### **Licensing of Operations**

The Group is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law on Licensing of Certain Types of Activities No. 99-FZ dated 4 May 2011, as amended (the “**Licensing Law**”), as well as other laws and regulations, set forth the activities, which are subject to licence and establishes the procedures for issuing licences. In particular, some of the Group’s Russian companies need to obtain licences, permits and approvals of certain executive authorities to carry out certain activities, including, among others:

- the exploitation of chemically hazardous, explosive and flammable industrial facilities classes I to III;
- the gathering, transportation, processing, utilisation, deactivation and disposal of waste of hazard classes I to IV;
- the loading and unloading operations relating to dangerous goods at railway transport; and
- the collection, storage, processing and sale of ferrous and non-ferrous scrap.

As a general rule, under the Licensing Law, licences are issued for an unlimited term. Licences issued prior to, and valid as at the date of, the Licensing Law entering into force, also have unlimited duration *provided that* they are re-issued. Nevertheless, licences can be suspended by the licensing authority and/or revoked by court order for non-compliance. Licensing regulations and the terms of licences and permits require compliance with numerous industrial standards. In particular, the Group must possess buildings or premises, employ qualified personnel, provide training, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

### **Subsoil Licensing**

In Russia, the mining of minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral

deposit is located. In addition, as discussed above, operating permits are required for types of operations associated with subsoil use.

The licensing regime for the use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Subsoil Law. The procedure for subsoil use licensing, as well as certain rules in respect of the exploration and production of mineral resources, was established by the Resolution of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended (the “**Licensing Regulation**”).

The Subsoil Law provides for several types of subsoil licences to be granted in relation to geological research and exploration and production of natural resources, including: (i) licences for geological research of a subsoil plot (“**geological research licences**”); (ii) licences for exploration and production of natural resources (“**exploration and production licences**”); and (iii) so-called combined licences for geological research, exploration and production of natural resources (“**combined licences**”).

Pursuant to the Subsoil Law, generally, the payment system for the use of subsoil currently consists of the following payment obligations:

- one-off payments in cases specified in the licence;
- regular payments for subsoil use;
- fees for the right to participate in tenders and auctions; and
- other payments and fees set forth by the legislation of the Russian Federation on taxes and duties.

The Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil, and the federal authorities have the authority to set the rate for any particular licence. The Russian Tax Code contains the relevant rates of both the mineral extraction tax and the water extraction tax.

### *Issuance of Licences*

Subsoil licences are generally issued by Rosnedra, the Federal Agency for Subsoil Use. The Subsoil Law and the Licensing Regulation contain the major requirements relating to tender and auction procedures. In general, exploration and production licences and combined licences are currently issued by auction. The tenders (auctions) for licences, in respect of subsoil deposits, are conducted by special commissions of Rosnedra. While the auction or tender commission formed by Rosnedra must include a representative of the relevant region, the Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licences. The Subsoil Law provides that, in a tender, the licence should be awarded to the bidder which has submitted the most technically competent, financially attractive and socially and environmentally sound proposal, which also meets the relevant, published tender terms and conditions; and, in an auction, to the bidder, which has offered the largest one-off payment for the use of the subsoil plot. In limited circumstances, which are defined by law, exploration and production licences may also be issued without holding an auction, including, for instance, to holders of geological research licences that discover natural resource deposits through exploration work at their own expense. Regional authorities may also issue exploration and production licences for “common” mineral resources. An auction in respect of subsoil plots of federal importance (as defined by Article 2.1 of the Subsoil Law) and in certain other cases is arranged by the Russian Government, which may impose restrictions on the right of a Russian entity, with direct or indirect foreign participation, to participate in any auction for the right of subsoil use in respect of a subsoil plot of federal importance. In the interests of national defence and security, a Russian legal entity with foreign participation may also be denied by the Russian Government the right to conduct exploration and production if geological research conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance (even if a combined licence has already been issued to such subsoil user, which would entail the revocation of the licence subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological research and reimbursement of the lump sum payment upon issue of the licence).

Geological research licences are generally awarded, without a tender or auction process, by a special commission formed by Rosnedra, which includes representatives of the relevant regional executive authority. The Ministry of Natural Resources and Ecology of the Russian Federation maintains an official list of deposits in respect of which geological research licences can be issued. A company may obtain a licence for geological research (to be conducted at the company’s own expense) of a deposit included in the above-mentioned list by filing an application with Rosnedra (or its regional department). The special commission decides whether to grant the licence based upon the merits of the application, unless there is

more than one application with respect to the same deposit (in which case Rosnedra sets up an auction for a combined licence for the deposit).

In respect of subsoil plots of federal importance, only exploration and production licences and combined licences may be issued. A licence for subsoil plots of federal importance can only be issued by Rosnedra on the basis of a relevant decision of the Russian Government, taken upon the results of an auction, or upon the discovery of natural resources within such a subsoil plot or a subsoil plot deemed to be of federal importance as a result of the discovery of such natural resources unless such works were performed pursuant to a state contract. Under a combined licence, advanced exploration and production of natural resources on a subsoil plot of federal importance by a foreign investor or entity controlled by a foreign investor, may only commence after the geological research of the subsoil plot is fully completed. This is in contrast to the general rule applicable to combined licences, under which advanced exploration and mining operations may be conducted simultaneously with geological research.

#### *Extension of Licences*

In accordance with the current Subsoil Law, subsoil plots are provided for use for a certain period or an unlimited period.

For a specified period, subsoil plots are provided for the purpose of geological research in certain Russian regions, for example, geological research of subsoil plots under inland sea waters, territorial waters and the continental shelf of the Russian Federation. Subsoil plots may also be provided for the production of natural resources (for the useful life of a mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil), ground water production and production of natural resources based on a short-term right for subsoil use.

Subsoil plots may be provided for an unlimited period for construction and operation of underground facilities which are not related to the production of natural resources, construction and operation of underground facilities related to landfilling, construction and operation of oil and gas holders, disposal in rock formations of associated waters and waters used by subsoil users for their own production and process requirements in exploration and production of raw hydrocarbons, as well as for the set-up of specially protected geological sites and other purposes. The period of subsoil plot use shall be extended upon the initiative of a subsoil user, if necessary, to complete the search for, the evaluation of or development of a mineral deposit or winding up of operations *provided that* no licence terms are violated by the subsoil user. The extension procedure for the period of subsoil plot use shall be determined by the terms of the production-sharing agreement.

The period of use for a subsoil plot shall be calculated from the date of state registration of licences for that subsoil plot.

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete production or vacate the land once the use of the subsoil is complete, subject to compliance with the terms and conditions of the licence.

#### *Maintenance of Licences*

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil licence. Currently, Rosnedra (or the relevant regional authority) and the licensee are the only parties to licence agreements.

Under a licensing agreement, the licensee assumes certain undertakings, including obligations with respect to the period and volume of exploration, provision of pre-project and project documentation, payments for subsoil use, projected extraction volume of natural resources, compliance with environmental safety requirements, elimination of environmental pollution, and, in certain instances, assurance of employment and development of infrastructure. When a licence expires, the licensee, at its own cost, shall restore the relevant subsoil plot to a condition that is adequate for future use. The licensee can be fined, or the licence can be revoked, suspended or limited if the licensee breaches material terms of a licence, including timing and scope of works at a subsoil plot, submission of required reports, as well as in cases of direct threat to the lives or health of the people working or residing in the area where the licensed activities are carried on, in case of emergency or in other circumstances. For the violation of licence terms, the subsoil user can also be held administratively or criminally (employees, officers) liable.



Most of the conditions provided by licensing agreements are based on mandatory provisions of Russian law; however, other provisions may be negotiated by the parties subject to mandatory provisions of the Subsoil Law.

The holder of a licence for subsoil use must make one-off payments for such use under certain conditions as may be provided in the licence, including in the event of the change of subsoil area borders and regular payments for subsoil use. The regular payments for subsoil use are based on economic and geographic conditions, size of the subsoil area, type of natural resources, period of exploration, geological profile of the subsoil plot and degree of risk. Such payments are charged separately for each type of subsoil use works and with the account for the stage of geological process and pursuant to specific rates set by Rosnedra within the range established by law.

Payments for subsoil are, in addition to relevant tax obligations, applicable to the licence holder in accordance with general tax legislation.

### *Transfer of Licences*

Licenses for subsoil use may be transferred only under certain limited circumstances, as are identified in the Subsoil Law. Such circumstances include the reorganisation or merger of the licence holder, the transfer of a licence as part of the property of the bankrupt licence holder, or in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50% ownership interest, as well as any transfer of a licence within a consolidated group of companies (from a parent company to its subsidiary and from a subsidiary to its parent company), *provided that* the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence. A licence shall be reissued when the right for subsoil use is transferred or if the legal name of a licence holder has changed. In this case, the terms and conditions of subsoil use set forth in the previous licence are not subject to revision.

Unless otherwise provided by law, the transfer of rights of subsoil use over the subsoil plots of federal importance is prohibited by any entity established in accordance with the Russian legislation that has participation of a foreign investor or a group of entities that include a foreign investor, in which a foreign investor has the ability to: (i) directly or indirectly control more than 10% of the entity's voting shares; (ii) control the entity's management by contract or otherwise; or (iii) appoint the entity's chief executive officer or more than 10% of its executive officers or members of the entity's board of directors or other management committee. In exceptional circumstances and in accordance with the Russian Government's resolutions, the transfer of rights to use subsoil plots of federal importance to entrepreneurial entities (as indicated by law) may be permitted.

### *Mining Allotments*

Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a "mining allotment", i.e., a geometric block of subsoil. Rosnedra determines preliminary mining allotment boundaries at the time it issues the licence, which is subject to approval of the territorial bodies of Rostekhnadzor, the Federal Service for Environmental, Technological and Nuclear Oversight (for the subsoil plots of local importance mining allotment boundaries are determined by the relevant regional authorities). Following the preparation of a development plan by the licensee, which the state mining supervision authorities and an environmental examination committee must approve, Rostekhnadzor approves the exact mining allotment boundaries based on the report and certifies such boundaries in a mining allotment act, which it issues to the licence holder. The licence will then incorporate the exact mining allotment boundaries.

### **Land Use Rights**

Land use rights are generally needed and obtained for only those parts of the licence area which are actually in use, including the plot being mined, access areas, and areas where other mining-related activity is being carried out.

Pursuant to the Land Code of the Russian Federation No.136-FZ dated 25 October 2001, as amended from time to time (the "**Land Code**"), companies may have ownership or lease rights with regard to land in the Russian Federation. In addition, rights of perpetual (unlimited) use are granted to a limited number of entities, including governmental and municipal institutions and federal public enterprises. Those companies that had obtained a right of perpetual use over land prior to the enactment of the Land Code were required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement

with, the relevant federal, regional or municipal authorities owning the land. Companies that have a right of perpetual use over land containing linear facilities (such as power transmission lines, communication lines, pipelines, railway lines) may either: (i) purchase such land; (ii) enter into a land lease agreement; or (iii) establish a servitude over such land by 1 January 2016.

Russian law currently categorises all land as having a particular designated purpose, for example: agricultural land, industry land, settlement lands, lands under specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category.

Most land in the Russian Federation is owned by federal, regional or municipal authorities, which can sell, lease or grant other land use rights to third parties through public auctions or tenders.

Under Russian law, land that is owned by federal, regional or municipal authorities and is required for subsoil use is leased to subsoil users without holding a tender (auction). Generally, a lessee has no pre-emptive right to enter into a new land lease agreement with a lessor upon the expiration of the lease of the land owned by federal, regional or municipal authorities. However, a new lease agreement can be concluded without holding a tender (auction) when the following criteria have been met: (i) a lessee applies for conclusion of a new agreement before the expiration of lease which was concluded without holding a tender (auction); (ii) no one has an exclusive right to obtain the relevant land plot; (iii) previous lease agreement had not been terminated on any of the grounds provided by the Civil Code or the Land Code (improper use of the land plot and etc.); and (iv) as of the date of entering into a new lease agreement the legal grounds for provision of the land plot to the lessee without conducting a public tender (auction) remain. Any lease agreement for a period of one year or more must be registered with the Russian Federal Service for State Registration, Cadastre and Cartography (“**Rosreestr**”).

Recently, two more ways of granting a land plot owned by state or municipal authorities to a private investor also have been introduced. Since 1 March 2015, an agreement on servitude can be made and there is also an option to use a land plot without servitude (there is an exhaustive list of situations when such option is available, which includes geological research of a subsoil land plot).

Rosreestr records details of land plots, including their measurements and boundaries, in a unified register, or “cadastre” (the “**State Cadaster of Real Estate**”). As a general rule, a landowner must obtain a state cadastre number for a land plot as a condition to selling, leasing or otherwise transferring interests in that plot. Rosreestr also maintains a register for the registration of all real estate and transactions relating to that real estate. Until 1 January 2017 this register was called the Unified State Register of Rights to Immovable Property and Transactions Therewith (the “**Register of Rights**”). Generally, under the Civil Code, the right of ownership and the other rights to real estate property (such as buildings, facilities, land plots and other real estate items), the restriction of these rights, their arising, transfer and cessation shall be registered with the state register (which previously was the Register of Rights). Federal Law No. 122 FZ “On State Registration of Rights to Immovable Property and Transactions Therewith” dated 21 July 1997, as amended (the “**Law No. 122 FZ**”), regulated the procedure for the state registration of rights and transactions until 1 January 2017. Effective from 1 January 2017, amendments were introduced to the Law No. 122 FZ and Federal Law No. 218 FZ “On State Registration of Immovable Property” dated 13 July 2015, as amended (the “**Law No. 218 FZ**”), came into force. The amendments resulted in unification of the previously existing State Cadaster of Real Estate and Register of Rights. These registers are now combined into one Unified State Register of Real Estate (the “**Register of Real Estate**”). A person acquires the right to the real estate property only upon the state registration of such right in the Register of Real Estate. A person, whose right has been registered earlier in the Register of Real Estate, has a right to register an objection note with respect to the subsequently registered right of another person. However, if the person who registered the objection has not pursued such challenge in the court within three months, the objection note must be cancelled and further objection by the same person will not be allowed.

The Law No. 218-FZ retains the above said legislation provisions and continues other approaches of the existing legislation and court practice. An extraterritorial filing principle is implemented when an application for registration of any real estate may be filed anywhere in Russia.

The Group generally has the right of ownership or has entered into long-term lease agreements in respect of its plots.

## **Environmental Compliance**

### **General**

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, and protection of flora, fauna and other wildlife. Issues of environmental protection in Russia are regulated primarily by the Environmental Protection Law, as well as by a number of other federal laws and regulations.

### **Enforcement Authorities**

Rosnedra, Rosprirodnadzor (the Federal Service of Supervision of Natural Resources) and Rostekhnadzor (along with their regional branches) are the main regulatory agencies involved in environmental regulation, and implementation and enforcement of relevant laws and regulations. The Russian Government and the Ministry of Natural Resources and Environment are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits claiming compensation for damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

### **Payments for Negative Impact on the Environment**

The Environmental Protection Law establishes a “pay to pollute” regime administered by federal and local authorities. The Ministry of Natural Resources and Ecology of the Russian Federation adopts regulatory documents governing the permissible impact on the environment and the extraction of resources, whilst Rosprirodnadzor establishes limits on emissions and disposals of substances and waste. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities depending on the type and scale of the environmental impact. As a condition for such approval, a plan for the reduction of emissions or disposals must be developed by the company and cleared with an appropriate governmental authority. Fees, as set forth in the Decree of the Russian Government on Rates of Payments for Negative Impact on the Environment and Additional Indexes No. 913, dated 13 September 2016, are different for different substances and classes of wastes depending on hazard for the environment. Payments for negative impact on the environment do not relieve a company from its responsibility to take environmental protection measures and undertake restoration of the territory after the activities are completed.

The Decree of the Russian Government on Rates of Payments for Negative Impact on the Environment and Additional Indexes No. 913, dated 13 September 2016, also provides additional index to be applied in respect of the territories and objects under special protection in accordance with federal laws.

The Environmental Protection Law provides additional indexes to encourage companies and individual entrepreneurs to reduce the negative environmental impact. These indexes (from 0 to 0.67) can be applied by the companies and individual entrepreneurs that recycle or decontaminate wastes generated during their activities. The companies and individual entrepreneurs that place waste at waste disposal sites, excluding the negative impact on the environment and in accordance with the legislation of the Russian Federation in the field of waste management, are exempted from payments for waste disposal.

### **Environmental Liability**

If the operations of a company violate environmental requirements or cause harm to the environment or to any individual or legal entity, environmental authorities may suspend such operations or a lawsuit may be brought to limit or ban such operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to fines.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply are generally low and the clean-up requirements not particularly onerous, but failure to comply may lead to a suspension of mining works.

In addition, Environmental Protection Law provides for a specific statute of limitations in respect of claims for compensation for environmental damage caused by violations of environmental legislation, which amounts to 20 years, significantly exceeding the general civil law statute of limitations of three years.

### **Reclamation**

The Group conducts its reclamation activities in accordance with the provisions of the Land Code and Basic Regulation on Land Reclamation, Removal and Preservation, and on Rational Use of the Fertile Soil Layer approved by Order No. 525/67 dated 22 December 1995 of the Ministry of Natural Resources and Environment. However, most of the Group's licences require the Group to conduct reclamation following exhaustion of the respective mines. The Group believes that it has complied in all material respects with the environmental standards of the appropriate regulatory authorities in Russia. The Group has not received any specific requests from such regulatory authorities to develop a closure plan or to establish a liquidation fund.

### **Greenhouse Gas Emissions (“GHG”)**

The Group's approach to GHG emissions is tailored to satisfy both national and international standards. The Russian national GHG action was introduced by Decree No. 504-r of the Government of the Russian Federation dated 2 April 2014 and reflected the commitment of the Russian Government to reduce such emissions by no less than 25% by 2020 (with reference to the 1990 baseline). The Russian GHG legislation is evolving and the key laws and regulations are expected to be passed in 2017. Accordingly, the Group intends to ensure its compliance with these statutory requirements once they have been officially promulgated.

### **Use of Surface Waters**

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the “**Water Code**”) no longer requires any licensing of surface water use. Under the Water Code, surface water use may be effected either on the basis of (i) a water use agreement concluded with the state or local authorities, (ii) a decision of the state or local authorities to grant rights to the use of surface water or (iii) without any such agreements or decisions, depending on the purpose of surface water use.

Water use agreements relate to both the removal of water resources from water bodies and the use of water bodies for the purpose of electricity production without the removal of water resources. These agreements may be concluded for a period of up to 20 years. Decisions on granting rights to the use of surface water and water bodies relate to the discharge of waste or drain water or the construction of hydrotechnical facilities.

### **Use of Water Reservoirs**

The Water Code requires that a water user must use water reservoirs in accordance with the Rules for the Use of Water Resources in Water Reservoirs (the “**Rules**”) that were approved by the Ministry of Natural Resources and Ecology. In addition, the Federal Agency on Water Resources approves a separate set of Rules for each water reservoir, that are included in a special list compiled by the Government. See “—*Regulations on Environmental Safety and Protection of Lake Baikal*” below.

In addition to the Rules, the Federal Agency on Water Resources establishes an “operating regime” for a given period for each water reservoir (or its “cascade”). This operating regime is mandatory and stipulates the required water level for a water reservoir and the average daily volume of water that can be passed through hydro power plants. Prior to their issuance, these operating regimes are the subject of discussion between the Federal Agency on Water Resources and special interagency groups. The Federal Agency on Water Resources usually sets the operating regimes of water reservoirs on a monthly basis, but in certain cases, including, for example, to allow the passage of river vessels or for the purposes of construction works, the operating regimes may be set on weekly or even daily basis.

### **Regulations on Environmental Safety and Protection of Lake Baikal**

Legal regulation in the field of protection of Lake Baikal is carried out by the Federal Law of 1 May 1999 No. 94-FZ “On the Protection of Lake Baikal” (the “**Baikal Protection Law**”), other federal laws and other normative legal acts of the Russian Federation, as well as laws and other normative legal acts of the subjects of the Russian Federation.

The Baikal Protection law is the main document that defines the legal basis for the protection of Lake Baikal. This law establishes provisions for the zoning of the Baikal natural territory, establishes the boundaries of the Baikal natural territory and the basic principles of protecting Lake Baikal, provides for special rules and procedures for inhabitants and producers acting in the Baikal natural area. In particular, the law regulates the protection of Lake Baikal through the existence of a specially authorised body for the protection of Lake Baikal, the implementation of state environmental monitoring and monitoring in the protection of Lake Baikal.

In particular, the Baikal Protection Law stipulates the limits on water reserves and discharge from the lake. In order to protect the unique ecological system of Lake Baikal and to prevent the negative impact of economic and other activities on its condition, the following requirements for the water regime of Lake Baikal are established:

- the regime of filling and working off of Lake Baikal is determined by a specially authorised state body for managing the use and protection of the water fund in accordance with the procedure established by the legislation of the Russian Federation;
- the ban on increasing the water level in Lake Baikal is above the maximum values and the water level in Lake Baikal is lower than the minimum values set by the Government of the Russian Federation.

The water level at Baikal is affected the Angara drainage by the dams of the HPP cascade. As this is the only river flowing out of the lake, the level of the lake directly depends on the degree of filling of the Angara reservoirs. The slightest fluctuations in the water level in Baikal significantly affect the environmental stability of the Baikal natural territory. Thus, its increase leads to the development of abrasion (destruction of the shores), thus its decrease leads to shallowing of the lake. At the design stage of the Angara HPPs, the volumes of seasonal run-off were calculated in such a way that they corresponded to the natural dynamics as much as possible. However, these regimes are not always followed.

In accordance with the Baikal Protection Law and other legislative acts, the Government of the Russian Federation and local authorities state the limits on the water discharge from the lake to Angara river to balance the water reserves of Baikal (from 456 meters as minimum to 457 meters as maximum). The government, however, has the power to authorise the discharge even below the minimum stated water levels in case of economic necessity. For example, in 2014, the Government has issued the Resolution No. 97 dated 4 February 2015, stating that in the conditions of an extremely shallow period in the Lake Baikal basin, the use of lake water resources in the autumn-winter period 2014-2015 was allowed below the established minimum value to avoid the threat of an emergency and provide water, heat and power supply to the population and the economy's facilities in the region. The signed resolution established that in the conditions of an extremely shallow period in the Lake Baikal basin, the lake's water resources could be used in the autumn-winter period 2014-2015 below the established minimum level in the volume that ensures the functioning of water intake facilities of economic and social facilities located in the downstream Irkutsk hydroelectric complex.

### **Technical Regulations**

The Group is subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Technical Regulation Law introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. It was expected that these rules, or technical regulations, would replace the previously adopted state standards (the so-called "GOSTs"). However, most technical regulations have not yet been implemented, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment and/or consumers. In addition, the federal standardisation authority has declared GOSTs and interstate standards adopted before 1 July 2003, to be the applicable national standards.

In certain circumstances, companies are required to obtain certification of compliance with applicable technical regulations, standards and terms of contracts. Currently, a number of the Group's products require certification. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of such certificate, the applicant has the right to use the relevant compliance mark on its products.

## **Industrial Safety**

Due to the nature of the Group's business, a substantial portion of its activities are conducted at industrial sites by large numbers of workers, and labour protection is of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Safety Law. The Safety Law applies to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where toxic, flammable, oxidisable and other hazardous substances are produced, used, processed, stored or transported.

As at 1 January 2014, all regulated industrial sites are divided into four categories. Rostekhnadzor exercises the broadest control and supervision over sites pertaining to the first and second categories, whereas sites included in the third and fourth categories enjoy a more liberal compliance regime.

Generally, any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to an industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor. On top of that, a company wishing to implement additional safety requirements or to substitute the requirements set forth in the legislation should file a safety case substantiating the proposed requirements. Such safety case is subject to mandatory industrial safety review.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code (as defined below). In particular, they must limit access to such sites to specialists who comply with the relevant qualifications and medical requirements, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires that these companies enter into contracts with professional wrecking companies or in certain cases, create their own wrecking services, conduct personnel training, create systems to cope with and inform Rostekhnadzor of accidents, and maintain these systems in good working order.

Companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site, measures the company has taken and will take to mitigate such risks, and use the site in accordance with the applicable industrial safety requirements. Such declaration must be adopted by the CEO of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as an industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility. Dangerous industrial facilities must be registered on the state register of dangerous industrial facilities maintained by Rostekhnadzor. The registration is permanent and must only be renewed in the case of changes in the regulated industrial site's composition and the liquidation or launch of a dangerous facility.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be required to compensate the individual for lost earnings, as well as health-related damages.

In addition, the Hydraulic Constructions Safety Law provides for special safety and maintenance requirements for construction intended for the use of and control over water resources. These constructions include spur dikes, dams, HPPs, reservoirs, shore protection structures, etc. The Hydraulic Constructions Safety Law only applies to the deformation and failure of hydraulic constructions which may cause an emergency event and provides, together with some other regulatory acts, for the following safety and maintenance requirements: (i) maintenance of the minimum failure risk level of the facility; (ii) regular monitoring and inspections of the facilities, including by respective governmental authorities; (iii) continuous running of the hydraulic engineering constructions; (iv) keeping relevant safety maintenance documentation; (v) tooling hydraulic structures with all the necessary technical equipment and the introduction of new technologies for the continuous monitoring of their safety; (vi) equipment of the facilities with necessary qualified personnel; and (vii) implementation of regular technical inspections and repairs of hydraulic structures, as well as the execution of works aimed at reducing the risk of the emergencies. The Hydraulic Constructions Safety Law also provides for the owners of hydraulic facilities to obtain mandatory liability insurance coverage against damage caused by failures of such hydraulic constructions.

## Russian Antimonopoly Regulation

### General

The Competition Law provides for the mandatory pre-approval by the FAS of the following actions:

- an acquisition by a person (or its group), other than in respect to financial organisations, such as banks, of:
  - more than 25% of the voting shares of a Russian joint-stock company (or one-third of the interests in a Russian limited liability company), except upon the incorporation of such company, and the subsequent increase of these stakes to more than 50% of the total number of the voting shares and more than 75% of the voting shares (one-half and two-thirds of the interests in a Russian limited liability company);
  - ownership or rights of use with respect to the core production assets and/or intangible assets of an entity which are located in Russia, if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity;
  - rights to determine the conditions of business activity of a Russian entity or to exercise the powers of its executive body by a person (or its group);
  - more than 50% of the voting shares (interests) of a foreign entity, which has supplied goods, works and/or services to Russia in an amount exceeding RUB 1 billion in the preceding year;
  - other rights which determine the conditions of business activity of such entity or to exercise the powers of its executive body,

if, in any of the above cases, the aggregate asset value of an acquirer and its group together with a target and its group (excluding the asset value of the seller and its group, if as a result of the acquisition the seller and its group cease to determine the conditions of business activity of the target) exceeds RUB7 billion, and at the same time, the total asset value of the target and its group exceeds RUB250 million, or the total annual revenues of such acquirer and its group, and the target and its group for the preceding calendar year exceed RUB10 billion, and at the same time the total asset value of the target and its group exceeds RUB250 million;

- mergers and consolidations of entities, other than financial organisations, if their aggregate asset value (or the aggregate asset value of the groups of persons to which they belong) exceeds RUB7 billion, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed RUB10 billion; and
- founding of a business entity if: (i) the entity's charter capital is paid for by the shares (or limited liability company interests) and/or the assets of another business entity (other than financial organisation); or (ii) the newly founded business entity acquires shares (or limited liability company interests) and/or the assets of another business entity, based on either a transfer act or a separation balance sheet, and rights in respect of such shares (or limited liability company interests) and/or assets as specified above, at the same time *provided that* the aggregate asset value of the founders of the entity (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) whose shares (or limited liability company interests) and/or assets are contributed to the charter capital of the newly founded business entity exceeds RUB7 billion, or total annual revenues of the founders of the entity (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) whose shares (or limited liability company interests) and/or assets are contributed to the charter capital of the newly founded business entity for the preceding calendar year exceed RUB10 billion.

The above requirements for a mandatory pre-approval by the FAS will not apply if the transactions are performed by members of the same group as the company and the information regarding such a group of persons was disclosed to the antimonopoly authority, and there were no changes within the month preceding to the date of the transaction, within that group of persons. In such cases, the FAS must subsequently be notified of the transactions in accordance with Russian anti-monopoly legislation. Furthermore, the requirement for a mandatory approval of the transactions described in the first and second bullet points above will not apply if the transactions are performed by members of the same group where a company and an individual or an entity, if such an individual or an entity holds (either due to its participation in this company or based on the authorities received from other persons) more than 50% of the total amount of votes in the equity (share) capital of such company.

A transaction entered into in violation of the above requirements may be invalidated by a court decision, if pursuant to a claim initiated by the FAS, the FAS proves to the court that the transaction leads or could lead, to the limitation of competition in the relevant Russian market. The FAS may also issue binding orders to companies that have violated the applicable antimonopoly requirements, and may bring court claims seeking liquidation, split-up or spin-off of business entities who have committed a violation of antimonopoly laws. In addition, a company may be subject to administrative fines of an amount ranging from RUB150,000 to RUB250,000, for the failure to file a post-transactional notification to the FAS and from RUB300,000 to RUB500,000 for the failure to file an application for pre-approval of the transaction from the FAS.

Under the Competition Law, a company is prohibited from misusing its dominant position in the relevant market. Specifically, such company is prohibited from:

- establishing and maintaining monopolistically high or monopolistically low prices of goods;
- withdrawing goods from circulation, if the result of such withdrawal is an increase in the price of goods;
- imposing contractual terms upon a counterparty which are unprofitable for the counterparty or not related to the subject matter of the agreement (i.e., terms that are economically or technologically unjustified);
- reducing or terminating, without economical or technological justification, the production of goods, for which there is a demand or orders for their delivery have been placed and it is possible for them to be produced profitably;
- refusing or evading, without economical or technological justification, to enter into a contract with customers in cases where the production or delivery of the relevant goods is possible;
- establishing without economical, technological or other justification different prices for the same goods;
- establishing an unjustifiably high or unjustifiably low price for a financial service by a financial organisation;
- creating discriminatory conditions;
- creating barriers to entry into the market for the relevant goods or forcing other companies to leave the market;
- violating pricing procedures established by law; and
- manipulating prices in the wholesale and/or retail electricity (capacity) markets.

In the event of breach of any terms of business conduct required by the FAS, the FAS may initiate proceedings to investigate a breach of the antimonopoly laws. If a breach of the antimonopoly laws is identified, the FAS may initiate administrative proceedings which may result in the imposition of a fine, the calculation of which shall be based on the annual revenues received by the company in the market where such breach was committed. Such fines may include: an administrative fine of an amount ranging from RUB300,000 to RUB1 million or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sales of all goods, works and services in the market where such violation was committed, but not more than 2% of gross proceeds of sale of all goods, works and services for the year preceding the year of the violation. Russian legislation also provides for criminal liability of the managers of a company for violations of certain provisions of the antimonopoly legislation. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganisation.

#### **Limitations on Concerted Actions**

The restrictions imposed by the Competition Law on concerted actions and discrimination have been particularly significant for the Russian retail industry. According to the Competition Law, concerted actions are actions taken, in the absence of any agreement between market participants and meet the following criteria: (a) the result of such actions is in the interest of each concerting market participant; (b) such actions were known in advance to each of the market participants due to a public announcement made by a participant regarding commitment of such actions; and (c) such actions are not caused by



market circumstances, which equally affect all economic entities in the respective market. Concerted actions are prohibited if they result or may result in, *inter alia*: (i) price fixing, discounts, extra charges or margins; (ii) coordination of auctions and tenders; (iii) allocation of a market by territory, volume of sales or purchases, types of goods, customers or suppliers; (iv) reduction or termination of goods production; or (v) refusal to enter into contracts with certain buyers (customers). In addition, concerted actions are prohibited if they result or may result in restriction of competition by way of, among others, the following actions: (i) imposing unfavourable contractual terms; (ii) fixing disparate prices for the same goods, for unjustified reasons other than economic or technological reasons; or (iii) creating barriers to entering or exiting a market.

In addition, the Competition Law prohibits retail companies from imposing discriminating conditions on counterparties for the entry into the market or making sales, such as establishing barriers to their entry into the market or disparate pricing.

### **Federal Antimonopoly Service**

The FAS is the state body principally authorised to deal with, and therefore polices, violations of the Competition Law, the Federal Trading Law and the Advertising Law. Such violations may relate to cartels, concerted actions and coordination of business activities, anti-competitive economic concentration (including unlawful expansion of retail space in a market where the retailer has a 25% market share), unfair competition and unfair, inaccurate or misleading advertising.

Russian legislation vests ample powers in the FAS permitting it to take necessary actions, including the power to: (i) initiate proceedings regarding the violation of anti-monopoly legislation; (ii) issue orders or impose fines; and (iii) bring judicial actions to enforce the antimonopoly laws against companies and their officers, including, *inter alia*, through invalidating in full or in part any agreements that violate anti-monopoly law. Historically, the FAS has fined multiple Russian retailers on the grounds of their wrongful discrimination against suppliers by way of: (i) imposing unequal or unfair conditions on suppliers; (ii) refusing to enter into supply agreements with willing and able suppliers thus creating barriers to the suppliers' access to the market; or (iii) tying their entry into marketing agreements with suppliers to the turnover of their goods.

The Law on Advertising, as well as the Competition Law, restricts unfair competition in terms of information flow such as the: (i) dissemination of false, inaccurate, or distorted information that may inflict losses on an entity or cause damage to its business reputation; (ii) misrepresentation with respect to the nature, method, and place of manufacture, consumer characteristics, quality and quantity of a commodity or with respect to its producers; (iii) incorrect comparison of the products manufactured or sold by it with the products manufactured or sold by other entities; (iv) sale of commodities in violation of intellectual property rights, including trademarks and brands; or (v) illegal receipt, use, and disclosure of information constituting commercial, official or other secret protected by law.

### **Regulation of Natural Monopolies**

The Natural Monopolies Law defines “natural monopoly” as a condition of the commodities market in which the demand for products is satisfied more effectively by the absence of competition due to technological characteristics of the manufacturing process, and in which the product creating the monopoly cannot be readily substituted by another product. This makes demand for the monopoly product less responsive to the price movements than the demand for products in a non-monopolised market.

Under recent amendments to the Natural Monopolies Law, prior regulatory approval of particular transactions (certain investments that exceed 10% of a natural monopoly equity capital) is only required when such transactions relate to production of goods not governed by the Natural Monopolies Law and the revenue obtained from a natural monopolies' activities, in the sphere of natural monopolies, exceeds 1% of its total revenue.

The competent supervising authority can adopt binding decisions in cases where the Natural Monopolies Law has been breached and issue binding instructions to a natural monopoly, instructing them to remedy the breach or cease or refrain from conduct in breach of the Natural Monopolies Law, including instructions on eliminating the consequences of a breach. Russian legislation provides for civil and administrative liability for the violation of Natural Monopolies Law.

## **Investments into Russian Companies by Foreign Investors**

Federal Law No. 57-FZ dated 29 April 2008 “On Foreign Investments into Companies of Strategic Significance for the Defence of the Country and Security of the State”, as amended (the “**Strategic Investments Law**”) establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation. The Strategic Investments Law provides for a list of activities that are strategically important for national defence and security, which, inter alia, include exploration and extraction of natural resources on land plots of federal significance.

Under the Strategic Investments Law, direct or indirect acquisition by a foreign investor, which is defined to include foreign entities and foreign individuals (including, Russian individuals having other citizenship) and entities directly and indirectly controlled by them (or a group including such investor) (a “**Foreign Investor**”) of 25% or more of voting shares in a company which undertakes exploration and extraction of natural resources on land plots of federal significance (a “**Strategic Subsoil Company**”) requires a prior approval of the Government Commission on Control over Foreign Investments in the Russian Federation chaired by the Prime Minister of the Russian Federation (the “**Government Commission**”). The lower approval threshold (acquisition of more than 5% of voting shares or blocking rights) applies to the Foreign Investors which are or are controlled by foreign states and governmental organizations (a “**Sovereign Investor**”) as well as to those Foreign Investors which are or are controlled by entities registered in the so-called “offshore zones” (an “**Offshore Investor**”). Sovereign Investors and Offshore Investors are also generally prohibited from acquiring 25% or more of voting shares in the Strategic Subsoil Companies and otherwise acquire “control” over them. As at the date of this Prospectus, a subsidiary of the Company, JSC “Zabaikalstalinvest”, hold licences for exploration and extraction of natural resources on land plots of federal significance and, therefore, is considered a Strategic Subsoil Company. Under a strict interpretation of the Strategic Investments Law, the acquisition of 25 per cent or more voting shares (or more than 5% by a Sovereign Investor or an Offshore Investor) or blocking rights in a direct or indirect holding company of a Strategic Subsoil Company, such as the Company, is generally subject to the above limitations.

In addition to the above, some Russian subsidiaries of the Company, which are not Strategic Subsoil Companies, are engaged in other types of activities considered strategic under the Strategic Investments Law, such as Zavodskie Seti and VostSibUgol (a “**Strategic Company**”). Acquisition of more than 50% of voting shares in Strategic Companies by a Foreign Investor (or more than 25% of voting shares or blocking rights by a Sovereign Investor or an Offshore Investor) directly or through acquisition of shares in their holding companies, including the Company, is also subject to a prior approval of the Government Commission.

If the Company’s shares are acquired in the absence of a prior approval (where required), the acquisition is void under Russian law and there is a risk that the Foreign Investor’s voting rights in respect of the Group’s Strategic Subsoil Companies or Strategic Companies may be limited by a court’s decision. There is also a risk of a possible challenge to the resolutions of the general meeting of shareholders of, and transactions entered into by, the relevant Strategic Subsoil Company or Strategic Company after the Foreign Investor acquired the shares in breach of the prior approval requirement. In addition, failure to obtain a prior approval may result in fines imposed on the Foreign Investor.

Furthermore, under recent amendments to the Federal Law No. 160-FZ dated 9 July 1999 “On Foreign Investments in the Russian Federation” any transaction to be entered into by a Foreign Investor in respect of a Russian entity (whether of strategic importance or not) may be subjected to a prior approval of the Government Commission by the decision of the Prime Minister of the Russian Federation for the purposes of supporting the defence and security of the Russian Federation. These amendments are very recent and in the absence of any court or administrative practice, it is unclear how they should work in practice, including what percentage of shares may trigger such a clearance and until which point in time a transaction may be subjected to such clearance.

## **Labour Relations**

Employment and labour matters in Russia are regulated by the Labour Code, and certain other federal and regional laws and regulations as well as local acts.

### ***Employment Contracts***

As a general rule, employment contracts in Russia are for indefinite terms. Russian labour legislation restricts entrance into employment contracts with definite terms, asides for certain exceptions, including for senior management positions.

An employer may terminate an employment contract only on the basis of specific grounds, as listed in the Labour Code, which include:

- liquidation of an enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to lack of professional qualification as evidenced by the results of an evaluation;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;
- provision by the employee of false documents prior to entry into the employment contract; and
- other grounds as stated in the Labour Code or other federal laws.

An employee dismissed due to the downsizing or liquidation of an enterprise is entitled to receive compensation (including a severance payment) and depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for certain categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss pregnant women.

Termination of employment contracts with mothers having a child under the age of three, single mothers having a child under the age of 14 or a disabled child under the age of 18 or other persons taking care of a child under the age of 14 or caring for a disabled child under the age of 18 without a mother is also not permitted except in certain cases provided for in the Labour Code, including: (i) liquidation of an enterprise; (ii) systematic failure of the employee to fulfil his or her duties; or (iii) any single gross violation by the employee of his or her duties.

The Labour Code also sets forth some restrictions with respect to the termination of employment contracts with minors.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally-dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the illegal termination and reinstatement, as well as for claimed moral damages.

### ***Work Time***

The Labour Code sets the regular working week at 40 hours for most occupations. Any time worked beyond 40 hours per week as well as work on public holidays and weekends must be paid for at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. The retirement age in the Russian Federation is 60 years for men and 55 years for women.

### ***Salaries***

The minimum monthly wage in Russia, as established by the applicable federal law, is RUB8,800 from 1 January 2017.

### ***Strikes***

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements relating to legal strikes. Participation in a legal strike may not be grounds for terminating an employment contract, although employers are generally not required to pay salaries to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of an employment contract.

## **Trade Unions**

Trade unions are defined by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity No. 10 FZ, dated 12 January 1996, as amended (the “**Trade Union Law**”), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting the social and labour rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts, including the Labour Code. As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and entities, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes, meetings to protect social and labour rights of employees; and
- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their members enjoy certain guarantees as well, such as:

- the retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- the provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, a notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or the health of employees. The trade union may receive information on social and labour issues from an employer (or employers’ unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervising companies’ compliance with Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission will attempt to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to either mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and/or criminal liability. The Russian Code on Administrative Offences No. 195 FZ, dated 30 December 2001, as amended, specifies that such violations may lead to imposition of an administrative fine or, in certain circumstances, administrative suspension of activities for up to 90 days. Although the Russian Criminal Code No. 63 FZ, dated 13 June 1996, as amended, currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

## **Recent Amendments to the Russian Civil Code**

On 30 December 2012, the current Russian President Vladimir Putin signed the first set of amendments to the Russian Civil Code. The amendments form part of a major reform to Russian civil legislation. The majority of these amendments, which became effective on 1 March 2013, relate primarily to certain basic concepts of civil law, such as limits on the exercise of civil rights, state registration of rights to certain types of property, and compensation for losses incurred as a result of unlawful acts of the state authorities.

The second set of amendments to the Russian Civil Code was signed by the President on 7 May 2013. These amendments affect, *inter alia*, the general rules on transactions, the grounds on which a transaction may be challenged and the rules governing representation and powers of attorney. The amendments became effective on 1 September 2013. The most significant amendments provide for the following:

- a general presumption that a transaction which violates applicable law may be considered void (rather than void ab initio);
- a requirement that a person challenging a transaction must either be a party to the transaction or another such person as specified by law. Furthermore, in order to prevent counterparties from challenging transactions in bad faith on either formal or technical grounds, the amendments provide that a claim on challenging transactions will not be upheld if the party making the claim acted in a way which allowed other parties to treat the transaction as valid;
- general rules for adopting and challenging decisions taken at meetings (such as creditors' meetings and other meetings which have legal consequences) were introduced. Such general rules should not apply to shareholders' meetings in a joint stock company or participants' meetings in a limited liability company, or any other meetings to the extent which they are otherwise regulated;
- a number of requirements regulating the matters of representation and powers of attorney were amended and updated. Among other things, the amendments lift the restriction on the maximum term of powers of attorney (previously, three years) thus allowing a power of attorney to be issued for a longer term, the amendments also introduced a new type of a power of attorney (an irrevocable power of attorney), which requires notarisation. Additional measures protecting the counterparty's rights under transactions entered into with unauthorised person were introduced. The amendments provide for a new procedure of notification of third parties of revocation of a power of attorney by means of publication of the relevant termination notice;
- general rules for legal notices and notifications were introduced; and
- a final 10-year term for enforcing one's rights through the court in addition to the existing general three-year limitation period was introduced. In addition, pursuant to the amendments, the limitation period starts running from the day the respective person learned or should have learned: (i) about the violation of his or her rights; and (ii) who is the competent defendant in respect of the claim for protection of the relevant right.

The third set of amendments was signed by the President on 2 July 2013, which primarily affects the provisions of the Russian Civil Code which deals with securities. These amendments took effect on 1 October 2013. The most significant of these amendments provide for the following:

- differentiation of the regimes applicable to certificated and uncertificated securities: under the new classification certificated securities are treated as tangible property, while uncertificated securities are treated as "other property". Under the general rule, provisions governing registered certificated securities, records of which are maintained by a registrar or custodian, also apply to uncertificated securities. At the same time, a new section dedicated exclusively to uncertificated securities and dealing with specific aspects of their regulation was added to the Russian Civil Code. In particular, rules were introduced protecting holders of uncertificated securities in cases where the securities have been unlawfully debited from their accounts;
- a new concept of an "integrated immovable property complex", defined as a set of physically or technologically interconnected immovable property objects having the same designated use and treated as a single item of real property, was added to the Russian Civil Code; and
- a general rule that any benefit, output or proceeds resulting from the use of an asset belongs to the owner rather than its user.

The fourth set of amendments to the Russian Civil Code was signed by the President on 30 September 2013. These amendments became effective on 1 November 2013. The most significant of which provide for the following:

- a court may impose the duty of providing information on the content of foreign law rules on the parties to the proceedings (before the introduction of the relevant amendment a court could vest the burden of proof of the content of foreign law rules in the parties);

- an exception from the general rule on *lex personalis* of legal entities was introduced providing that at the choice of the creditors either Russian law or the personal law may apply to liability claims to a foreign legal entity's founders (participants) and other persons entitled to give instructions to be acted upon by a foreign legal entity predominantly carrying out its business activities within the territory of the Russian Federation; and
- parties to foundation agreements and participants' agreements of a legal entity are now free to choose the governing law applicable to such agreements, as long as that choice does not affect the operation of the imperative requirements of the *lex personalis* of the respective legal entity.

The fifth set of amendments to the Russian Civil Code, primarily deals with rules relating to pledges and mortgages.

The sixth set of amendments to the Russian Civil Code was also signed by the President on 21 December 2013 and introduced "nominee account agreements" and "escrow agreements" as contracts. These amendments became effective on 1 July 2014.

The seventh set of amendments to the Russian Civil Code was signed by the President on 12 March 2014 and primarily deals with rules relating to the legal protection of intellectual activity and means of individualisation. The majority of these amendments took effect on 1 October 2014. The most significant of these amendments provide for the following:

- rules regulating the pledge of exclusive rights were introduced;
- the prohibition for a right holder to use a result of intellectual activity for which it had been granted an exclusive license;
- the decrease of up to five years of the effective term of an exclusive right to utility models; and
- the imperative rule under which proceeds from a joint disposal of an exclusive right should be distributed equally between the rights holders.

The eighth set of amendments was signed by the President on 5 May 2014 and covers a wide range of corporate issues. These amendments took effect on 1 September 2014 and the most significant of them provide for the following:

- a new division of legal entities into corporations and unitary legal entities;
- the replacement of open and closed joint stock companies by public and non-public entities;
- new opportunities for corporate structures;
- general principles of "corporate contracts" (shareholders' agreements and participants agreements);
- the scope of liability of the management bodies and persons who may determine a business entity's conduct;
- new types of reorganisation;
- grounds for invalidating reorganisation coupled with the relevant aftermath; and
- the priority of creditors in terms of liquidation.

The ninth set of amendments was signed by the President on 8 March 2015 and covers primarily the laws governing obligations and contracts. These amendments entered into force on 1 June 2015 and the most significant of them provide for the following:

- extension of the statute of limitations where the debtor accepts its debt in writing;
- an option for the creditors to enter into an agreement on the procedure and manner of satisfaction of their claims by the debtor;
- the amendment of certain provisions relating to the place of the performance of an obligation and maturity thereof;
- the amendment of certain provisions relating to security, including the introduction of a new type of security and security payment, to the Civil Code;

- change of the basis of calculation of interest for unauthorised use of monetary funds (i.e., determination by reference to the average retail deposits interest rate, unless otherwise set out by law or contractual arrangements);
- introduction of concepts similar to representations, warranties and indemnities; and
- the amendment of certain provisions relating to pre-contractual obligations and liabilities.

In addition to the full scope amendments described above the Civil Code has been further amended on a case by case basis.

As at the date of this Prospectus, there exists certain ambiguity in interpretation of the above amendments by state authorities (including the courts) and the full impact of the above amendments on the Group's activities and corporate governance, is unknown.

## DESCRIPTION OF SHARE CAPITAL AND APPLICABLE JERSEY LEGISLATION

*Set forth below is a description of the Company's share capital, the material provisions of the Company's M&A in effect on the date of this Prospectus and certain requirements of Jersey legislation. Holders of the GDRs will be able to exercise their rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the Deed Poll and the relevant requirements of Jersey law (see "Terms and Conditions of the Global Depositary Receipts").*

### **Description of the Company**

The Company was incorporated as a private limited liability company limited by shares and was registered in British Virgin Islands on 30 April 2002 under the name Baufinanz Limited. On 18 March 2004 the Company registered a change of its legal name to Eagle Capital Group Limited. On 25 August 2005, the Company changed its domicile to Jersey and was renamed to En+ Group Limited. On 1 June 2017, the Company re-registered as a public company in Jersey and was renamed to En+ Group plc and has conducted business since that date. The principal legislation under which the Company operates, and under which the Ordinary Shares are created, is the Companies Law. The Company's registered office is 44 Esplanade, St Helier, Jersey, JE4 9WG (Telephone: 01534 504 000).

### **Purpose**

The Company's purpose includes, among other things, to undertake business of a commercial nature. The Company has an unrestricted corporate capacity.

### **Share Capital**

The Company's authorised share capital on its incorporation was U.S.\$1,000 divided into 1,000 ordinary shares of U.S.\$1.00 each, fully subscribed for by B-Finance Limited.

Prior to the date of this Prospectus, the Company's shareholders resolved on 1 June 2017 to subdivide the authorised share capital of the Company from U.S.\$50,000 divided into 50,000 Ordinary Shares of U.S.\$1.00 each to U.S.\$50,000 divided into 12,500,000,000 Ordinary Shares of U.S.\$0.000004 each, such that each share in the capital of the Company with a par value of U.S.\$1.00 was subdivided into 250,000 shares with a par value of U.S.\$0.000004.

To meet certain legal requirements for redomiciling as a public Company to Cyprus, the Company's shareholders further resolved on 9 October 2017 to increase the issued share capital of the Company to US\$35,000 such that 8,250,000,000 additional Ordinary Shares of US\$0.000004 each were issued to the shareholders on a *pro rata* basis. The shareholders then immediately resolved to consolidate the authorized share capital of the Company such that every 17.5 Ordinary Shares of US\$0.000004 each were consolidated into 1 Ordinary Share of US\$0.00007 so that the current authorized share capital of the Company is US\$50,000 divided into 714,285,714.286 Ordinary Shares of US\$0.00007 each.

As a result, as of the date of this Prospectus, the Company's issued share capital is U.S.\$35,000 divided into 500,000,000 Ordinary Shares, each with a par value of U.S.\$0.00007, all of which are fully paid, free from any liens and any restrictions on the right to transfer. As of the date of this Prospectus, the Company's authorised share capital is U.S.\$50,000 divided into 714,285,714.286 Ordinary Shares of U.S.\$0.00007. The Company's authorised and issued fully paid share capital immediately following the Offering will be 571,428,572 Ordinary Shares. The Company does not have in issue any listed or unlisted securities not representing its share capital.

As at the date of this Prospectus, the Company's major shareholders were B-Finance Limited (BVI) with a 61.55% ownership interest and Basic Element Limited (Jersey) with a 21.10% ownership interest.

Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of the Company's Ordinary Shares.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.



## **Articles of Association**

The Company operates in conformity with the M&A.

The Company's current M&A will be in force on the London Admission.

Under Companies Law, the capacity of a Jersey company is not limited by anything contained in its memorandum or articles of association. Accordingly, the memorandum of association of a Jersey incorporated company, and hence that of the Company, does not contain an objects clause.

Where considered appropriate and subject to the Companies Law, provisions have been incorporated into the M&A to enshrine rights that are not conferred by the Companies Law but which shareholders in a Jersey company whose global depository receipts listed on the London Stock Exchange would normally expect.

The following is a brief summary of certain material provisions of the Company's M&A as will be in effect on and immediately prior to the Closing Date.

### *Share rights*

Subject to the provisions of the Companies Law relating to authority or otherwise and to any resolution of the Company passed in a general meeting pursuant to those provisions and any provision of the M&A, all unissued shares for the time being in the capital of the Company are at the disposal of the directors of the Company. The directors of the Company may allot such shares on any terms and conditions, grant options over them, offer them for sale or otherwise dispose of them in any other way.

### *Voting rights on new shares*

Subject to any rights or restrictions as to voting attached to any shares, on a show of hands, every member present in person or (subject to certain conditions) by proxy shall have one vote, and, on a poll, every member present in person or by proxy has one vote for every share of which he is the holder.

If, at the time of any general meeting or class meeting, a member owes the Company any money in relation to his or her shares, he or she will not be entitled to vote such share (either in person or by proxy) or exercise any other right attached to that share at that general meeting or class meeting. Amongst other things, a member may not exercise voting rights in respect of shares which are subject to a restriction notice, which has been served as a result of the member's failure to provide the Company such information concerning interests in such shares, as required by the M&A.

### *Dividends*

Subject to the provisions of the Companies Law, the members may by ordinary resolution declare any dividend out of any lawful source, but no dividend shall exceed the amount recommended by the directors of the Company. Subject to the provisions of the Companies Law, the directors of the Company may pay interim dividends out of reserves of profit if it appears to the directors of the Company that it is justified by the financial position of the Company.

If the share capital of the Company is divided into different classes of shares, the directors of the Company may pay dividends on shares which confer deferred or non-preferred rights with regard to dividends as well as on shares which confer preferential rights with regard to dividends but no dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. Subject to the provisions of the Companies Law, the directors of the Company may also pay, at intervals settled by them, any dividend payable at a fixed rate if it appears to them that there are sufficient funds of the Company lawfully available for distribution to justify the payment and if the directors of the Company act in good faith, they shall not incur any liability to the members holding shares conferring preferred rights for any loss those members may suffer by the lawful payment of the dividend on any shares having deferred or non-preferred rights.

The directors of the Company may deduct from a dividend or any other amount payable to a person in respect of a share any amount due by that person to the Company on a call or otherwise in relation to a share. If the directors so determine, any resolution determining a dividend may direct that it shall be satisfied wholly or partly by the distribution of assets or the issue of shares. If a difficulty arises in relation to the distribution, the directors may settle that difficulty in any way they consider appropriate. For example, they issue fractional shares, fix the value of assets for distribution and make cash payments to

some members on the footing of the value so fixed in order to adjust the rights of members and vest some assets in trustees.

Unless provided for by the rights attached to a share, no dividend or other monies payable by the Company in respect of a share shall bear interest.

If a dividend cannot be paid to a member or remains unclaimed within six weeks after it was declared or both, the directors may pay it into a separate account in the Company's name. If a dividend is paid into a separate account, the Company shall not be constituted trustee in respect of that account and the dividend shall remain a debt due to the member.

A dividend that remains unclaimed for a period of ten years after it became due for payment shall be forfeited to, and shall cease to remain owing by, the Company.

#### *Variation of rights*

Subject to the provisions of the Companies Law, if the share capital of the Company is divided into different classes of shares then, unless the terms on which a class of shares was issued state otherwise, the rights attaching to a class of shares may only be varied if the members holding two thirds of the issued shares of that class consent in writing to the variation, or the variation is made with the sanction of a special resolution passed at a separate general meeting of the members holding the issued shares of that class.

#### *Lien and forfeiture*

The Company has the right to any unpaid money on a partly paid share. This covers any money which is owed to the Company by the member, where the money has been called for or is payable under the terms on which the share was issued. The Company has the right to sell any partly paid share if a member fails to pay any money due on the partly paid share within 14 clear days of notice of the amount of money owed being given to the holder of the share or to the person entitled to the share by transmission. The directors of the Company can call at any time on members on one or more occasions to pay any money which they owe to the Company on a share, provided the call is made in accordance with the M&A and the terms of allotment of the relevant share. If a member does not pay the money due under a call or any instalment of a call by the due date, he must pay interest on the amount due from the due date until it is actually paid. If the terms of any allotment of any share require money to be paid when the share is allotted or on a fixed date, the amount payable will be treated in the same way as if a valid call had been made for that money on the same date the money is due. If the money is not paid, the provisions of the M&A relating to calls and forfeiture will apply as if the member had been notified of a valid call for that amount on that date.

#### *Ownership of shares by non-U.K. persons*

There are no provisions in the M&A that restrict non-U.K. resident or foreign shareholders from holding shares in the Company or from exercising voting rights attached to such shares.

#### *Transfer of shares*

A transfer of a certificated share must be in writing, either by the usual transfer form or in any other form which the directors of the company approve. The transfer form must be signed by or on behalf of the person transferring the share and, unless the share is fully paid, by or on behalf of the person acquiring the share. The transfer form does not need to have a seal attached.

The directors may refuse to register the transfer of a share which is not a fully paid share (whether certificated or uncertificated) to any person *provided that*, where any such shares or any interest in such shares or any other security issued in respect of such shares are admitted to the Official List of the Financial Conduct Authority or admitted to AIM such discretion may not be exercised in a way which the Financial Conduct Authority or the London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis.

If the directors refuse to register the transfer of a share, they must send notice of their refusal and reasons for refusal, unless they suspect that the proposed transfer or renunciation may be fraudulent, to the existing member as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company.

The directors may suspend registration of any transfer of shares at such times and for such periods (not exceeding 30 days in aggregate in any calendar year) as they determine *provided that*, where any such shares or any interest in such shares or any other security issued in respect of such shares is admitted to the Official List of the Financial Conduct Authority or admitted to AIM, such discretion may not be exercised in a way which the Financial Conduct Authority or the London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis.

#### *Liquidation rights*

If the Company is wound up, the liquidator can, with the approval of a special resolution passed by the members and any other sanction required by the Companies Law, divide some or all of the Company's assets among the members. The liquidator may determine the value of such assets and how they are to be divided between the members and a trustee.

#### *Disclosure of shareholdings*

The UK Listing Authority disclosure and transparency rules (the “**Disclosure and Transparency Rules**”) require members to notify the Company if the voting rights attached to shares held by them (subject to some exceptions) reach, exceed or fall below 3% and each 1% threshold thereafter up to 100%. Pursuant to the M&A, the Company may also send a notice to any person whom it knows or has reasonable cause to believe is interested in its shares or to have been so interested at any time during the three years immediately preceding the date on which the disclosure notice is issued, requiring such person to confirm whether he has such an interest and, if so, details of that interest. Under the M&A, if a member fails to supply the information requested in the notice or provides information that is false in a material way, the directors of the Company may serve a restriction notice on such person stating, amongst other things, that the member may not attend or vote at any general or class meeting in respect of some or all of his or her shares, to receive payment by way of dividend or transfer any of those shares or rights therein.

#### *Rights to share in the Group's profits*

Subject to the Companies Law, the directors of the Company may resolve to capitalise any part of the Company's reserves not required for paying any preferential dividend. The amount resolved to be capitalised must be appropriated to the members who would have been entitled to it had it been distributed by way of dividend and in the same proportions.

#### *Circulation of shareholder resolutions*

Members may pass a resolution in writing without holding a meeting if: (a) all members entitled to vote receive a copy of the resolution and a statement informing the members how to signify agreement to the resolution and the date by which the resolution must be passed if it is not to lapse; (b) the specified majority of members entitled to vote sign a document or sign several documents in the like form each signed by one or more of those members; and (c) the signed document or documents is or are delivered to the Company at the place and by the time nominated by the Company in the notice of the resolution. Such written resolution shall be as effective as if it had been passed at a meeting of all members entitled to vote duly convened and held. Each member shall have one vote for each share he holds which confers the right to receive and vote on a written resolution and unless the resolution in writing signed by the member is silent, in which case all shares held are deemed to have been voted, the number of shares specified in the resolution in writing shall be deemed to have been voted. If a written resolution is described as a “Special Resolution” or as an “Ordinary Resolution”, it has effect accordingly.

Although silent in the M&A, the Companies Law permits members of the Company to require the Company to circulate a written resolution to members. For this purpose, the members must represent at least 10% of the total voting rights of all members who have a right to vote on the relevant resolution. Similarly, if so requested the Company shall also circulate to members a statement of not more than 1,000 words with respect to the subject matter of the written resolution.

#### *Accounts*

Members are only entitled to inspect the Company's records if they are expressly entitled to do so by law, or by resolution made by the directors or passed by ordinary resolution.

The Company's accounts and associated directors' report and independent auditor's report that are required or permitted to be sent to any person pursuant to any law shall be treated as properly sent to that person if they are published on a website providing that person is given separate notice of the fact that the documents have been published on the website, the address of the website, the place on the website where the documents may be accessed and how they may be accessed.

### ***General meetings***

The directors of the Company can call a general meeting at such times at it chooses. Members must be given at least 14 clear days' notice of all general meetings. The members can require the directors of the Company to call a general meeting in accordance with the Companies Law. Notice of a general meeting must be given to all of the Company's members (subject to certain exceptions for holders of partly-paid shares), the directors and the auditors. Subject to the Companies Law, a notice of a general meeting may be published on a website. The notice calling a general meeting must specify the place, day, time and general nature of the business of the meeting. A member may attend and/or vote at general meetings or class meetings in person or by proxy. The M&A contain provisions for the appointment of proxies, including electronic communication of appointments and cut off times for appointments prior to general meetings. Even if a director is not a member, he is entitled to attend and speak at any general meeting or class meeting. A quorum for a general meeting is two individuals who are either: (i) members; (ii) duly authorised representatives of members; or (iii) proxies for members. If a quorum is not present within 15 minutes of the time appointed for the general meeting, the meeting shall be adjourned to the same time and place seven days hence or such later time and date as the directors may determine, unless the meeting was called at the request of the members in which case it shall be cancelled. The directors must call a general meeting if requisitioned in writing by one or more members who together hold at least 10% of the rights to vote at such general meeting.

### ***Directors***

#### ***Appointment of directors***

The Company must have at least two directors (not counting alternate directors). There is no maximum number of directors.

At every annual general meeting, there shall retire from office: (a) any director who shall have been a director at each of the preceding two annual general meetings and who was not appointed or reappointed by the Company in general meeting at, or since, either such meeting; and (b) any nonexecutive director who has served longer than nine years. A retiring director shall be eligible for reappointment. A director retiring at a meeting shall, if he is not re-appointed at such meeting, retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of such meeting.

The Company may from time to time by ordinary resolution appoint a person who is willing to act to be a director either to fill a casual vacancy or as an additional director.

The directors shall have power at any time, and from time to time, to appoint any person to be a director of the Company, either to fill a casual vacancy or as an addition to the existing directors. Any director so appointed shall hold office only until the next following annual general meeting, and shall then be eligible for reappointment. If not reappointed at such meeting, he or she shall vacate office at the conclusion thereof.

#### ***Eligibility of new directors***

No person other than a director retiring at the meeting shall, unless recommended by the directors, be eligible for appointment to the office of director at any general meeting unless not less than seven nor more than 42 days before the date appointed for the meeting there shall have been left at the registered office of the Company notice in writing, signed by a member of the Company duly qualified to attend and vote at such meeting, of his or her intention to propose such person for appointment, and also notice in writing signed by that person of his or her willingness to be appointed.

There is no age limit for directors save that they must be aged at least 18 years. Unless prohibited by law, a body corporate may be a director.

### *No share qualification*

Directors do not need to be shareholders in the Company.

### *Retirement and removal of directors*

A director may at any time resign office by giving to the Company notice in writing.

The Company may by ordinary resolution and in accordance with applicable law, remove any director before the expiration of his period of office notwithstanding anything in the M&A or in any agreement between the Company and such director. Where the director is removed in this manner, the Company may by ordinary resolution appoint another person in place of such director.

### *Remuneration of directors*

Every director may be remunerated by the Company for the services he provides for the benefit of the Company, whether as director, employee or otherwise, and shall be entitled to be paid for the expenses incurred in the Company's business including attendance at directors' meetings.

The directors shall be paid out of the funds of the Company by way of fees for their services as directors such sums (if any) as the directors may from time to time determine (not exceeding in the aggregate an annual sum as set out in the M&A or such larger amount as the Company may by ordinary resolution determine) and such remuneration shall be divided between the directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

Remuneration may take any form and may include arrangements to pay pensions, health insurance, death or sickness benefits, whether to the director or to any other person connected to or related to him. Unless the fellow directors determine otherwise, a director is not accountable to the Company for remuneration or other benefits received from any other company which is in the same group as the Company or which has common shareholdings.

### *Appointment of executive directors*

Subject to the Companies Law, the directors of the Company can appoint a director to any executive position (except that of auditor), on such terms and for such period as it thinks fit. The directors of the Company can also terminate or vary an executive appointment whenever it wishes and decide on any fee or other form of remuneration to be paid for such appointment. This fee or other remuneration may be as well as or instead of any fees payable as a director.

### *Permitted interests of directors*

Subject to the provisions of the Companies Law, as long as a director has disclosed the nature and extent of his or her interest, a director can: (a) be a party to, or otherwise interested in, any transaction or arrangement with the Company or any subsidiary of the Company in which the Company or any such subsidiary is or may otherwise be interested; (b) be interested in another body corporate promoted by the Company or any such subsidiary or in which the Company or any such subsidiary is otherwise interested. In particular, the director may be a director, secretary or officer of, or employed by, or be a party to any transaction or arrangement with, or otherwise interested in, that other body corporate. A director who has, and is permitted to have, any interest referred to above can keep any remuneration or other benefit which he derives as a result of having that interest as if he were not a director. Any disclosure may be made at a meeting of the Board of Directors of the Company, by notice in writing or by general notice or otherwise in accordance with the Companies Law. A director may vote at a meeting of directors on any resolution concerning a matter in which that director has an interest or duty, whether directly or indirectly, so long as that director discloses his or her interest. However, nothing in the M&A shall permit the Company to cease to comply with the London Stock Exchange (or other relevant stock exchange) rules or the relevant provisions of the DTRs.

### *Borrowing powers*

Subject to the relevant legislation and the M&A, the directors of the Company can exercise all the Company's powers relating to borrowing money, giving security over all or any of the Company's business and activities, property, assets (present and future) and uncalled capital, and issuing debentures and other securities.

### ***Indemnity of officers***

As long as the Company complies with the provisions of the Companies Law relating to the indemnification of officers, it will indemnify every existing or former secretary, director (including alternate director), other officer and their personal representatives out of the assets of the Company against any liability incurred by him or her for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company. This provision does not affect any indemnity which a director or officer is otherwise entitled to.

### ***Other***

Each member must comply with the notification obligations to the Company contained in Chapter 5 of the Disclosure and Transparency Rules including, without limitation, the provisions of DTR 5.1.2. Accordingly, the vote holder and issuer notification rules shall apply to the Company as well as each holder of shares. If a member fails to comply with obligations under the relevant rule, the directors of the Company may impose certain restrictions on that holder.

The directors may pass a resolution in writing without holding a meeting if all directors are given notice of the resolution; and the resolution is set out in a document or documents indicating that it is a written resolution; and a simple majority of the directors sign the same (including in counterpart). Such written resolution shall be as effective as if it had been passed at a meeting of the directors duly convened and held.

### **Jersey Law**

#### ***General***

The principal legislation under which the Shares have been created and under which the Company now operates is the Companies Law. The Ordinary Shares:

- (i) conform with the laws of Jersey;
- (ii) are duly authorised according to the requirements of the M&A; and
- (iii) have all necessary statutory or other consents.

The liability of shareholders is limited. Under the Companies Law, a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

#### ***City Code***

The Company is a public company incorporated, managed and controlled in Jersey. The GDRs will be admitted to the Official List and to the London Stock Exchange for trading on the London Stock Exchange's regulated market for listed securities. Accordingly, the City Code will apply to the Company from the date of the London Admission.

#### ***Mandatory bids***

Under Rule 9 of the City Code, if an acquisition of an interest in Ordinary Shares were to increase the aggregate holding of the acquirer and persons acting in concert with it to interests in shares carrying 30% or more of the voting rights in the Company, the acquirer and, depending on the circumstances, the persons acting in concert with it would be required (except with the consent of the U.K. Panel on Takeovers and Mergers) to make a cash offer for all of the remaining Ordinary Shares not held by that party (or those parties). Any such offer must be in cash (or accompanied by a cash alternative) at not less than the highest price paid by the acquirer or any person acting in concert with it for an interest in shares in the Company during the previous 12 months.

Where shares or other securities are charged as security for a loan and, as a result of enforcement, the lender would otherwise incur an obligation to make a general offer under the City Code, the U.K. Panel will not normally require an offer if sufficient interests in shares are disposed of within a limited period to persons unconnected with the lender, so that the percentage of shares carrying voting rights in which the lender, together with persons acting in concert with it, is interested is reduced to below 30% in a manner satisfactory to the Panel.

A similar obligation to make a mandatory cash offer would also arise on an acquisition of an interest in Ordinary Shares in the Company by a person who (together with persons acting in concert with it) is interested in shares which in the aggregate carry between 30% and 50% of the voting rights in the Company if the effect of the acquisition were to increase the percentage of shares carrying voting rights in the Company in which that person is interested.

#### *Squeeze-out rules*

Under the Companies Law, if an offeror were to acquire 90% or more of the Ordinary Shares within the period specified by the Companies Law, it could then compulsorily acquire the remaining Ordinary Shares. It would do so by sending a notice to the relevant Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold such consideration on trust for such Shareholders.

The consideration offered to Shareholders whose Ordinary Shares are compulsorily acquired under the Companies Law must, in general, be the same as the consideration that was available under the relevant takeover offer, unless such Shareholders can show that the offer value is unfair.

#### *Sell-out rules*

The Companies Law also gives minority Shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer relates to all of the Ordinary Shares and at any time before the end of the period within which the offer could be accepted the offeror holds or has agreed to acquire not less than 90% of the Ordinary Shares, any holder of Ordinary Shares to which such offer relates who has not accepted the offer can by written communication to the offeror require it to acquire those Ordinary Shares. The offeror would be required to give any Shareholder notice of his or her right to be bought out within one month of that right arising. If a Shareholder exercises its right to be bought out, the offeror is bound to acquire the relevant Ordinary Shares on the terms of the offer or on such other terms as may be agreed. The offeror need not give notice as described in this paragraph if it has already sent notice in accordance with the squeeze out provisions set out in paragraph (*Squeeze-out Rules*) above.

## **DESCRIPTION OF APPLICABLE CYPRIOT LEGISLATION FOLLOWING THE REDOMICILIATION**

*Set forth below is a description of certain provisions of Cypriot legislation applicable to the Company following the intended redomiciliation. Holders of the GDRs will be able to exercise their rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the Deed Poll and the relevant requirements of Cypriot law (see “Terms and Conditions of the Global Depositary Receipts”).*

### **Rights Attaching to Ordinary Shares**

#### ***Pre-emption rights***

On an issue of shares, each shareholder would have a right of pre-emption to subscribe for shares (apart from shares issued for a non-cash consideration) in cash in proportion to the number of shares held by them. If a shareholder declines to accept the shares offered to him pursuant to such pre-emption rights, the directors of the Company may distribute or otherwise dispose of those shares to such persons and under any such terms as they see fit. Pre-emption rights may be waived by the shareholders of the Company in accordance with the provisions of section 60B of the Companies Law. Section 60B of the Companies Law provides that pre-emption rights may be limited or excluded by the Company's shareholders in a general meeting passing a resolution by a two thirds majority of the Company's share capital represented at a general meeting, except where at least half of the Company's issued share capital is represented at the meeting, in which case the resolution can be passed by a simple majority.

#### ***Voting rights***

Subject to any special rights or restrictions as to voting attached to shares, every holder of shares who is present at a general meeting in person or by proxy shall, on a show of hands, have one vote and, on a poll, have one vote for each share held by him. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate member could exercise if it were an individual member of the Company.

#### ***Dividends***

The Company may in a general meeting declare dividends, but no dividend shall exceed the amount recommended by the Board of Directors. Subject to the provisions of the Companies Law, the Board of Directors may from time to time pay to shareholders such interim dividends as considered by the Board of Directors to be justified by the Company's profits but no dividend will be paid otherwise than out of profits. The Board of Directors may, before recommending any dividend, set aside such an amount as they consider proper out of the Company's profits as a reserve or reserves which shall, at the discretion of the Board of Directors, be applicable for any purpose to which the Company's profits may be properly applied, and pending such application may, at the discretion of the Board of Directors, either be employed in the Company's business or be invested in such investments (other than the Company's shares) as the Board of Directors may from time to time think fit. The Board of Directors may also, without placing the same to reserve, carry forward any profits which they may think prudent not to divide.

#### ***Variation of rights***

If at any time the share capital is divided into different classes of shares, the rights attached to any class may, subject to provisions of sections 59A and 70 of the Companies Law, whether or not the Company is being wound up, be varied with the sanction of a resolution, passed at a separate general meeting of the holders of the shares of the class, by a two thirds majority of the share capital represented at that meeting or, where at least half of the shares of that class is represented at the meeting, by a simple majority.

#### ***Alteration of capital***

The Company may by a resolution taken in accordance with section 59A of the Companies Law:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;



- consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;
- subdivide any of its existing shares into shares of smaller amounts than is fixed by the articles and memorandum of association subject, nevertheless, to the provisions of Section 60(1)(d) of the Companies Law; and
- cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person. The Company may also, by special resolution, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with, and subject to, any incident authorised and consent required by the Companies Law.

### ***Winding up***

If our company is wound up, the liquidator may, upon a special resolution and any other procedure prescribed by the Companies Law: (i) divide all or part of our assets among the shareholders; and (ii) vest the whole or any part of such assets in trustees for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder is compelled to accept any shares or other securities with any attached liability.

### ***Form and transfer of shares***

The instrument of transfer of any share must be executed by or on behalf of the transferor and the transferee, and the transferor will be deemed to be the holder of the share until the name of the transferee is entered into the register of shareholders. Except as set out above and in the Company's articles of association, shareholders are entitled to transfer all or any of their shares by instrument of transfer in any usual or common form or in any other form, including electronic form, which the directors may approve.

### ***Directors***

#### ***Appointment of directors***

The shareholders in a general meeting are entitled to appoint, and, subject to compliance with Section 136 of the Companies Law, dismiss members of the Board of Directors. In addition, the office of any director will be vacated in some additional cases provided for by the company's articles of association.

#### ***Directors' interests***

A director shall not vote at a meeting of the Board of Directors or of a committee of the Board of Directors (nor be counted in the quorum), on any resolution concerning a matter in which he has, directly or indirectly, an interest unless his or her interest arises only because the case falls within one or more of the permitted interests. A director who is any way, directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his or her interest at a meeting of the Board of Directors in accordance with section 191 of the Companies Law.

### ***Meetings of shareholders***

An annual or extraordinary general meeting and any meeting called for the purpose of passing a special resolution can be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued within the applicable timeframe. A notice convening a general meeting must be sent to each of the shareholders. All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. In the general meeting, on a poll, every share gives the holder the right to cast one vote, whereas, on a show of hands, each member has one vote.

Subject to the provisions of the Companies Law, resolutions in writing signed or approved by all shareholders entitled to vote at general meetings are as valid and effective as if they had been passed at a general meeting of the Company that was duly convened and held.

### ***Indemnity of officers***

Subject to the Companies Law, each of the Company's current or former officers shall be indemnified out of the Company's assets against all actions, expenses, charges, losses, indemnities and costs, which any of them, or their successors or executors or any of them have sustained or incurred or may sustain or incur by reason of any contract they entered into or any act they did or collaborated in the performance of, or

omitted to do at or during the performance of their duties or alleged duties in their respective offices or trusts, other than those (if any) which they may sustain or incur as a consequence of their own wilful act, neglect or omission.

The Board of Directors may, to the extent permitted by the Companies Law, purchase and maintain for, (or for the benefit of) any person who holds or who has at any time held a relevant office, insurance against any liability or expense incurred by him in relation to the Company or any of the Company's subsidiaries or any third party in respect of any act or omission in the actual or purported discharge of the duties of the relevant officer concerned, or otherwise in connection with the holding of that relevant office.

## **Cypriot Law Applicable to the Company**

### ***General***

Post-redomiciliation, the Company's shares should:

- (i) conform with the laws of Cyprus;
- (ii) be duly authorised according to the requirements of the M&A; and
- (iii) have all necessary statutory or other consents.

The liability of shareholders is limited. Under the Law, a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

### ***Anti-takeover protection***

As a company with its registered office in Cyprus whose shares represented by the GDRs are listed on a regulated market in the United Kingdom, any offer for such GDRs will be subject to the provisions of the City Code in respect of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law would apply to such an offer in relation to company law matters, including the threshold for a mandatory bid. Cyprus law would also govern matters such as: (i) notification of the offer to Company employees, being the personnel of the Company; (ii) exemptions from the obligation to make a public offer; and (iii) the circumstances in which the board of directors is prohibited or permitted (as the case may be) to act in a manner which could frustrate the offer.

Section 13 of the Public Take Over Bids Law, law no. 41(I)/2007 as amended (the "**Cyprus Takeover Law**") provides that, where a person, as a result of acquisition by himself or by persons acting in concert with him, holds securities of a company which, in conjunction with any existing holdings by him or by persons acting in concert with him, directly or indirectly give him 30% or more of the existing voting rights in such company at the date of the acquisition, such a person is under an obligation to immediately make a bid to all holders of such securities for their entire holding at a fair price. Such mandatory bid obligation will apply in each of the following set of circumstances, which is a non-exhaustive list:

- (i) where such person does not hold any securities in such company at all or holds securities representing less than 30% of the voting rights and the acquisition gives such person 30% or more of the voting rights in such company; or
- (ii) where such person already has a holding of 30% or more, but less than 50% of such company's voting rights, and proposes to increase his or her holding.

Section 14 of the Cyprus Takeover Law provides that, where a person already holds more than 50% of the voting rights in a company, further acquisition of securities in such company does not trigger an obligation for a mandatory bid provided the Cyprus Securities and Exchange Commission (the "**CySEC**") has granted an exemption (which may be granted only if such acquisition does not affect the rights of minority holders).

Under section 36 of the Cyprus Takeover Law, where the offeror has made a bid to all the holders of such securities for their entire holding, the offeror has the right to require the holders of any remaining securities to sell such securities to him in any of the following situations:

- (i) where the offeror holds securities representing at least 90% of all securities carrying voting rights and at least 90% of the voting rights in the company; or

- (ii) where the offeror holds or has irrevocably agreed to acquire, following the acceptance of a takeover bid, securities in the company representing at least 90% of all securities carrying voting rights and at least 90% of the voting rights included in the takeover bid.

The offeror may exercise such right within three months from the end of the period allowed for acceptance of the bid, by submitting an application to the CySEC, in which the consideration for the securities must be specified. The consideration must take the same form as and be at least equal to the consideration offered in the bid. A cash alternative is permitted, if accepted by the recipient.

Furthermore, section 37 of the Cyprus Takeover Law provides that a holder of any remaining securities in any of the two situations described above has the right to require the offeror to buy his or her securities at a fair price, being at least equal to and taking the same form as the consideration offered in the bid, including a cash alternative if acceptable to the recipient, *provided that* such right is exercised within three months from the end of the period allowed for acceptance of the bid.

The Cyprus Companies Law also contains provisions in respect of squeeze out and sell out rights. The effect of these provisions is that, where a company (the “**offeror company**”) makes a take-over bid for all the shares or for the whole of any class of shares of a Cypriot company, and the offer is accepted within four months after the making of the offer by the holders of not less than 90% in value of the shares concerned (other than shares already held by or on behalf of the offeror company), the offeror company can, within two months from the expiration of the said four months, upon the same terms acquire the shares of shareholders who have not accepted the offer, unless such persons can, within one month from the date on which the notice was given, persuade the court not to permit the acquisition. If the offeror company already holds more than 10% in value of the shares concerned, additional requirements need to be met before the minority can be squeezed out.

Furthermore, if the offeror company acquires sufficient shares to aggregate, together with those already held by it or on its behalf, 90% or more in value of the shares concerned then, within one month of the date of the transfer which gives the 90%, it must give notice of the fact to the remaining shareholders and such shareholders may, within three months of the notice, require the offeror company to acquire their shares and the offeror company shall be bound to do so upon the same terms as in the offer or as may be agreed between them or upon such terms as the court may order. There have been no public takeover bids by third parties for all or any part of the Company’s equity share capital since the Company’s date of incorporation.

#### *Notifiable interests*

To the extent that the Cyprus Transparency Requirements (Securities Admitted to Trading in a Regulated Market) Law, No.190(I)/2007 as amended (the “**Transparency Law**”), which has implemented the E.U. Transparency Directive in Cyprus, applies, the notification requirements set out below would apply.

Under the Transparency Law, “shareholders” of a Cypriot public company admitted to trading on a regulated market within the E.U. are subject to certain notification requirements whenever their holding of voting rights in the company concerned reaches, exceeds or falls below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the company’s total voting rights, as a result of an acquisition or disposal of company shares or as a result of events changing the breakdown of the company’s voting rights. For the purposes of the Transparency Law, “shareholder” includes a holder of depositary receipts provided the bearer of the depositary receipts is deemed to be the holder of the shares represented by the depositary receipts concerned. It is not clear, however, at the time of publication of this Prospectus, whether the provisions of the Transparency Law would apply to a Cypriot public company with the GDRs, as opposed to the underlying shares, admitted to trading on a regulated market within the E.U.

The notification requirements under the Transparency Law include a requirement to notify the CySEC and the company concerned of the fact that the shareholder’s holding has reached, exceeded or fallen below the above-mentioned thresholds.

When calculating the percentage of voting rights held any person (for the purposes of this section only, a “**Shareholder**”), voting rights which the Shareholder is entitled to acquire, dispose of or exercise in the following circumstances must also be taken into account:

- (i) voting rights held by a third person with whom the Shareholder has entered into an agreement obliging the parties to adopt, through the coordinated exercise of their voting rights, a lasting common policy as to the management of the company;

- (ii) voting rights held by a third person with whom the Shareholder has entered into an agreement, which provides for the temporary transfer, for consideration, of the exercise of those voting rights;
- (iii) voting rights attaching to shares which have been deposited with the Shareholder as security, provided the Shareholder controls the voting rights and has declared its intention to exercise them;
- (iv) voting rights attaching to shares of which the Shareholder is beneficial owner for life;
- (v) voting rights which are held or can be exercised in the manner described under points (i) to (iv) above, by an enterprise “controlled” by the Shareholder;
- (vi) voting rights attaching to shares that have been deposited with the Shareholder and which the Shareholder can exercise at its discretion, in the absence of specific instructions by their holder;
- (vii) voting rights held by a third person in his or her own name but for the account of the Shareholder; and
- (viii) voting rights, which the Shareholder is entitled to exercise at its discretion, as an attorney for the holder, in the absence of specific instructions from the holder.

In this context, an enterprise “controlled” by the Shareholder is an enterprise in which the Shareholder:

- (i) has the majority of voting rights;
- (ii) has the “right to appoint or dismiss” the majority of the members of the enterprise’s administrative, managerial or supervisory organ and is simultaneously a shareholder or a partner in the enterprise;
- (iii) is a shareholder or partner and controls by itself, pursuant to an agreement entered into with the other shareholders or partners of the enterprise, the majority of the voting rights of the shareholders or partners; or
- (iv) has power to exercise or de facto exercises dominant influence or control.

The Shareholder will be deemed to have the “right to appoint or dismiss” where such a right belongs to:

- (i) an enterprise controlled by the Shareholder; or
- (ii) a person acting in its own name but for the account of the Shareholder or an enterprise controlled by the Shareholder.

Notifications must be made as soon as possible and in any event within the trading day which follows: (i) the date on which the transaction was made; (ii) the date on which the Shareholder learned or is deemed to have learned of the acquisition or disposal or possibility of exercising voting rights (and the Shareholder is deemed to have learned of such events two days after the trading day on which the transaction was made, at the latest); or (iii) the date on which the Shareholder learned or should have learned of the event changing the breakdown of the company’s voting rights, as the case may be.

Special provisions and exemptions under the Transparency Law may apply to a Shareholder who is a custodian, a market maker, a credit institution, a firm providing investment services or its parent, or a management company of an undertaking for collective investment in transferrable securities or its parent. An exemption may also apply where shares are acquired exclusively for the purpose of clearing and settling of stock exchange transactions within three business days of the execution of the stock exchange transaction.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (the “Conditions”), subject to completion and amendment and excepting sentences in italics, will apply to the global depositary receipts (the “GDRs”) and will be endorsed on each global depositary receipt certificate (the “GDR Certificates”).*

The GDRs are issued in respect of the ordinary shares, having a par value of U.S.\$0.00007 each (the “Shares”), of En+ Group plc (the “Company”), pursuant to and subject to (i) in the case of the Regulation S GDRs, the Regulation S Deposit Agreement dated 3 November 2017 by and between the Company and Citibank, N.A., as depositary (the “Depositary”) (the “Regulation S Deposit Agreement”) and, (ii) in the case of the Rule 144A GDRs, the Rule 144A Deposit Agreement dated 3 November 2017 by and between the Company and the Depositary (the “Rule 144A Deposit Agreement”). References in the Conditions to the “Deposit Agreement” shall mean, in the case of Regulation S GDRs, the Regulation S Deposit Agreement and, in the case of Rule 144A GDRs, the Rule 144A Deposit Agreement. Each GDR represents the right to receive, subject to the terms of the Deposit Agreement and the Conditions, one Share on deposit under the terms of the Deposit Agreement.

Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Citibank Hong Kong as custodian to receive and hold on its behalf the Shares from time to time deposited under the Deposit Agreement (the “Deposited Shares”), and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (such rights, securities, property and cash together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued. In these Conditions references to the “Depositary” are to Citibank, N.A. and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to Citibank Hong Kong, or any other custodian which may from time to time be appointed under the Deposit Agreement and references to the “Office” mean, in relation to the Custodian, the principal office of the Custodian in Hong Kong (currently at Securities and Fund Services, 9/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong).

References in the Conditions to the GDRs shall include the GDRs issued pursuant to the terms of the Regulation S Deposit Agreement (the “Regulation S GDRs”) and the GDRs issued pursuant to the terms of the Rule 144A Deposit Agreement (the “Rule 144A GDRs”).

References in these Conditions to the “Holder” of any GDR shall mean the person registered as the holder of any GDR on the books of the Depositary maintained for such purpose. References in these Conditions to “Beneficial Owner” of any GDR shall mean any person who is the beneficial owner of GDRs as determined in accordance with Rule 13d-3 and Rule 13d-5 under the Exchange Act. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the GDR Certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary. Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner, to have notice of, and be subject to, all of the applicable provisions of the Deposit Agreement and the Conditions. Terms used in the Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement.

The Depositary shall hold Deposited Property for the benefit of the Holders as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued and the Holders will accordingly be tenants in common of such Deposited Property to the extent of the Deposited Property corresponding to the GDRs in respect of which they are the Holders. For the avoidance of doubt, in acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property as bare trustee as aforesaid, does not assume any relationship of trust for or with the Holders or the Beneficial Owners or any other person. Any right or power of the Depositary in respect of Deposited Property is reserved by the Depositary under its declaration of trust contained in this paragraph and is not given by way of grant by any Holder or Beneficial Owner.

**Holders and Beneficial Owners of GDRs are not parties to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce**

certain specified provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depository” in respect of that number of Deposited Shares to which the GDRs of which it is the Holder relate.

**Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner and owning, acquiring or holding, as the case may be, a GDR, to have notice of and be subject to all applicable provisions of the Deposit Agreement and the Conditions. The Depository is under no duty to enforce any of the provisions of the Deposit Agreement or the Conditions on behalf of any Holder or Beneficial Owner of a GDR or any other person.**

*GDRs will initially take the form of global GDRs evidenced by one or more Master GDR Certificates (each a “Master GDR Certificate”) registered (i) in the case of Regulation S GDRs, in the name of Citivic Nominees Limited as nominee for Citibank Europe plc, as Common Depository (the “Common Depository”), and will initially be held by the Common Depository for Euroclear Bank SA/NV, as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) and for the account of accountholders in Euroclear or Clearstream (“Euroclear Participants” and “Clearstream Participants”, respectively), as the case may be, and (ii) in the case of Rule 144A GDRs, in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”) for the account of accountholders in DTC (“DTC Participants”). The Master GDR Certificates will be exchangeable for a GDR Certificate in definitive registered form in the limited circumstances as described below.*

*If at any time DTC, Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the GDRs, the Company and the Depository will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depository will make available GDR Certificates in definitive registered form. Notwithstanding the above, GDRs that are Restricted Securities (as defined below) are not eligible for inclusion in any book-entry settlement system.*

Under the terms of the GDRs, each purchaser of GDRs is deemed to have represented and agreed, among other things, that the GDRs have not been and will not be registered under the Securities Act and may be offered, sold, pledged or otherwise transferred only in a transaction exempt from, or not subject to, the registration requirements of the Securities Act. Each GDR will contain a legend to the foregoing effect.

*For a description of the restrictions on the transfer of the GDRs see “Selling and Transfer Restrictions” and “Plan of Distribution”.*

## **1. Deposit of Shares**

(A) The Depository may, in accordance with the terms of the Deposit Agreement, but subject to the Conditions, and upon delivery of (x) a duly executed or electronically submitted order (in a form approved by the Depository) and (y) a duly executed or electronically submitted deposit certification substantially in the form attached to the Deposit Agreement by or on behalf of any investor who is to become the Beneficial Owner of the GDRs (other than in the case of a deposit of Shares by the Company or an Affiliate of the Company which shall be subject to Clause 7.1.4 of the Deposit Agreement), from time to time issue and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects and, subject to the terms of the Deposit Agreement, the Conditions and applicable law, the Depository shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

*The deposit certificate to be provided pursuant to the Regulation S Deposit Agreement certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company, is not a U.S. person (as defined in Regulation S) has acquired, or has agreed to acquire and will have acquired, the Shares to be deposited in an “offshore transaction” (as defined in Regulation S) and will comply with the restrictions on transfer applicable to Regulation S GDRs set forth under “Selling and Transfer Restrictions”.*

*The deposit certificate to be provided pursuant to the Rule 144A Deposit Agreement certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company, is a “Qualified Institution Buyer” (as defined in Rule 144A), and will comply with the restrictions on transfer applicable to Rule 144A GDRs set forth under “Selling and Transfer Restrictions”.*

- (B) Subject to the terms and conditions of the Deposit Agreement and applicable law, upon (i) physical delivery to the Custodian of Shares, or book-entry transfer of Shares to an account of the Depository maintained by the Custodian, (ii) physical or electronic delivery to the Depository of the applicable deposit certification unless the deposit of Shares is made by the Company or an Affiliate of the Company in which case such deposit will be subject to Section 7.1.4 of the Deposit Agreement, and (iii) payment of necessary taxes, governmental charges (including transfer taxes) and other charges as set forth in the Deposit Agreement and fees of the Depository as set forth in Clause 10.1 of the Deposit Agreement and Condition 19, the Depository will (i) adjust its records for the number of GDRs issued in respect of the Shares so deposited, (ii) notify DTC or the Common Depository, as the case may be, to increase the number of GDRs evidenced by a Master GDR Certificate, and (iii) make delivery of the GDRs so issued to the applicable DTC Participant, Euroclear Participant or Clearstream Participant specified in applicable order received for such purpose.
- (C) Subject to the limitations set forth in the Deposit Agreement and applicable law, the Depository may (but is not required to) issue GDRs prior to the delivery to it of Shares in respect of which such GDRs are to be issued against evidence to receive rights from the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares) in the form of a written blanket or specific guarantee of ownership furnished by the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares). No such issue will be deemed a “Pre-Release Transaction” as defined in Condition 1E.
- (D) Any further GDRs issued pursuant to Condition 1(A) which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will, subject to Clause 3.16 of the Deposit Agreement be represented by a separate master partial entitlement GDR certificate (each a “**Master Partial Entitlement GDR Certificate**”). Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR Certificate (by increasing the total number of GDRs evidenced by the relevant Master GDR Certificate or by the number of such further GDRs, as applicable).
- (E) Subject to the further terms and provisions of the Deposit Agreement, Citibank, N.A., its agents and affiliates, on their own behalf, may own and deal in any class of securities of the Company and its affiliates and in GDRs. In its capacity as Depository, the Depository shall not lend Shares or GDRs; provided, however, that the Depository may (i) issue GDRs prior to the receipt of Shares pursuant to Condition 1 and Clause 3 of the Deposit Agreement, and (ii) deliver Shares prior to the receipt and cancellation of GDRs pursuant to Condition 2 and Clause 3 of the Deposit Agreement, including GDRs which were issued under (i) above but for which Shares may not have been received (each such transaction a “**Pre-Release Transaction**”). The Depository may receive GDRs in lieu of Shares under (i) above and receive Shares in lieu of GDRs under (ii) above. Each such Pre-Release Transaction will be (a) subject to a written agreement whereby the person or entity (the “**Applicant**”) to whom GDRs or Shares are to be delivered (1) represents that at the time of the Pre-Release Transaction the Applicant or its customer owns the Shares or GDRs that are to be delivered by the Applicant under such Pre Release Transaction, (2) agrees to indicate the Depository as owner of such Shares or GDRs in its records and transfer all beneficial right, title and interests in and to such Shares or GDRs, as the case may be, to the Depository and to hold such Shares or GDRs in trust for the Depository until such Shares or GDRs are delivered to the Depository or the Custodian, (3) unconditionally guarantees to deliver to the Depository or the Custodian, as applicable, such Shares or GDRs, (4) agrees not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with such transfer of beneficial ownership other than to deliver such Shares or GDRs, as the case may be, to the Depository in satisfaction of such Pre-Release Transaction and (5) agrees to any additional restrictions or requirements that the Depository deems appropriate, (b) at all times fully collateralised with cash, U.S. government securities or such other collateral as the Depository deems appropriate, (c) terminable by the Depository on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depository deems appropriate. The Depository will normally limit the number of GDRs and Shares involved in such Pre- Release Transactions at any one time to thirty per cent (30%) of the GDRs outstanding (without giving effect to GDRs outstanding under (i) above), provided, however, that the Depository reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depository may also set limits

with respect to the number of GDRs and Shares involved in Pre- Release Transactions with any one person on a case by case basis as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing. Collateral provided pursuant to (b) above, but not the earnings thereon, shall be held for the benefit of the Holders (other than the Applicant). The Depositary may require that the person to whom any Pre-Release Transaction is to be made pursuant to this Condition 1(E) deliver to the Depositary a duly completed certification and agreement in substantially the form set forth as Schedule 3, Part A to the Regulation S Deposit Agreement or Schedule 3 Part A to the Rule 144A Deposit Agreement, as the case may be.

GDRs in respect of which the GDRs or the underlying Deposited Shares (i) have been acquired directly or indirectly from the Company or any of its Affiliates in a transaction or chain of transactions not involving any public offering and are subject to resale limitations under the Securities Act or the rules issued thereunder, or (ii) are held by an executive officer or director (or persons performing similar functions) or other Affiliate of the Company, (iii) are subject to other restrictions on sale or deposit under the laws of the United States, the Company's country of incorporation from time to time, or under a shareholder agreement or the Articles of Association of the Company in effect from time to time or under the regulations of an applicable securities exchange, or (iv) are pledged as collateral under a loan or similar agreement unless, in each case, such Deposited Shares or GDRs are being transferred or sold to persons other than an Affiliate of the Company in a transaction (a) covered by an effective resale registration statement, or (b) exempt from the registration requirements of the Securities Act (as hereinafter defined), and the Deposited Shares or GDRs are not, when held by such person(s), "restricted securities" (as defined in Rule 144(a)(3) under the Securities Act) ("**Restricted Securities**") are not eligible for Pre-Release Transactions.

- (F) Any person delivering Shares for deposit under the Deposit Agreement and Condition 1 and any Holder or Beneficial Owner may be required and will be deemed to accept, by virtue of being a Holder or a Beneficial Owner, that, from time to time, it will be required to furnish the Depositary or the Custodian with such proof, certificates and representations and warranties as to matters of fact, including without limitation the citizenship and residence of the depositor, taxpayer status, payment of all applicable taxes or governmental charges, exchange control approvals, legal or beneficial ownership of GDRs and Deposited Property, compliance with all applicable laws, the terms of the Deposit Agreement, the Conditions and the provisions of, or governing, the Deposited Property and the identity and genuineness of any signature on any of the supporting instruments or other documents, and with such further documents and information as the Depositary may deem necessary or appropriate for the administration or implementation of the Deposit Agreement and the Conditions. The Depositary, the Registrar or the Custodian may withhold acceptance of Shares for deposit, withhold delivery or registration of issuance or transfer of all or part of any GDR Certificate, withhold adjustment of the Master GDR Certificate to reflect increases in Shares represented thereby or withhold the distribution or sale of any dividend or distribution of rights or of the net proceeds of the sale thereof or the delivery of any Deposited Property, until such proof or other information is filed or such certifications are executed, or such representations are made or such other documentation or information is provided in each case to the satisfaction of the Depositary, the Registrar or the Custodian.
- (G) Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary shall not be required to accept for deposit or maintain on deposit with the Custodian (a) any fractional Shares or fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of GDRs to Shares or Deposited Property, as the case may be, would give rise to fractional GDRs. No Share shall be accepted for deposit unless accompanied by evidence, if any is required by the Depositary or the Custodian, that is reasonably satisfactory to the Depositary or the Custodian that all conditions for such deposit have been satisfied by the person depositing such Shares under the laws and regulations of the Company's country of incorporation from time to time and any necessary approval has been granted by any applicable governmental body in the Company's country of incorporation from time to time (if any), including, without limitation, if applicable, any regulator of currency exchange.
- (H) Each person depositing Shares under the Deposit Agreement and the Conditions shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorised, validly issued, fully paid, nonassessable and legally obtained by such person, (ii) all



pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorised so to do, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, (v) the Shares presented for deposit have not been stripped of any rights or entitlements, and (vi) in the case of the Regulation S Deposit Agreement, that the Shares are not, and the Regulation S GDRs will not be, “restricted securities” (as defined in Rule 144(a)(3) under the Securities Act). Such representations and warranties shall survive the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depositary shall be authorised, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof.

Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreement and the Conditions shall be deemed thereby to acknowledge that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the applicable Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, taking delivery of, transfer, surrender or withdrawal of the Shares or the GDRs or any beneficial interest therein.

## **2. Withdrawal of Deposited Property**

- (A) Subject to the terms and provisions of the Deposit Agreement, the Conditions, the procedures of the Custodian and applicable law, any Holder may request withdrawal of the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the principal office of the Depositary accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn or evidence of the electronic transfer thereof to be delivered to or upon the order in writing of, the person or persons designated in such order;
  - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under the Conditions or the Deposit Agreement including, but not limited to the fees of the Depositary set forth in Clause 10.1 of the Deposit Agreement and Condition 19;
  - (iii) (x) surrender of a GDR Certificate at the Principal New York Office or Principal London Office, if DTC, Euroclear or Clearstream book-entry settlement system is not then available for GDRs, or (y) receipt by the Depositary at the Principal New York Office of instructions from DTC, Euroclear or Clearstream, or a DTC Participant, Euroclear Participant or Clearstream Participant or their respective nominees, on behalf of any Beneficial Owner together with a corresponding credit to the Depositary’s account at DTC, Euroclear or Clearstream for the GDRs so surrendered, if the book-entry settlement system is then available for GDRs, in either case for the purpose of withdrawal of the Deposited Property represented thereby; and
  - (iv) the delivery to the Depositary of (x) in the case of Regulation S GDRs, a duly completed withdrawal certificate in the form of Schedule 3, Part B to the Regulation S Deposit Agreement but only in the case the Deposited Property is to be withdrawn or delivered in respect of surrendered Regulation S GDRs during the Distribution Compliance Period (such term being defined as the 40-day period beginning on the latest of the commencement of the offering or the original issue date of the GDRs in respect of surrendered Regulation S GDRs), or (y), in the case of Rule 144A GDRs, a duly completed withdrawal certificate in the form of Schedule 3, Part B to the Rule 144A Deposit Agreement.
- (B) Withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition 2, the Depositary will direct the Custodian, within a reasonable time after receiving such direction from such Holder, to deliver at its office, to, or to the order in writing of, the person(s) designated in the accompanying order:
- (i) a certificate for, or other appropriate instrument of title to, or evidence of book-entry transfer of, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
  - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid and/or evidence of the electronic transfer of such other Deposited Property (as applicable);

*provided that* the Depositary:

- (i) may make delivery of (a) any cash dividends or cash distributions or (b) any proceeds from the sale of any distributions of Shares or rights which are held by the Depositary in respect of the Deposited Property represented by the GDRs surrendered for cancellation and withdrawal; and
  - (ii) at the request, risk and expense of any Holder surrendering a GDR for cancellation and withdrawal, will direct the Custodian to forward any cash or other property (other than securities) held by the Custodian in respect of the Deposited Property represented by such GDRs to the Depositary,  
  
in each case at the Principal New York Office or the Principal London Office (if permitted by applicable law from time to time).
- (D) Delivery by the Depositary and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) If any GDR surrendered and cancelled represents fractional entitlements in Deposited Property, the Depositary shall cause the appropriate whole number of Deposited Property to be withdrawn and delivered in accordance with the terms of the Deposit Agreement and this Condition 2 and shall, at the discretion of the Depositary, either (i) issue and deliver to the person surrendering such GDR a new GDR representing any remaining fractional Share, or (ii) sell or cause to be sold the fractional Share represented by the GDR surrendered and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR.
- (F) Notwithstanding anything to the contrary in the Deposit Agreement or the Conditions, the Depositary shall not knowingly accept any Rule 144A GDRs for cancellation and withdrawal of the Deposited Property represented thereby if the recipient thereof has instructed the deposit of such Deposited Property into any unrestricted depositary receipt facility, unless the Depositary shall have received an opinion of counsel reasonably satisfactory to it stating that the Deposited Property so withdrawn are not at such time “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

### **3. Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The issuance and delivery of GDRs against deposits of Shares generally or deposits of particular Shares may be suspended or withheld, or the registration of transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended or refused, during any period when the transfer books of the Depositary, the Company, a registrar of GDRs or any registrar of Shares are closed, or if any such action is deemed necessary or advisable by the Company or the Depositary in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, an applicable court order, or under any provision of the Deposit Agreement, the Conditions, or the provisions of or governing the Deposited Property, or any meeting of shareholders of the Company or for any other reason (determined reasonably and acting in good faith). The Depositary may restrict the transfer of Deposited Shares where the Company notifies the Depositary in writing that such transfer would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Articles of

Association of the Company in effect from time to time or would otherwise violate any applicable laws or for any other reason (determined reasonably and acting in good faith).

The Depositary will refuse to accept Shares for deposit under the Rule 144A Deposit Agreement, if it has been notified by the Company in writing that the Deposited Shares or any depositary receipts corresponding to Shares are listed on a U.S. national securities exchange or quoted on a U.S. automated inter-dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A under the Securities Act.

Notwithstanding any provision of the Deposit Agreement, the Conditions or any GDR Certificate to the contrary, Holders and Beneficial Owners are entitled to surrender outstanding GDRs to withdraw the Deposited Shares at any time subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges, (iii) compliance with any laws or governmental regulations or an applicable court order relating to the GDRs or to the withdrawal of the Deposited Shares.

#### **4. Transfer and Ownership**

(A) GDRs are to be issued in registered form. Title to the GDRs passes upon registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

The Depositary will maintain Holder records, including a register of Holders, at its principal office in New York and shall ensure that no register of Holders is maintained in the United Kingdom.

Any interest in GDRs represented by one of the Master GDR Certificates that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR Certificate, will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR Certificate and, accordingly, will be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR Certificate for so long as it remains such an interest.

*For a description of the restrictions on the transfer of the GDRs see "Selling and Transfer Restrictions".*

(B) Notwithstanding any other provision of the Deposit Agreement or the Conditions, each Holder and Beneficial Owner, by virtue of their ownership of any GDR or any Deposited Property, shall be deemed thereby to agree to comply with requests from the Company or the Depositary pursuant to the laws of the Company's country of incorporation from time to time and any other stock exchange on which the Shares are, or may be registered, traded or listed, or the Articles of Association of the Company in effect from time to time, which are made to provide information, *inter alia*, as to the capacity in which such Holder or former Holder, Beneficial Owner or former Beneficial Owner holds or held, owns or owned a beneficial ownership interest in GDRs (and Deposited Property, as the case may be) and regarding the identity of any other person interested in such GDRs (and Deposited Property), the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request.

(C) Applicable laws and regulations may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements or obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. By virtue of their ownership of any GDR or any Deposited Property, each Holder and Beneficial Owner shall be deemed thereby to agree to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

## **5. Cash Distributions**

Whenever the Depositary receives, or receives confirmation from the Custodian of the receipt from the Company of, any cash dividend or other cash distribution on or in respect of the Deposited Shares or receipt of proceeds from the sale of any Shares, rights, securities or other entitlements under the terms of the Deposit Agreement or the Conditions, the Depositary shall, if at the time of receipt thereof any amounts received in Foreign Currency can in the judgment of the Depositary (pursuant to Condition 11) be converted on a practicable basis into Dollars transferable to the U.S., promptly convert, or cause to be converted, such dividends, distribution or proceeds into Dollars in the terms described in Condition 11 and will promptly distribute the amount thus received (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes withheld) to the Holders entitled thereto. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Holder a fraction of one cent, and any balance not so distributable shall be held by the Depositary (without liability for interest thereon) and shall be added to and become part of the next sum received by the Depositary for distribution to Holders of GDRs then outstanding at the time of the next distribution. If the Company, the Custodian or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Property an amount on account of taxes, duties or other governmental charges, the amount distributed to Holders in respect of the GDRs representing such Deposited Property shall be reduced accordingly. Such withheld amounts shall be forwarded by the Company, the Custodian or the Depositary to the relevant governmental authority. Evidence of payment thereof by the Company shall be forwarded by the Company to the Depositary upon request.

## **6. Distributions of Shares**

If any distribution upon any Deposited Property consists of a dividend in, or free distribution of, Shares, the Company shall cause such Shares to be deposited with the Custodian and, if applicable, registered in the name of the Depositary, the Custodian or any of their nominees, as the case may be. Upon receipt of confirmation of such deposit from the Custodian, the Depositary shall establish the GDR Record Date upon the terms described in Condition 10 and shall, subject to the terms of the Deposit Agreement and the Conditions, either (i) distribute to the Holders as of the GDR Record Date in proportion to the number of GDRs held as of the GDR Record Date, additional GDRs, which represent the aggregate number of Shares received as such dividend or free distribution, subject to the other terms of the Deposit Agreement and Conditions and net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes, by either (x) if GDRs are not available in book-entry form, issuing additional GDR Certificates for an aggregate number of GDRs representing the number of Shares received as such dividend or free distribution, or (y) if GDRs are available in book-entry form, reflecting on the records of the Depositary such increase in the aggregate number of GDRs representing such Shares and give notice to the Common Depositary of the related increase in the number of GDRs evidenced by the Master GDR Certificate, or (ii) if additional GDRs are not so distributed, each GDR issued and outstanding after the GDR Record Date shall, to the extent permissible by law, thenceforth also represent rights and interests in the additional Shares distributed upon the Deposited Property represented thereby, net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes. In lieu of delivering fractional GDRs, the Depositary shall sell the number of Shares represented by the aggregate of such fractions and distribute the net proceeds of such sale upon the terms described in Condition 4. In the event that the Depositary determines that any distribution in Shares would violate applicable law, is not operationally practicable, is subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the Company, in the fulfillment of its obligations under Clause 7.1.4 of the Deposit Agreement, has furnished an opinion of U.S. counsel determining that the distribution to Holders of the Shares and the GDRs representing such Shares must be registered under the Securities Act or other laws in order to be distributed to Holders (and no such registration statement has been declared effective), the Depositary may dispose of all or a portion of such Shares in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable, and the Depositary shall distribute the net proceeds of any such sale, after deduction of (a) taxes and (b) fees and charges of, and expenses incurred by, the Depositary, to Holders entitled thereto upon the terms described in Condition 5. The Depositary shall hold and/or distribute any unsold balance of such property in accordance with the provisions of the Deposit Agreement and the Conditions.

## **7. Distributions Other than Cash or Shares**

Whenever the Depositary receives from the Company property other than cash, Shares or rights to purchase additional Shares and receives a notice from the Company indicating that the Company wishes such distribution to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall distribute the property so received to the Holders of record as of the GDR Record Date set in accordance with Condition 10, in proportion to the number of GDRs held by them respectively and in such manner as the Depositary may deem practicable for accomplishing such distribution (i) upon receipt of payment or net of the applicable fees and charges of, and expenses incurred by, the Depositary, and (ii) net of any taxes withheld. The Depositary may dispose of all or a portion of the property so distributed and deposited, in such amounts and in such manner (including public or private sale) as the Depositary may deem practicable or necessary to satisfy any taxes (including applicable interest and penalties) or other governmental charges applicable to the distribution. If (i) the Company does not request the Depositary to make such distribution to Holders or requests not to make such distribution to Holders, (ii) the Depositary does not receive documentation within the terms of Clause 7.1.4 of the Deposit Agreement, or (iii) the Depositary determines (in accordance with Clause 5.1 of the Deposit Agreement) that all or a portion of such distribution is not lawful or is not reasonably practicable, the Depositary shall sell or cause such property to be sold in a public or private sale, at such place or places and upon such terms as it may deem practicable and shall (x) cause the proceeds of such sale, if any, to be converted into Dollars in accordance with Condition 11, and (y) distribute the proceeds of such conversion received by the Depositary (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) to the Holders as of the GDR Record Date upon the terms of Condition 5. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

## **8. Rights Issues**

(A) Whenever the Company intends to distribute to the holders of the Deposited Property rights to subscribe for additional Shares, and provides a notice to the Depositary indicating that the Company wishes such rights to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall (x) establish a GDR Record Date (upon the terms described in Condition 10), (y) establish procedures to distribute such rights (by means of warrants or otherwise) and/or to enable the Holders to exercise the rights (upon payment of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes), and (z) issue and deliver GDRs upon the valid exercise of such rights. The Company shall assist the Depositary to the extent necessary in establishing such procedures.

Nothing herein shall obligate the Depositary to make available to the Holders a method to exercise such rights to subscribe for Shares (rather than for GDRs).

(B) In the event that (i) the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement or determines that it is not lawful or not reasonably practicable to make the rights available to Holders or (ii) the Company requests that the rights not be made available to Holders of GDRs or (iii) any rights made available are not exercised and appear to be about to lapse, the Depositary shall determine whether it is lawful and reasonably practicable to sell such rights, in a riskless principal capacity, at such place and upon such terms (including public and private sale) as it may deem practicable. The Company shall assist the Depositary to the extent necessary to determine such legality and practicability. If the Depositary sells such rights, the Depositary shall, upon such sale, (x) cause the proceeds of such sale, if any, to be converted into Dollars upon the terms described in Condition 11, and (y) distribute the proceeds of such sale (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) upon the terms set forth in Condition 5.

If the Depositary is unable to make any rights available to Holders upon the terms described in the Deposit Agreement or to arrange for the sale of the rights upon the terms described above, the Depositary shall allow such rights to lapse.

The Depositary shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make such rights available to Holders in general or any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the Holders on behalf of the Company in connection with the rights distribution.

- (C) Notwithstanding anything to the contrary in the Deposit Agreement or this Condition 8, if registration (under the Securities Act or any other applicable law) of the rights or the securities to which any rights relate may be required in order for the Company to offer such rights or such securities to Holders and to sell the securities represented by such rights, the Depositary will not distribute such rights to the Holders unless and until a registration statement under the Securities Act covering such offering is in effect. In the event that the Company, the Depositary or the Custodian shall be required to withhold and does withhold from any distribution of rights an amount on account of taxes or other governmental charges, the amount distributed to the Holders of GDRs representing such Deposited Property shall be reduced accordingly. In the event that the Depositary determines that any distribution of Deposited Property or rights to subscribe therefor is subject to any tax or other governmental charges which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such Deposited Property or rights to subscribe therefor in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable to pay any such taxes or charges. There can be no assurance that Holders generally, or any Holder in particular, will be given the opportunity to exercise such rights on the same terms and conditions as the holders of Deposited Property or to exercise such rights. Nothing in the Deposit Agreement or this Condition 8 shall obligate the Company to file any registration statement in respect of any rights or Deposited Property or other securities to be acquired upon the exercise of such rights.

## 9. Redemption

If the Company intends to exercise any right of redemption in respect of any of the Deposited Property, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.2 of the Deposit Agreement, the Depositary shall send to each Holder a notice in accordance with Condition 25 setting forth the intended exercise by the Company of the redemption rights and any other particulars set forth in the Company's notice to the Depositary. The Depositary shall instruct the Custodian to present to the Company the Deposited Property in respect of which redemption rights are being exercised against payment of the applicable redemption price. Upon receipt of confirmation from the Custodian that the redemption has taken place and that funds representing the redemption price have been received, the Depositary shall convert, transfer, and distribute the proceeds (net of applicable (a) fees and charges of, and the expenses incurred by, the Depositary, and (b) taxes), retire GDRs and cancel GDRs upon delivery of such GDRs by Holders thereof and on the terms set forth in the applicable Conditions. If less than all outstanding Deposited Property is redeemed, the GDRs to be retired will be selected by lot or on a *pro rata* basis, as may be determined by the Depositary. The redemption price per GDR shall be the per share amount received by the Depositary upon the redemption of the Deposited Property represented by GDRs (subject to the terms of the Deposit Agreement and the applicable fees and charges of, and expenses incurred by, the Depositary, and taxes) multiplied by the number of Deposited Property represented by each GDR redeemed.

## 10. GDR Record Dates

Whenever the Depositary shall receive notice of the fixing of a record date by the Company for the determination of holders of Deposited Property entitled to receive any distribution (whether in cash, Shares, rights or other distribution), or whenever, for any reason, the Depositary causes a change in the number of Deposited Property that are represented by each GDR, or whenever the Depositary shall receive notice of any meeting of, or solicitation of consents or proxies of, holders of Shares or other Deposited Property, or whenever the Depositary finds it necessary or convenient in connection with the giving of any notice, solicitation of any consent or any other matter, the Depositary shall (after giving notice to the Company) fix a record date (the "**GDR Record Date**") for the determination of the Holders of GDRs who shall be entitled to receive such dividend or distribution, to give instructions for the exercise of voting rights at any such meeting, or to give or withhold such consent, or to receive such notice or solicitation or to otherwise take action, or to exercise the rights of Holders with respect to such changed number of Deposited Property represented by each GDR. The Depositary shall make reasonable efforts to

establish the GDR Record Date as closely as practicable to the applicable record date for the Deposited Property (if any) set by the Company in the Company's country of incorporation from time to time. Subject to applicable law and the provisions of the Deposit Agreement and Conditions, only the Holders of GDRs at the close of business in New York on such GDR Record Date shall be entitled to receive such distribution, to give such voting instructions, to receive such notice or solicitation, or otherwise take action.

#### **11. Conversion of Foreign Currency**

Whenever the Depositary or the Custodian shall receive any Foreign Currency by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the Foreign Currency so received can in the judgement of the Depositary be converted on a practicable basis into Dollars transferable to the U.S. and distributed to the Holders entitled thereto, the Depositary shall convert or cause to be converted by sale or in any other manner that it may determine, the Foreign Currency so received into Dollars and shall distribute such Dollars (net of applicable fees, any reasonable and customary expenses incurred on behalf of Holders in complying with currency exchange control or other governmental requirements) in accordance with the terms of the applicable Conditions. If the Depositary shall have distributed warrants or other instruments that entitle the holders thereof to such Dollars, the Depositary shall distribute such Dollars to the holders of such warrants and/or instruments upon surrender thereof for cancellation, in either case without liability for interest thereon. Such distribution shall be made upon an averaged or other practicable basis without regard to any distinctions among Holders on account of any application of exchange restrictions or otherwise. If such conversion or distribution generally or with regard to a particular Holder can be effected only with the approval or licence of any government or agency thereof, the Depositary shall have the authority, with the assistance of the Company, to file such application, for such approval or licence, if any, as it may consider desirable. In no event, however, shall the Depositary be obligated to make such a filing. If at any time the Depositary shall determine that in its judgement the conversion of any currency other than Dollars and the transfer and distribution of proceeds of such conversion received by the Depositary is not practicable or lawful, or if any approval or licence of any government or agency thereof which is required for such conversion, transfer or distribution is denied or, in the opinion of the Depositary, is not obtainable at a reasonable cost, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may in its discretion (i) make such conversion and distribution in Dollars to the Holders for whom such conversion, transfer and distribution is lawful and practicable, (ii) distribute the Foreign Currency (or an appropriate document evidencing the right to receive such Foreign Currency) to Holders for whom this is lawful and practicable, and (iii) hold (or cause the Custodian to hold) such Foreign Currency (without liability for interest thereon) for the respective accounts of the Holders entitled to receive the same.

#### **12. Distribution of any Payments**

Any distribution under Conditions 5, 6, 7, 8, 9, 13 or 14 will be made by the Depositary to those Holders who are Holders of record on the GDR Record Date established by the Depositary in accordance with Condition 10 for that purpose and, any distributions in cash will be made in Dollars subject to Condition 10 by cheque drawn upon a bank in New York City, electronic funds transfer, or, in the case of the relevant Master GDR Certificate, according to usual practice between the Depositary and DTC, Euroclear and Clearstream, as the case may be. The Depositary may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relative Deposited Property.

#### **13. Capital Reorganisation**

Upon any change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of Deposited Property, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Deposited Property shall, to the extent permitted by law, be treated as new Deposited Property under the Deposit Agreement and the Conditions, and the GDRs shall, subject to the terms of the Deposit Agreement, the Conditions and applicable law, evidence GDRs representing the right to receive such replacement securities. The Depositary may, with the Company's approval, and shall, if the Company shall so request, subject to the terms of the Deposit Agreement (including, without limitation, with respect to

(a) the applicable fees and charges of, and expenses incurred by, the Depositary, and (b) taxes) and the Conditions, and subject to the receipt by the Depositary of an opinion of the Company's counsel reasonably satisfactory to the Depositary (obtained at the expense of the Company) that such distributions are not in violation of any applicable laws or regulations, execute and deliver additional GDRs or make appropriate adjustments in its records, as in the case of a stock dividend on the Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs, in either case, as well as in the event of newly deposited Shares, with necessary modifications to the form of GDR attached to the Deposit Agreement specifically describing such new Deposited Property or corporate change. Notwithstanding the foregoing, in the event that any security so received may not be lawfully distributed to some or all Holders, the Depositary may, with the Company's approval, and shall if the Company requests, subject to the receipt by the Depositary of an opinion of the Company's counsel reasonably satisfactory to the Depositary (obtained at the expense of the Company) that such action is not in violation of any applicable laws or regulations, sell such securities at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary, and (b) taxes) for the account of the Holders otherwise entitled to such securities upon an averaged or other practicable basis without regard to any distinctions among such Holders and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash pursuant to Condition 5. The Depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to Holders in general or to any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

#### **14. Elective Distributions**

Wherever the Company intends to distribute a dividend payable at the election of the holders of Shares in cash or in additional Shares and provides a notice to the Depositary indicating that the Company wishes such elective distribution to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall make such elective distribution available to Holders. If the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement or determines that it is not lawful or not reasonably practicable to make the elective distribution available to Holders of GDRs, or if the Company requests that such elective distribution not be made available to Holders of GDRs, the Depositary shall, to the extent permitted by law, distribute to the Holders, on the basis of the same determination as is made in the Company's country of incorporation from time to time in respect of the Shares for which no election is made, either (X) cash upon the terms described in Condition 5, or (Y) additional GDRs representing such additional Shares upon the terms described in Condition 6. If the above conditions are satisfied, the Depositary shall establish a GDR Record Date in accordance with Condition 10 and establish procedures to enable Holders to elect the receipt of the proposed dividend in cash or in additional GDRs. The Company shall assist the Depositary in establishing such procedures to the extent necessary. If a Holder elects to receive the proposed dividend (X) in cash, the dividend shall be distributed upon the terms described in Condition 5, or (Y) in GDRs, the dividend shall be distributed upon the terms described in Condition 6. Nothing in the Deposit Agreement or this Condition 14 shall obligate the Depositary to make available to Holders a method to receive the elective dividend in Shares (rather than GDRs). There can be no assurance that Holders and Beneficial Owners generally, or any Holder or Beneficial Owner in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Deposited Property.

#### **15. Taxation and Applicable Laws**

(A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Property will be subject to deduction of the withholding tax of the Company's country of incorporation from time to time and other withholding taxes, if any, at the applicable rates, and notwithstanding any other provision of the Deposit Agreement or the Conditions, the Depositary and the Custodian will be entitled, subject to applicable law, to deduct from any cash dividend or other cash distribution which either of them receives from the Company such amount as is necessary in order to provide for any tax, charge, fee or other amount that is, or could become, payable by or on behalf of the Depositary to fiscal or other governmental authority on account of receiving such cash dividend or other cash distribution.



The Holder or Beneficial Owner of any GDR or any Deposited Property shall be deemed thereby to accept (by virtue of his ownership or deposit, as the case may be) that, in the event that any tax or other governmental charge shall become payable with respect to any GDR, Deposited Property or GDR Certificate, such tax or other governmental charge shall be payable by the Holder and Beneficial Owner to the Depositary. The Custodian may refuse the deposit of Shares and the Depositary may refuse to issue or deliver GDRs, to register the transfer, split-up or combination of GDR Certificates and the withdrawal of Deposited Property until payment in full of such tax, charge, penalty or interest is received. The Depositary may, for the account of the Holder or Beneficial Owner, discharge the same out of the proceeds of sale, subject to the law and regulations of the Company's country of incorporation from time to time, of an appropriate number of Deposited Shares or other Deposited Property with the Holder and Beneficial Owner remaining liable for any deficiency and being entitled to distribution of any surplus. Any such request shall be made by giving notice pursuant to Condition 25.

By virtue of its ownership of any GDR or Deposited Property, each Holder and Beneficial Owner shall be deemed to agree to indemnify the Depositary, the Company, the Custodian, and any of their agents, officers, employees and Affiliates for, and to hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for such Holder or Beneficial Owner. The obligations of Holders and Beneficial Owners under this Condition 15A shall survive any transfer of GDRs, any cancellation of GDRs and withdrawal of Deposited Securities, and the termination of the Deposit Agreements.

- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions, or in order for Shares or other rights, securities, property or cash to be distributed under Conditions 5, 6, 7, 13 or 14 or to be subscribed under Condition 8 (Rights Issues), or to offer any rights or sell any securities represented by such rights relevant to any Regulation S Deposited Property, the Company will, to the extent reasonably practicable, apply for such authorisation, consent, registration or permit or file such report on behalf of the Depositary within the time required under such law subject to Clause 7.1.5 of the Deposit Agreement unless such application is required to be made by a third party that will become the holder of GDRs. The Depositary shall not distribute Regulation S GDRs representing such Shares, rights, securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duty to obtain any such authorisation, consent or permit, or to file any such report. Without prejudice to the foregoing, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in a capacity other than its capacity as Depositary, or in conflict with market practice or applicable law, at the expense of the Company, the Depositary shall use reasonable endeavours to assist the Company to obtain any such authorisation, consent, registration, permit or report or, where required, shall directly apply for or request such authorisation, consent, registration, permit or report and shall take such steps and perform such actions as may be required. The Company's undertakings contained in this clause 8.1 shall not apply to the extent any such governmental or administrative authorisation, consent, registration or permit or any such report to any governmental or administrative authority required under any applicable law shall be made by a third party that will become the holder of GDRs.

## **16. Voting Rights**

- (A) Holders of GDRs will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any meeting of holders of Shares of the Company at which holders of Shares or other Deposited Property are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 16.

As soon as practicable after receipt from the Company of any such notice, the Depositary will fix the GDR Record Date in respect of such meeting or solicitation of consent or proxy in accordance with Condition 10. The Depositary shall, if requested by the Company in writing in a timely manner in accordance with Clause 5.3 of the Deposit Agreement and at the Company's expense and provided no

legal prohibitions exist in the U.S., England or the Company's country of incorporation from time to time, distribute to Holders as of the GDR Record Date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York on the GDR Record Date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Conditions, the Articles of Association of the Company in effect from time to time and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given.

- (B) Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Subject to applicable law, the provisions of the Deposit Agreement, the Conditions, the Articles of Association of the Company in effect from time to time and the provisions of the Deposited Property, if the Depositary has received voting instructions from a Holder as of the GDR Record Date to vote the Deposited Property on or before the date specified by the Depositary, the Depositary shall endeavour, in so far as is practicable and permitted by the law and practice of the Company's country of incorporation from time to time, to vote or cause the Custodian to vote the Shares and/or other Deposited Property represented by such Holder's GDRs for which timely and valid voting instructions have been received in the manner so instructed by such Holders.
- (C) Neither the Depositary nor the Custodian shall, under any circumstances exercise any discretion as to voting and neither the Depositary nor the Custodian shall vote, attempt to exercise the right to vote, or in any way make use of the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with such instructions from Holders. If the Depositary timely receives voting instructions from a Holder which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder (unless otherwise specified in the notice distributed to Holders) to have instructed the Depositary to vote in favour of the items set forth in such voting instructions. Notwithstanding anything else contained herein, the Depositary shall, if so requested in writing by the Company, represent all Deposited Property (whether or not voting instructions have been received in respect of such Deposited Property from Holders as of the GDR Record Date) for the sole purpose of establishing quorum at a meeting of shareholders.
- (D) There can be no assurance that Holders generally or any Holder in particular will receive the notice described above with sufficient time to enable the Holder to return voting instructions to the Depositary in a timely manner.

By continuing to hold GDRs, all Holders and Beneficial Owners shall be deemed to have agreed to the provisions of this Condition 16 as it may be amended from time to time in order to comply with the applicable law of the Company's country of incorporation from time to time.

A valid corporate decision of the Company will bind the Depositary (as registered owner of the Shares) and the Holders and Beneficial Owners of GDRs shall be deemed to agree to being bound by such a corporate decision of the Company.

- (E) Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate the laws of the U.S., England, Russia or the Company's country of incorporation from time to time. The Company agrees to take any and all actions reasonably necessary to enable Holders and Beneficial Owners to exercise the voting rights accruing to the Deposited Property and to deliver to the Depositary an opinion of U.S., English, Russian and/or local counsel in the Company's country of incorporation from time to time (obtained at the expense of the Company), if so requested by the Depositary, addressing any actions requested to be taken.

## **17. Liability**

- (A) Neither the Depositary nor the Company shall be obligated to do or perform any act which is inconsistent with the provisions of the Deposit Agreement or the Conditions or shall incur any liability (i) if the Depositary or the Company shall be prevented or forbidden from, or delayed in, doing any act or thing required by the terms of the Deposit Agreement or the Conditions, by reason of any

provision of any present or future law or regulation of the U.S., England, the Company's country of incorporation from time to time or any other country, or of any relevant governmental or regulatory authority or stock exchange, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or on account of potential criminal or civil penalties or restraint, or by reason of any provision, present or future, of the Articles of Association of the Company in effect from time to time or any provision of or governing any Deposited Property or by reason of any other circumstances beyond their control (including, without limitation, acts of God or war, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure), (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement, the Conditions or in the Articles of Association of the Company in effect from time to time or provisions of or governing Deposited Property, (iii) for any action or inaction in reliance upon the advice or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, any Beneficial Owner or authorised representative thereof, or any other person believed by it in good faith to be competent to give such advice or information, but only insofar as the terms of this subsection (iii) are not prohibited by applicable law, (iv) for the inability by a Holder or Beneficial Owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreement or the Conditions, made available to Holders of GDRs or (v) for any consequential or punitive damages for any breach of the terms of the Deposit Agreement or the Conditions.

- (B) The Company assumes no obligation and shall not be subject to any liability under the Deposit Agreement, the Conditions, or any GDR Certificates to any Holder(s) or Beneficial Owner(s), except that the Company agrees to perform its obligations specifically set forth in the Deposit Agreement, the Conditions, or the applicable GDR Certificates without willful default or negligence.
- (C) In acting hereunder the Depository shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the Beneficial Owners.
- (D) The Depository, its controlling persons, its agents, any Custodian and the Company, its controlling persons and its agents may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented by the proper party or parties (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- (E) No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement or the Conditions.
- (F) Without limitation of the foregoing, neither the Depository, nor the Company, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Property or in respect of the GDRs, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depository).
- (G) The Depository has no obligation under the Deposit Agreement to take steps to monitor, supervise or enforce the observance and performance by the Company of its obligations under the Deposit Agreement or the Conditions.
- (H) Neither the Depository, the Custodian nor any of their agents, officers, directors or employees shall be liable (except by reason of its own negligence, willful default or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- (I) The Depository and each of its agents (and any holding, subsidiary or associated company of the Depository) may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold GDRs for its own account, and shall be

entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

- (J) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 6, 7, 8, 13 or 14 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own negligence, willful default or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible.
- (K) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder, Beneficial Owner or person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (L) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement or the Conditions, the Depositary shall not, except as otherwise expressly provided in Condition 24, be obliged to have regard to the consequence thereof for the Holders, Beneficial Owners, a person with an interest in a GDR or any other person.
- (M) Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any law, directive or regulation.
- (N) The Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable law of the Company's country of incorporation from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issue of GDRs if notified by the Company, or if the Depositary becomes aware of the fact that such transfer or issue would be in violation of the limitations set forth above or any other applicable laws.
- (O) The Depositary may call for, and shall be at liberty to accept as sufficient, evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company, by the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company, or such other certificate from persons which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (P) The Depositary and its agents shall not be liable for any failure to carry out any instructions to vote any of the Deposited Property, or for the manner in which any vote is cast or the effect of any vote (other than where such failure or action is a result of its own negligence, willful default or bad faith or is not in accordance with the terms of the Deposit Agreement and the Conditions). The Depositary shall not incur any liability (save in the case of its own negligence, willful default or bad faith) for any failure to determine that any distribution or action may be lawful or reasonably practicable, for the content of any information submitted to it by the Company for distribution to the Holders or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the Deposited Property, for the validity or worth of the Deposited Property, for the creditworthiness of any third party, for any tax consequences that may result from the ownership of GDRs, Shares or Deposited Property, for allowing any rights to lapse upon the terms of the Deposit Agreement and the Conditions, for the failure or timeliness of any notice from the Company.
- (Q) No provision of the Deposit Agreement or the Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

- (R) The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a lawyer or other person, including obtaining an opinion of legal advisers in form and substance reasonably satisfactory to it, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Save for the failure on the part of the Depositary to exercise reasonable care in the selection or retention of any such agent, the Depositary will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.
- (S) None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy reporting requirements or obtain regulatory approvals under applicable laws and regulations which shall be the sole responsibility of the Holders and Beneficial Owners as described in Condition 4C.
- (T) The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, *provided that* in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence, willful default or bad faith while it acted as Depositary.
- (U) The Depositary shall not be liable for any acts or omissions made by a predecessor depositary whether in connection with an act or omission of the Depositary or in connection with any matter arising wholly prior to the appointment of the Depositary or after the removal or resignation of the Depositary, *provided that* in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence, willful default or bad faith while it acted as Depositary.

#### **18. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the Principal New York Office.

#### **19. GDR Fees and Charges**

- (A) The following GDR fees are payable under the terms of the Deposit Agreement:
  - (i) Issuance Fee: by any person to whom the GDRs are issued (i.e., an issuance of GDRs upon a deposit of Shares or upon a change in the GDR(s)-to-Share(s) ratio (excluding GDR issuances pursuant to paragraph (iv) below), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) issued under the terms of the Deposit Agreement and the Conditions (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement);
  - (ii) Cancellation Fee: by any person whose GDRs are being cancelled (i.e., a cancellation of GDRs for delivery of Deposited Property or upon a change in the GDR(s)-to-Share(s) ratio) (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) so cancelled;
  - (iii) Cash Distribution Fee: by any Holder of GDRs (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held for the distribution of cash dividends or other cash distributions (i.e., upon the sale of rights and other entitlements);
  - (iv) Stock Distribution /Rights Exercise Fees: by any Holder of GDRs (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held for the distribution of GDRs pursuant to stock dividends or other free stock distributions or upon the exercise of rights to purchase additional GDRs;
  - (v) Other Distribution Fee: by any Holder of GDRs (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held for the distribution of securities other than GDRs or rights to purchase additional GDRs (i.e., spin-off shares);

- (vi) GDR Services Fee: by any Holder of GDRs (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement), a fee not in excess of U.S.\$2.00 per 100 GDRs (or fraction thereof) held on the applicable record date(s) established by the Depositary; and
- (vii) GDR Transfer Fee: by any person presenting a GDR Certificate for transfer (including Restricted GDRs issued pursuant to Clause 2.14 of the Deposit Agreement that cease to be Restricted Securities), a fee not in excess of U.S.\$1.50 per GDR Certificate so presented for transfer.

Certain of the GDR fees and charges (such as the GDR Services Fee) may become payable shortly after the closing of an offering of the GDRs.

In addition, the Company, Holders, Beneficial Owners, persons receiving GDRs upon issuance and persons whose GDRs are being cancelled (as applicable) shall be required to pay the following charges under the terms of the Deposit Agreement:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
  - (ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property on the share register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;
  - (iii) such facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing Shares or of the Holders and Beneficial Owners of GDRs;
  - (iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;
  - (v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to Shares, Deposited Property, GDRs and GDR Certificates; and
  - (vi) the fees and expenses incurred by the Depositary, the Custodian or any nominee in connection with the servicing or delivery of Deposited Property.
- (B) Any other charges and expenses of the Depositary under the Deposit Agreement and the Conditions will be paid by the Company upon agreement between the Depositary and the Company. All fees and charges may, at any time and from time to time, be changed by agreement between the Depositary and Company but, in the case of fees and charges payable by Holders or Beneficial Owners, only in the manner contemplated by Condition 24. The Depositary will provide, without charge, a copy of its latest fee schedule to anyone upon request.
- (C) GDR fees payable upon (i) the issuance of GDRs and (ii) the cancellation of GDRs will be payable by the person to whom the GDRs are so issued by the Depositary (in the case of GDR issuance) and by the person whose GDRs are being cancelled (in the case of GDR cancellations). In the case of GDRs issued by the Depositary into DTC, Euroclear or Clearstream, the GDR issuance and cancellation fees and charges will be payable by the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) receiving the GDRs from the Depositary or the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) holding the GDRs being cancelled, as the case may be, on behalf of the Beneficial Owner(s) and will be charged by the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) to the account(s) of the applicable Beneficial Owner(s) in accordance with the procedures and practices of the DTC Participant(s), Euroclear Participant(s) or Clearstream Participant(s) as in effect at the time. GDR fees in respect of distributions and the GDR services fee are payable by Holders as of the applicable record date established by the Depositary. In the case of distributions of cash, the amount of the applicable GDR fees is deducted from the funds being distributed. In the case of distributions other than cash and the GDR service fee, the Depositary will invoice the applicable Holders as of the record date established by the Depositary, and such GDR service fee may be deducted from distributions made to Holders. For GDRs held through DTC, Euroclear or Clearstream, the GDR fees for distributions other than cash and the GDR service fee are charged to the DTC Participants, Euroclear Participants or Clearstream Participants in accordance with the procedures and practices prescribed by DTC, Euroclear or Clearstream from time to time and the DTC Participants, Euroclear Participants or Clearstream Participants in turn charge the amount of such fees to the Beneficial Owners for whom they hold GDRs.

(D) The Depositary may reimburse the Company for certain expenses incurred by the Company in respect of the Global Depositary Receipts program established pursuant to the Deposit Agreement, by making available a portion of the GDR fees charged in respect of the Global Depositary Receipts program or otherwise, upon such terms and conditions as the Company and the Depositary may agree from time to time. The Company shall pay to the Depositary such fees and charges and reimburse the Depositary for such out of pocket expenses as the Depositary and the Company may agree from time to time. Responsibility for payment of such charges may from time to time be changed by agreement between the Company and the Depositary. Unless otherwise agreed, the Depositary shall present its statement for such expenses and fees or charges to the Company once every three (3) months. The charges and expenses of the Custodian are for the sole account of the Depositary.

## **20. Listing**

The Company has undertaken in the Deposit Agreement to, use its best efforts to furnish from time to time any and all documents, instruments, information and undertakings and publish all advertisements or other material, pay all fees and take all other actions that may be necessary in order to maintain or effect the listing of Regulation S GDRs on the London Stock Exchange and MOEX, and to use its best endeavors to obtain and thereafter maintain for a period of at least 12 months from the date hereof admission to trading of the Regulation S GDRs on the London Stock Exchange's main market for listed securities.

## **21. The Custodian**

The Depositary has agreed with the Custodian that the Custodian will receive and hold all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement. The Custodian shall be responsible solely to the Depositary. Upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (after notifying the Company of such appointment and consulting with the Company in good faith regarding such appointment to the extent that it is reasonably practicable to do so), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. Whenever the Depositary, in its sole discretion, determines that it is in the best interest of the Holders to do so, it may terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (after notifying the Company of such appointment and consulting with the Company in good faith regarding such appointment to the extent that it is reasonably practicable to do so), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify the Company and the Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 25.

Citibank, N.A. may at any time act as Custodian of the Deposited Securities pursuant to the Deposit Agreement, in which case any reference to Custodian shall mean Citibank, N.A. solely in its capacity as Custodian pursuant to the Deposit Agreement. Notwithstanding anything contained in the Deposit Agreement or the Conditions, the Depositary shall not be obligated to give notice to the Company, any Holders of GDRs or any other Custodian of its acting as Custodian pursuant to the Deposit Agreement.

## **22. Resignation and Termination of Appointment of the Depositary**

(A) The Depositary may at any time resign as Depositary hereunder by written notice of resignation delivered to the Company, which resignation shall be effective on the earlier to occur of (i) the 90<sup>th</sup> day after delivery thereof to the Company, after which the Depositary shall be entitled to take the termination actions contemplated in Condition 23(A), and (ii) the appointment by the Company of a successor depositary and the acceptance by such successor depositary of such appointment.

The Depositary may at any time be removed by the Company by written notice of removal delivered to the Depositary, which removal shall be effective on the later to occur of (i) the 90<sup>th</sup> day after delivery thereof to the Company, after which the Depositary shall be entitled to take the termination actions contemplated in Condition 23(A), and (ii) the appointment by the Company of a successor depositary and the acceptance by such successor depositary of such appointment.

(B) The Company has undertaken in the Deposit Agreement to use its reasonable efforts to procure the appointment of a successor depositary following the receipt of a notice of resignation from the Depositary or the giving of a notice of the termination of the appointment of the Depositary. Upon

any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 25.

- (C) Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

### **23. Termination of Deposit Agreement**

- (A) The Company may at any time terminate the Deposit Agreement. Upon written direction of the Company, the Depositary shall provide notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

If ninety (90) days shall have expired after (i) the Depositary shall have delivered to the Company a written notice of its election to resign pursuant to Clause 11.1 of the Deposit Agreement and Condition 22(A) or (ii) the Company shall have delivered to the Depositary a written notice of the removal of the Depositary pursuant to Clause 11.1 of the Deposit Agreement and Condition 22(A) and, in either case, a successor depositary shall not have been appointed and accepted its appointment as provided in Clause 11.1 of the Deposit Agreement and Condition 22(B), the Depositary may terminate the Deposit Agreement by providing notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

The date fixed for termination of the Deposit Agreement in any termination notice distributed by the Depositary to the Holders of GDRs is referred to as the “*Termination Date*”. Until the Termination Date, the Depositary shall continue to perform all of its obligations under the Deposit Agreement and the Conditions, and the Holders and Beneficial Owners will be entitled to all of their rights under the Deposit Agreement and the Conditions.

- (B) If any GDRs shall remain outstanding after the Termination Date, the Registrar and the Depositary shall not, after the Termination Date, have any obligation to perform any further acts under the Deposit Agreement or the Conditions, except that the Depositary shall, subject, in each case, to the terms and conditions of the Deposit Agreement and the Conditions, continue to (i) collect dividends and other distributions pertaining to Deposited Property, (ii) sell securities and other property received in respect of Deposited Property, (iii) deliver Deposited Property, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any securities or other property, in exchange for GDRs surrendered to the Depositary (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreement and Condition 19), and (iv) take such actions as may be required under applicable law in connection with its role as Depositary under the Deposit Agreement.

At any time after the Termination Date, the Depositary may sell the Deposited Property then held under the Deposit Agreement and shall after such sale hold un-invested the net proceeds of such sale, together with any other cash then held by it under the Deposit Agreement, in an un-segregated account and without liability for interest, for the pro-rata benefit of the Holders whose GDRs have not theretofore been surrendered. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and the Conditions except (i) to account for such net proceeds and other cash (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreement and Condition 19), (ii) as may be required at law in connection with the termination of the Deposit Agreement and (iii) its obligations under the Deposit Agreement that are expressed to survive termination of the Deposit Agreement, including (but not limited to) its obligations under the provisions of Clause 10. After the Termination Date, the Company shall be discharged from all obligations under the Deposit Agreement and the Conditions, except for its obligations to the Depositary under Clause 10 of the Deposit Agreement and Condition 19. The obligations under the terms of the Deposit Agreement and the Conditions of Holders and Beneficial Owners of GDRs outstanding as of the Termination Date shall survive the Termination Date and shall be discharged only when the applicable GDRs are presented by their Holders to the Depositary for



cancellation under the terms of the Deposit Agreement and the Conditions (except as specifically provided therein).

#### **24. Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable, including without limitation such changes as are reasonably necessary to give effect to a redomiciliation of the Company. Notice of any amendment of the Deposit Agreement and these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of thirty (30) days after such notice shall have been given. Every Holder or Beneficial Owner at the time any amendment or supplement so becomes effective shall be deemed, by continuing to hold GDRs or any beneficial interest therein to consent to and approve such amendment or supplement and to be bound by the terms of the Deposit Agreement and the Conditions as amended and supplemented thereby.

In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Clause 3 of the Deposit Agreement and Condition 2, the Deposited Property attributable to the relevant GDR except in order to comply with mandatory provisions of applicable law.

The parties hereto agree that substantial rights of Holders and Beneficial Owners shall not be deemed materially prejudiced by any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for the GDRs or Shares to be settled in electronic-book entry form and (ii) do not impose or increase any fees or charges to be borne by Holders or Beneficial Owners.

Notwithstanding anything in the Deposit Agreement or the Conditions to the contrary, if any governmental body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement or the Conditions to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement, and the Conditions at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement and the Conditions in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

#### **25. Notices**

Any and all notices to be given to any Holder shall be deemed to have been duly given if (a) personally delivered or sent by mail, air courier or facsimile transmission, confirmed by letter, addressed to such Holder at the address of such Holder as it appears on the books of the Depositary or, if such Holder shall have filed with the Depositary a request that notices intended for such Holder be mailed to some other address, at the address specified in such request, or (b) if a Holder shall have designated such means of notification as an acceptable means of notification under the terms of the Deposit Agreement and the Conditions, by means of electronic messaging addressed for delivery to the e-mail address designated by the Holder for such purpose.

Notice to Holders shall be deemed to be notice to Beneficial Owners for all purposes of the Deposit Agreement and the Conditions. Failure to notify a Holder or any defect in the notification to a Holder shall not affect the sufficiency of notification to other Holders or to the Beneficial Owners of GDRs held by such other Holders.

Delivery of a notice sent by mail, air courier or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a facsimile transmission) is deposited, postage prepaid, in a post office letter box or delivered to an air courier service, without regard for the actual receipt or time of actual receipt thereof by a Holder. The Depositary or the Company may, however, act upon any facsimile transmission received by it from any Holder, the Custodian, the Depositary or the Company, notwithstanding that such facsimile transmission shall not be subsequently confirmed by letter.

Delivery of a notice by means of electronic messaging shall be deemed to be effective at the time of the initiation of the transmission by the sender (as shown on the sender's records), notwithstanding that the

intended recipient retrieves the message at a later date, fails to retrieve such message, or fails to receive such notice on account of its failure to maintain the designated e-mail address, its failure to designate a substitute e-mail address or for any other reason.

## **26. Reports and Information on the Company**

If, so long as any of the Rule 144A GDRs or the Shares represented thereby remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and the Company is neither a reporting company under Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Company hereby undertakes to provide to any Holder, Beneficial Owner or holder of Shares or any prospective purchaser designated by such Holder, Beneficial Owner or holder of Shares, upon the request of such Holder, Beneficial Owner, holder of Shares or prospective purchaser, copies of the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

## **27. Copies of Company Notices**

On or before the day when the Company first gives notice, by publication, or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, the Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary a copy of such notice and any other material in English but otherwise in the form given or to be given to holders of Shares or other Deposited Property.

In addition, the Company will transmit to the Depositary English-language versions of the other notices, reports and communications which are generally made available by the Company to holders of Shares or other Deposited Property. The Depositary will, at the expense of the Company, make available a copy of any such notices, reports or communications issued by the Company and delivered to the Depositary for inspection by the Holders and Beneficial Owners at the Principal New York Office and the Principal London Office, at the office of the Custodian and at any other designated transfer office. The Depositary shall arrange, at the request of the Company and at the Company’s expense, for the distribution of copies thereof to all Holders on a basis similar to that for holders of Shares or other Deposited Property or on such other basis as the Company may advise the Depositary.

## **28. Moneys Held by the Depositary**

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any holder or any other person for any interest thereon, except as otherwise agreed.

## **29. Severability**

If any one or more of the provisions contained in the Deposit Agreement or in the Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

## **30. Governing Law and Submission to Jurisdiction**

- (A) The Deposit Agreement, the Conditions, the Deed Poll and the GDRs, and any non-contractual obligations arising out of or in connection with them, are governed by English law, except that the required certifications from the persons making deposits or withdrawals of Shares pursuant to the Deposit Agreement are governed by and shall be construed in accordance with the laws of the State of New York. For the avoidance of doubt, the rights and obligations attaching to the Deposited Shares will be governed by the laws of the Company’s jurisdiction of incorporation from time to time.
- (B) The Company and the Depositary have agreed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Deposit Agreement, the Conditions or the GDRs and the legal relationship established thereby (including a claim, dispute or difference regarding the existence, termination or validity of the Deposit Agreement, the Conditions or the GDRs or any non-contractual obligations arising out of or in connection with the Deposit Agreement,

the Conditions or the GDRs) (“**Proceedings**”), shall be referred to, and finally resolved by, binding arbitration in accordance with the rules of the London Court of International Arbitration,

As contemplated by Clause 20 of the Deposit Agreement, in the event of any litigation with a third party to which (a) the Depositary is a party and to which the Company may be properly joined, the Company may be so joined by the Depositary in any court in which such litigation is pending, and (b) the Company is a party and to which the Depositary may be properly joined, the Depositary may be so joined by the Company in any court in which such litigation is pending. For the purposes of this clause 30(B) a “third party” shall mean a person or entity which is not in any way related to or affiliated with the Company.

Notwithstanding anything contained in the Deposit Agreement or the conditions to the contrary, the parties hereto agree that the English courts shall have jurisdiction to hear and determine proceedings related to the enforcement of this arbitration provision and any arbitration award by the arbitrators contemplated in this Condition 30(B), and, for such purposes, each of the Company and the Depositary irrevocably submits to the non-exclusive jurisdiction of such court.

Each of the Company and the Depositary agrees not to challenge the terms and enforceability of this arbitration clause, including, but not limited to, any challenge based on lack of mutuality, and each such party hereby irrevocably waives any such challenge.

The place of the arbitration shall be London, England and the language of the arbitration shall be English.

The number of arbitrators shall be three. The arbitrators shall have no power or authority to award damages not measured by the prevailing party’s actual damages.

The arbitrators’ award shall be final and binding upon the parties and their respective successors, heirs, executors and assigns.

### **31. Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to the Deposit Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 (the “**Act**”) of the United Kingdom to enforce any term of the Deposit Agreement but this does not affect any right or remedy granted under the Deed Poll or which otherwise exists or is available apart from the Act.

#### **DEPOSITARY**

Citibank, N.A.  
388 Greenwich Street  
New York, New York 10013  
United States of America

#### **CUSTODIAN**

**Citibank Hong Kong**  
Securities and Fund Services  
9/F, Citi Tower, One Bay East  
83 Hoi Bun Road, Kwun Tong Kowloon  
Hong Kong

and/or such other Depositary and/or such other Custodian or Custodians and/or principal offices as may from time to time be duly appointed and notified to the Holders.

## SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILST IN MASTER FORM

The GDRs will initially be evidenced by: (i) a single Regulation S Master GDR in registered form; and (ii) a single Rule 144A Master GDR in registered form. The Rule 144A Master GDR will be registered in the name of Cede & Co. as nominee for the U.S. Clearing Agent on the date the GDRs are issued. The Regulation S Master GDR will be registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc as common depositary for Euroclear and Clearstream, Luxembourg on the date the GDRs are issued.

The Regulation S Master GDR and the Rule 144A Master GDR contain provisions which apply to the GDRs whilst they are in master form. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in paragraphs (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- (i) the U.S. Clearing Agent, in the case of the Rule 144A Master GDR, or Euroclear, Clearstream, Luxembourg or NSD, in the case of the Regulation S Master GDR, notifies the Company that it is unwilling or unable to continue as common depositary and a successor common depositary system is not appointed within 90 calendar days; or
- (ii) either the U.S. Clearing Agent, in the case of the Rule 144A Master GDR, or Euroclear, Clearstream, Luxembourg or NSD, in the case of the Regulation S Master GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- (iii) in respect of the Rule 144A Master GDR, the U.S. Clearing Agent or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDRs which would not be required were the GDRs represented by certificates in definitive registered form, *provided that* the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg, NSD or the U.S. Clearing Agent. Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Rule 144A Master GDR and the Regulation S Master GDR pursuant to Clause 3 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 4, 5, 6, 7 or 9 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 2, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreements and the obligations of the Depositary pursuant to the Deposit Agreements and the Conditions have terminated.

### **Payments, Distributions and Voting Rights**

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Regulation S Master GDR, be made by the Depositary through Euroclear, Clearstream, Luxembourg (and NSD as participant thereof) and, in the case of GDRs represented by the Rule 144A Master GDR, will be made by the Depositary through the U.S. Clearing Agent, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

### **Surrender of GDRs**

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, in the case of GDRs represented by the Regulation S Master GDR, or by the U.S. Clearing Agent, in the case of GDRs represented by the Rule 144A Master GDR, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg or the U.S. Clearing Agent, as appropriate. The delivery or production of any such evidence shall be sufficient evidence in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs and to issue voting instructions.

### **Notices**

For as long as the Regulation S Master GDR is registered in the name of a nominee for a common depositary holding on behalf of Euroclear and Clearstream, Luxembourg, and the Rule 144A Master GDR is registered in the name of the U.S. Clearing Agent or its nominee, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, or (as appropriate) the U.S. Clearing Agent, for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 24.

The Master GDRs shall be governed by and construed in accordance with English law.

## DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GDRS

### **The Depositary**

The Depositary is Citibank, N.A., a national banking association organised under the laws of the United States. The Depositary is an indirect wholly-owned subsidiary of Citigroup, Inc., a Delaware corporation.

### ***Rights of Holders of GDRs***

*Relationship of Holders of GDRs with the Depositary:* The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreements, which are governed by English law. The Depositary and the Company are parties to the Deposit Agreements. Holders of GDRs have contractual rights in relation to cash or other Deposited Property (including Deposited Shares, which are Shares of the Company represented by GDRs) deposited with the Depositary under Clause 3 of each of the Deposit Agreements, and otherwise under the Deposit Agreements by virtue of the Deed Poll.

*Voting:* With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreements provide that, upon receipt of notice from the Company of any meeting at which the holders of Shares or other Deposited Property are entitled to vote, or of a solicitation of consent or proxy from holders of Shares or Deposited Property, the Depositary shall, providing that no relevant legal prohibitions exist, send to any person who is a Holder on the record date established by the Depositary for that purpose such notice of meeting or solicitation of consent or proxy, along with a brief statement on the manner in which such Holders may provide the Depositary with voting instructions for matters to be considered. The Deposit Agreements provide that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with instructions from Holders. As at the date of this Prospectus, the Company confirms that there are no restrictions under applicable law, the M&A or the provisions of the Deposited Shares that would prohibit or restrict the Depositary from voting any of the Deposited Shares in accordance with instructions from Holders.

*Delivery of GDRs:* The Deposit Agreements provide that the Deposited Shares can only be delivered out of the Regulation S and Rule 144A GDR facilities to, or to the order of, a Holder of related GDRs upon receipt and cancellation of such GDRs, or in connection with a pre-release.

### ***Rights of the Company***

The Company has broad rights to remove the Depositary under the terms of the Deposit Agreements, but no specific rights under the Deposit Agreements which are triggered in the event of the insolvency of the Depositary.

### ***Insolvency of the Depositary***

*Applicable insolvency law:* If the Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. laws applicable to the insolvency of banks.

*Effect of applicable insolvency law in relation to cash:* The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current U.S. law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash that would be also be available to general creditors of the Depositary.

*Effect of applicable insolvency law in relation to non-cash assets:* The Deposit Agreements state that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current U.S. law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's receiver or conservator to deliver such Depositary Shares and other non-cash assets that would be unavailable to general creditors of the Depositary.

### ***Default of the Depositary***

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Deposit Agreements or otherwise engages in a default for which it would be liable under the terms of the Deposit Agreements, the Depositary will be in breach of its contractual obligations under the Conditions. In such case, Holders will have a claim under English law against the Depositary for the Depositary's breach of its contractual obligations under the Deposit Agreements.

### **The Custodian**

The Custodian is Citibank Hong Kong, a company organised under the laws of Hong Kong.

*Relationship of Holders of GDRs with the Custodian:* The Custodian and the Depositary are parties to a custody agreement, which is governed by Dutch law. The Holders do not have any contractual relationship with, or rights enforceable against, the Custodian. The Custodian will hold one or more certificates representing Deposited Shares, each of which will be registered in the Company's share register in the name of the Depositary or its nominee, as the case may be, and deposited in the Regulation S and Rule 144A GDR facilities.

### ***Default of the Custodian***

*Failure to deliver cash:* Notwithstanding the fact that the Company expects to pay dividends, if at all, in U.S. Dollars, payments denominated in any currency which are made in accordance with Depositary's current procedures and pursuant to the terms of the Deposit Agreements and Conditions will not be made through the Custodian. Rather, payments in U.S. Dollars will be made directly from the Company to an account in New York and then credited to the U.S. Dollar-denominated accounts of the Holders. To the extent that payments are in a currency other than U.S. Dollars, such payments may be made to an account outside the United States, converted into U.S. Dollars and, after deduction of any fees and expenses of the Depositary, credited to the appropriate accounts of the Holders.

*Failure to deliver non-cash assets:* If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its obligations to the Depositary. In such case, the Depositary will have a claim under Dutch law against the Custodian for the Custodian's breach of its obligations under the custody agreement. The Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

*The Depositary's obligations:* The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that such default arises as a result of the wilful default, gross negligence or bad faith of the Custodian.

### ***Insolvency of the Custodian***

*Applicable law:* If the Custodian becomes insolvent, the insolvency proceedings will be governed by applicable Hong Kong law.

*Effect of applicable insolvency law in relation to cash:* For the reasons outlined above, it is not expected that any claim for cash will subsist against the Custodian as the Company will make payments directly to the Depositary or its nominee, as the case may be, and no cash will be paid to the Custodian.

*Effect of applicable insolvency law in relation to non-cash assets:* Under the Deposit Agreements, all Deposited Shares are registered in the name of the Custodian, in its capacity as nominee of the Depositary, and are held by the Custodian, for the account and to the order of the Depositary (on behalf of Holders) and must be identified as being held to the account of the Depositary and segregated from all other property held by the Custodian. The Custodian must maintain records of all Deposited Shares held by it for the account and to the order of the Depositary and make such records available to the Depositary. The Custodian's sole corporate activity consists of holding deposited securities as nominee for the Depositary and it will incur no liabilities in connection with such activity. However, under Dutch law, as the Custodian holds legal title to the Deposited Shares, which are registered in its name, in the event the Custodian becomes insolvent, the Deposited Shares would be deemed to form part of the assets of the

Custodian and the Depositary (on behalf of the Holders) would only have a claim in respect of the Deposited Shares together with any other general creditors of the Custodian.

*The Depositary's obligations:* The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the Holders have no direct recourse to the Custodian under the Deposit Agreements, though the Depositary can remove the Custodian and appoint a substitute or additional custodian(s) and may exercise such rights if it deems necessary.

**PERSONS HOLDING BENEFICIAL TITLE TO GDRS OR INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.**



## PLAN OF DISTRIBUTION

### Structure of the Offering

The Offering consists of: (i) the International Offering and (ii) the Cornerstone Offering. The Offering is being made by way of an offer of GDRs: (1) within the United States to QIBs, as defined in, and in reliance on, Rule 144A under the Securities Act, or another exemption from, the registration requirements of the Securities Act; and (2) outside the United States to institutional investors in “offshore transactions” as defined in, and in reliance on, Regulation S.

### Underwriting Arrangement

The Company, the Selling Shareholder and the Managers have entered into an underwriting agreement dated 3 November 2017 (the “**Underwriting Agreement**”) with respect to the International Offering. The Cornerstone Offering is not underwritten by the Managers. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Manager has agreed, severally but not jointly nor jointly and severally, to procure purchasers for, or failing which to purchase, at the Offer Price, such number of Ordinary Shares, in the form of GDRs, as are set forth opposite its name in the following table.

<u>Managers</u>	<u>Number of GDRs in respect of the International Offering</u>	<u>Maximum Number of GDRs in respect of the Over-Allotment Option</u>
ATON LLC . . . . .	357,142	25,000
Bank GPB International S.A. . . . .	4,910,715	343,750
BMO Capital Markets Limited . . . . .	4,910,715	343,750
Citigroup Global Markets Limited . . . . .	8,571,429	600,000
Credit Suisse Securities (Europe) Limited . . . . .	8,571,429	600,000
J.P. Morgan Securities plc . . . . .	8,571,429	600,000
Merrill Lynch International . . . . .	8,571,428	600,000
SIB (Cyprus) Limited . . . . .	8,571,428	600,000
Société Générale . . . . .	4,910,715	343,750
UBS Limited . . . . .	4,910,715	343,750
VTB Capital plc . . . . .	8,571,428	600,000
Total . . . . .	71,428,573	5,000,000

The GDRs will be represented by a Rule 144A Master GDR and a Regulation S Master GDR and will be subject to certain restrictions as further discussed in “*Terms and Conditions of the Global Depositary Receipts*”.

The Offer Price is U.S.\$14 per GDR. The total fees, expenses and commissions in connection with the Offering will be approximately U.S.\$35 million, which will be paid by the Company. These amounts include, among others, fees for auditors, tax advisors and legal counsel, as well as selling commissions.

In the Underwriting Agreement, the Company and the Selling Shareholder have made certain representations and warranties, and the Company has agreed to indemnify in respect of itself the several Managers, against certain liabilities, including liability under the Securities Act. If these indemnities are unenforceable, the Company has agreed to contribute in respect of itself to any payments that the Managers are required to make in respect of the liabilities against which the Company has agreed to indemnify them.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading in the GDRs or any securities of UC RUSAL on the London Stock Exchange or MOEX, termination of the Cornerstone Agreement, non-receipt of the payment for the GDRs pursuant to the terms of the Cornerstone Agreement and the Underwriting Agreement, a material adverse change in the Group’s financial condition or business, and on certain other conditions, the Joint Global Coordinators, on behalf of the Managers, have the right, collectively but not individually, to withdraw from the Offering before the Closing Date. In addition, the Managers may enter into derivative transactions in connection with the International Offering, acting at the order and for the account of their customers, and may also purchase GDRs as a hedge for these transactions.

Certain investors are expected to acquire more than 5% of the total number of GDRs being sold in the International Offering.

## Cornerstone Investor and Cornerstone Investment Agreement

On 7 September 2017, the Company and the Cornerstone Investor entered into the cornerstone investment agreement in connection with the Offering (the “**Cornerstone Investment Agreement**”). The Cornerstone Investor has agreed, subject to certain conditions, to subscribe for (through its wholly-owned subsidiary or, failing which, itself) 35,714,285 Cornerstone Investor GDRs in the Offering at the Offer Price and the Company has agreed to issue and allot to the Cornerstone Investor the Cornerstone Investor GDRs.

The Cornerstone Investor has committed U.S.\$500 million for the subscription of GDRs. Based on the Offer Price, the total number of GDRs subscribed for by the Cornerstone Investor is 35,714,285 GDRs, which represents 31.8% of the GDRs offered in the Offering, assuming that the Over-Allotment Option is exercised in full.

ANAN GROUP (SINGAPORE) PTE. LTD. (“**AnAn Group**”) is a company registered under the laws of Singapore. AnAn Group will subscribe for the GDRs either directly by itself or indirectly through its wholly-owned subsidiary, ANAN CEFC (CYPRUS) INTERNATIONAL INVESTMENT LTD (“**AnAn CEFC Cyprus**”). AnAn CEFC Cyprus is a private holding company limited by shares incorporated under the laws of Cyprus for the purpose of participation in the Offering and holding the GDRs. AnAn Group is principally engaged in equity investment and the provision of infrastructure services, with a special interest in common market economies. In addition, AnAn Group holds 63.8% of AnAn International Limited (formerly known as CEFC International Limited) (“**AnAn International**”), a company listed on the Main Board of the Singapore Exchange. AnAn International is primarily engaged in the trading of petroleum and petrochemical products and also invests in the energy downstream areas. AnAn Group is an important strategic partner of CEFC China Energy Company Limited. The Cornerstone Investor is an independent third party and is not an existing shareholder of the Company.

A summary of the material terms of the Cornerstone Investment Agreement is as set out below. The Cornerstone Investment Agreement contains, amongst others, the following provisions:

- (i) the obligation of the Company to deliver, and the obligation of the Cornerstone Investor to acquire and pay for, the GDRs are subject to certain conditions, including:
  - (a) the Underwriting Agreement being entered into and having become unconditional in respect of the Offering by no later than the Closing Date;
  - (b) the Underwriting Agreement not having been terminated on or prior to the Closing Date;
  - (c) London Admission occurring not later than 8:00 a.m. (London time) on the Closing Date;
  - (d) the Offer Price being within the price range published via Bloomberg or any other news service at the same time as the distribution of the preliminary prospectus, as such price range may be amended through publication via Bloomberg or any other news service;
  - (e) approvals or consents (if required) for the consummation of the transactions being granted by the applicable governmental authorities; and
  - (f) the Offering shall not be less than US\$1,500,000,000 with sufficient free float as required by Listing Rules.
- (ii) the Company has the right to terminate the Cornerstone Investment Agreement in certain circumstances, including the following:
  - (a) in the event that payment for the GDRs by the Cornerstone Investor is not received or settled in accordance with the terms of the Cornerstone Investment Agreement; and
  - (b) in the event of a material breach of the terms of the Cornerstone Investment Agreement by the Cornerstone Investor.
- (iii) the Cornerstone Investor may terminate the Cornerstone Investment Agreement if there is a material breach by the Company of its obligation to deliver the GDRs to the Cornerstone Investor in accordance with the terms of the Cornerstone Investment Agreement;
- (iv) each of the parties has given certain customary representations and warranties to the other, in particular regarding compliance with laws and regulations affecting the entry into of the Cornerstone Investment Agreement in relevant jurisdictions. The terms of the Cornerstone Investment Agreement do not limit the liability of the parties for breach of contract as to time or amount;

- (v) the Cornerstone Investor has agreed, subject to certain exemptions, to certain lock-up arrangements pursuant to the Cornerstone Investment Agreement;
- (vi) following the Offering and as long as the Ordinary Shares represented by the GDRs held by the Cornerstone Investor account for at least 50% of the original investor shareholding (being the actual number of GDRs purchased by the Cornerstone Investor under and as part of the Offering), the Company shall procure that one representative of the Cornerstone Investor is elected to the Board of Directors of the Company;
- (vii) the Company shall also procure that for as long as the Ordinary Shares represented by the GDRs held by the Cornerstone Investor account for at least 75% of the original investor shareholding, the Cornerstone Investor's Director has the veto right (or rights with similar effect) in respect of the following matters:
  - (a) entry into or varying a related party transaction (as defined in the Cornerstone Investment Agreement) which envisages the payment or transfer of the assets or goods of the Group in the amount of more than U.S.\$1 million during one calendar year;
  - (b) any matters that would have required adoption of a special resolution as if the Company or any of the entities under its control were incorporated in the United Kingdom under the U.K. Companies Act 2006; and
  - (c) approving any placement of the Company's shares, issuance of options, warrants or granting of other rights to demand placement of Company's shares (unless such options, warrants and other rights are granted to the Company's shareholders *pro rata* to their holdings in the Company), subject to certain exceptions;
- (viii) the Company will use its commercially reasonable endeavours to the extent in its power and control:
  - (a) to maintain the Company's dividend policy and the dividend policy of RUSAL (at least for five years) as contemplated under the shareholders' agreement in respect of RUSAL at least for five years;
  - (b) to operate materially in line with its current investment programme that contemplates capital expenditures (comprising acquisition of property, plant and equipment, as well as acquisition of intangible assets) of U.S.\$200 million per year for En+ Power for the 2017-2021 period and U.S.\$600 million per year for RUSAL for 2017-2021 period as described under "*Operating and Financial Review—Liquidity and Capital Resources—Capital Requirements—Capital expenditures*";
  - (c) to decrease En+ Power's Net Debt to Adjusted EBITDA to 3.5 to 1 within three years in line with its strategy to deleverage as described under "*Business—Strategy*";
  - (d) not to grant any guarantees (or the equivalent) by any Group member in relation to the undertakings and obligations of third parties or not to advance of any loan to third parties other than guarantees or advancement, subject to certain exceptions; and
  - (e) to consider disposing of its non-core assets (subject to market conditions) which comprise the Other Segment.

### **Stabilisation**

In connection with the Offering, the Stabilisation Manager, or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law and regulation, over-allot the GDRs or provide related services in any over-the-counter market or otherwise, with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market during the Stabilisation Period. However, the Stabilisation Manager is not required to enter into such transactions. Such stabilisation, if commenced, may be discontinued at any time without prior notice, and may only be undertaken during the Stabilisation Period.

In connection with the Offering, the Stabilisation Manager or any persons acting for the Stabilisation Manager, may, for stabilisation purposes, over-allot up to 5,000,000 GDRs. For the purposes of allowing the Stabilisation Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilisation Manager during the Stabilisation Period, the Selling Shareholder has granted the Managers the Over-Allotment Option pursuant to which the Stabilisation Manager, on behalf of the Managers, may require the Selling Shareholder to sell up to 5,000,000 additional

GDRs at the Offer Price. The Over-Allotment Option is exercisable within 30 days of the announcement of the Offer Price in whole or in part time to time on one or more occasions only during the Stabilisation Period for the purposes of meeting over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions upon written notice from the Stabilisation Manager, on behalf of the Managers to the Selling Shareholder. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

Save as required by law or regulation, neither the Stabilisation Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offering.

## **Lock-up Arrangements**

### ***Lock-up of the Company, the Selling Shareholder, B-Finance Limited and Other Shareholders***

The Company has undertaken to each of the Managers that during a period from the date of the Underwriting Agreement to and including 180 days from the London Admission, neither the Company nor any of its subsidiaries or their respective affiliates nor any person acting on its or their behalf will, without the prior written consent of the Joint Global Coordinators, acting on behalf of the Managers: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares, any GDRs or other shares of the Company, or any securities convertible into or exercisable or exchangeable for Ordinary Shares, GDRs or other shares of the Company, or file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Ordinary Shares, any GDRs or other shares of the Company, whether any such transaction described in sub-clause (i) or (ii) above is to be settled by delivery of Ordinary Shares, GDRs or other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction.

The foregoing restrictions shall not apply:

- (i) to the sale of the Sale Shares, in each case in the form of GDRs to be sold under the Underwriting Agreement;
- (ii) to the acceptance of an offer for the entire issued share capital (including in the form of GDRs) of the Company or to the giving of an irrevocable undertaking to accept an offer for the entire issued share capital (including in the form of GDRs) of the Company (in each case excluding shares and GDRs already held by the offeror);
- (iii) to the subject matter of any court order;
- (iv) pursuant to any decision or ruling by an administrator, administrative receiver or liquidator (or any equivalent or similar officeholder in Jersey) appointed to the Company in connection with a winding up or liquidation of the Company;
- (v) to any disposal to an affiliate of the Selling Shareholder provided that, prior to such disposal, the relevant transferee agrees, in a form acceptable to the Managers (acting reasonably) to be bound by the restrictions;
- (vi) to any such transfer or disposal made pursuant to any offer by the Company to purchase its own shares or GDRs which is made on identical terms (subject to any differences or omissions arising as a result of overseas securities laws) to all holders of Ordinary Shares and otherwise complies with the Listing Rules, the EU Market Abuse Regulation and (as applicable) the rules and regulations of the London Stock Exchange; and
- (vii) to any such transfer, disposal or issue of Ordinary Shares by the Company or issue of GDRs made on terms which are materially consistent with the terms of the Conversion Transaction as defined and disclosed in this Prospectus.

The Selling Shareholder has undertaken to each of the Managers that during a period from the date of the Underwriting Agreement to and including 180 days from the London Admission, neither the Selling Shareholder, any of its subsidiaries nor their respective affiliates nor any person acting on its or their

behalf will, nor any natural person who is a family member of any natural person who controls the Selling Shareholder, any of its subsidiaries or any of their respective affiliates will, without the prior written consent of the Joint Global Coordinators, on behalf of the Managers: (i) directly or indirectly, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares, any GDRs or other shares of the Company or any securities convertible into or exercisable or exchangeable for Ordinary Shares, GDRs or other shares of the Company or any security or financial product whose value is determined, directly or indirectly, by reference to the price of the underlying securities, including equity swaps, forward sales and options or request or demand that the Company file any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Ordinary Shares, any GDRs or other shares of the Company, whether any such transaction described in sub-clause (i) or (ii) above is to be settled by delivery of Ordinary Shares, any GDRs or such other securities, in cash or otherwise; or (iii) publicly announce such an intention to effect any such transaction.

The foregoing restrictions shall not apply:

- (i) to the sale of the Ordinary Shares in the form of GDRs to be sold under the Underwriting Agreement;
- (ii) to the acceptance of an offer for the entire issued share capital (including in the form of GDRs) of the Company or to the giving of an irrevocable undertaking to accept an offer for the entire issued share capital (including in the form of GDRs) of the Company (in each case excluding shares and GDRs already held by the offeror);
- (iii) to any such transfer or disposal made pursuant to any offer by the Company to purchase its own shares or GDRs which is made on identical terms (subject to any differences or omissions arising as a result of overseas securities laws) to all holders of Ordinary Shares and otherwise complies with the Listing Rules, the EU Market Abuse Regulation and (as applicable) the rules and regulations of the London Stock Exchange; or
- (iv) to any direct or indirect transfer to any person who, as at the date of the Underwriting Agreement, is Mr. Oleg Deripaska, the spouse, a parent or a child of Mr. Oleg Deripaska (each, a “**Close Family Member**”), any affiliate of such Close Family Member, or any trust, foundation or other analogous or similar arrangement in any legal form for the benefit of one or more Close Family Members, provided that, prior to such disposal, the relevant transferee agrees by way of a deed of adherence to be bound by the restrictions.

B-Finance Limited and the Other Shareholders have undertaken to the Company that during a period from the date of the respective lock-up agreement to and including 180 days from the London Admission, neither of Other Shareholders will, without the prior written consent of the Company: (i) offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise dispose of any legal or beneficial interest in GDRs and/or Ordinary Shares (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, GDRs and/or Ordinary Shares or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether, conditionally or unconditionally; or (ii) enter into any swap or other agreement or arrangement that disposes, in whole or in part, any of the economic consequences or incidents of ownership of GDRs and/or Ordinary Shares or such other securities convertible into or exchangeable for GDRs and/or Ordinary Shares; or (iii) enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of GDRs and/or Ordinary Shares or such other securities, in cash or otherwise; or (iv) agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of GDRs and/or Ordinary Shares.

The foregoing restrictions shall not apply:

- (i) to any disposal (a) to any person or persons acting in the capacity of trustee or trustees of a trust created by B-Finance Limited or such Other Shareholder or, upon any change of trustees of a trust so created, to the new trustee or trustees, provided that the trust is established for charitable purposes

only or there are no persons beneficially interested under the trust other than the beneficial owner(s) of B-Finance Limited or the Other Shareholders, B-Finance Limited or the Other Shareholder and/or the family members of the beneficial owner(s) of B-Finance Limited or such Other Shareholder; or (b) by any parties referred to in paragraph (a) back to the original holder or disposed of to another transferee referred to therein, provided that, at least 5 business days prior to the making of such disposal, the relevant party shall have notified the Company of the proposed disposal and provided reasonable details in respect of the proposed transferee;

- (ii) in the case of any Other Shareholder who is an individual, to any disposal to or by personal representatives of such Other Shareholder who dies during the restricted period;
- (iii) to any disposal to (a) if such party is a company, any wholly-owned subsidiaries of such party, (b) if such party is a company, any holders of units in, or any partner in, or members of or in investors in (as the case may be) such party or any nominee or trustee for such holders, partners, members or investors; (c) any nominee or trustee of such party, (d) any bank, trust, company, limited partnership or fund holding GDRs and/or Ordinary Shares for investment purposes, or its nominee or trustee, which is managed or advised by the same manager or adviser as such party or by a group undertaking of such manager or adviser, or (e) if such party is a company, any person or entity under common control with such party's ultimate parent company or other ultimate controller; provided that prior to the transfer, such transferee had agreed to be bound by the restrictions of this deed as if it were the transferor by the execution and delivery to the Company of a deed of adherence. If at any time prior to the expiry of the restricted period, such a transferee ceases or will cease to match at least one of the conditions specified in (a)-(e) above, it shall (and such party shall procure that such transferee shall) transfer the GDRs and/or Ordinary Shares it holds to such party or another transferee matching at least one of such conditions which, prior to the transfer, shall have agreed to be bound by the restrictions of this deed as if it were the transferor by the execution and delivery to the Company of a deed of adherence;
- (iv) to any disposal of GDRs and/or Ordinary Shares by operation of law or pursuant to an order from a court of competent jurisdiction or as otherwise required pursuant to any applicable laws (including, without limitation, (i) any disposal of GDRs and/or Ordinary Shares pursuant to a compromise or arrangement under Article 125 of the Companies (Jersey) Law 1991 or pursuant to a merger under Part 18B of the Companies (Jersey) Law 1991, in each case providing for the acquisition by any person (or group of persons acting in concert as such expression is defined in the City Code) of 50% or more of the ordinary share capital of the Company; or (ii) any disposal of GDRs and/or Ordinary Shares pursuant to an arrangement under Article 167 of the Companies (Jersey) Law 1991 in relation to the Company);
- (v) to any disposal of GDRs and/or Ordinary Shares by (i) accepting a general offer for or voting in favour of a scheme of arrangement to acquire the ordinary share capital of the Company made in accordance with the City Code, (ii) executing and delivering an irrevocable undertaking to accept such an offer, or (iii) a sale of GDRs and/or Ordinary Shares to an offeror or potential offeror during an offer period (within the meaning of the City Code);
- (vi) to any disposal of GDRs and/or Ordinary Shares pursuant to any offer by the Company to purchase its own GDRs and/or Ordinary Shares which is made on identical terms to all holders of GDRs and/or Ordinary Shares;
- (vii) to any pledge, charge, mortgage, lien or other structure for giving credit support to the financial institution granted over or in respect of GDRs and/or Ordinary Shares to a financial institution which is providing financing to such party in respect of GDRs and/or Ordinary Shares and the transfer of GDRs and/or Ordinary Shares to such financial institution pursuant to such security or its enforcement and any further pledge, repledge, hypothecation, re-hypothecation or lending transaction by such financial institution, provided that in the event that such security is enforced, the relevant financial institution agrees to be bound by the lock-up restrictions as set forth in the lock-up deed by the execution and delivery to the Company of a deed of adherence;
- (viii) to any GDRs and/or Ordinary Shares which are acquired or may be acquired by such party after the date of the lock-up deed, other than: (a) all or any GDRs and/or Ordinary Shares which are allotted or issued to such party pursuant to any capital reorganisation (including, for the avoidance of doubt, by way of capitalisation of profits, share premium account or any capital or reserve account of the Company) on or after the London Admission in respect of GDRs and/or Ordinary Shares beneficially

owned, held or controlled by such party on or after the London Admission or in respect of GDRs and/or Ordinary Shares acquired; (b) all or any GDRs and/or Ordinary Shares issued after the date hereof pursuant to the conversion of any convertible debt securities or the exercise of any warrants, options or similar rights held by such party at the London Admission; and (c) all or any GDRs and/or Ordinary Shares or other securities, if any, which are allotted or issued to such party by way of rights in respect of any GDRs and/or Ordinary Shares beneficially owned, held or controlled by such party on the London Admission or issued to such party in the circumstances set out above;

- (ix) to any deposit of Ordinary Shares into a share depositary facility and receipt of the GDRs representing shares so deposited, and to any return of GDRs to a share depositary facility and receipt of the Ordinary Shares represented by those GDRs; and
- (x) to any direct or indirect disposal made to (i) B-Finance Limited or any Other Shareholder and/or the Selling Shareholder, (ii) an affiliate of B-Finance Limited or any Other Shareholder and/or Selling Shareholder or (iii) any family member; provided that prior to the transfer, such transferee had agreed to be bound by the restrictions of this deed in respect of the transferred GDRs and/or Ordinary Shares as if it were the transferor by the execution and delivery to the Company of a deed of adherence.

### ***Lock-up of VTB***

VTB has agreed, subject to certain exceptions set out below, that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period until (and including) 180 days from the date of the London Admission: (i) offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise dispose of any legal or beneficial interest in GDRs and/or Ordinary Shares (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, GDRs and/or Ordinary Shares or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether, conditionally or unconditionally; or (ii) enter into any swap or other agreement or arrangement that disposes, in whole or in part, any of the economic consequences or incidents of ownership of GDRs and/or Ordinary Shares or such other securities convertible into or exchangeable for GDRs and/or Ordinary Shares; or (iii) enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of GDRs and/or Ordinary Shares or such other securities, in cash or otherwise; or (iv) agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of GDRs and/or Ordinary Shares.

The foregoing restrictions shall not apply:

- (i) in relation to each restricted party: (a) to any transfer of GDRs and/or Ordinary Shares to: (i) any wholly-owned subsidiaries of such party; (ii) any holders of units in, or any partner in, or members of or in investors in (as the case may be) such party or any nominee or trustee for such holders, partners, members or investors; (iii) any nominee or trustee of such party, (iv) any bank, trust, company, limited partnership or fund holding GDRs and/or Ordinary Shares for investment purposes, or its nominee or trustee, which is managed or advised by the same manager or adviser as such party or by a group undertaking of such manager or adviser; or (v) any person or entity under common control with such party's ultimate parent company; provided that prior to the transfer, such transferee had agreed to be bound by the restrictions of this deed as if it were the transferor by the execution and delivery to the Company of a deed of adherence. If at any time prior to the expiry of the restricted period, such a transferee ceases or will cease to match at least one of the conditions specified in (i)-(v) above, it shall (and such party shall procure that such transferee shall) transfer the GDRs and/or Ordinary Shares it holds to such party or another transferee matching at least one of such conditions which, prior to the transfer, shall have agreed to be bound by the restrictions of this deed as if it were the transferor by the execution and delivery to the Company of a deed of adherence;
- (ii) to any disposal of GDRs and/or Ordinary Shares by operation of law or pursuant to an order from a court of competent jurisdiction or as otherwise required pursuant to any applicable laws (including, without limitation, (i) any disposal of GDRs and/or Ordinary Shares pursuant to a compromise or arrangement under Article 125 of the Companies (Jersey) Law 1991 or pursuant to a merger under Part 18B of the Companies (Jersey) Law 1991, in each case providing for the acquisition by any person

(or group of persons acting in concert as such expression is defined in the City Code) of 50% or more of the ordinary share capital of the Company; or (ii) any disposal of GDRs and/or Ordinary Shares pursuant to an arrangement under Article 167 of the Companies (Jersey) Law 1991 in relation to the Company);



- (iii) to any disposal of GDRs and/or Ordinary Shares by (i) accepting a general offer for or voting in favour of a scheme of arrangement to acquire the ordinary share capital of the Company made in accordance with the City Code, (ii) executing and delivering an irrevocable undertaking to accept such an offer, or (iii) a sale of GDRs and/or Ordinary Shares to an offeror or potential offeror during an offer period (within the meaning of the City Code);
- (iv) to any disposal of GDRs and/or Ordinary Shares pursuant to any offer by the Company to purchase its own GDRs and/or Ordinary Shares which is made on identical terms to all holders of GDRs and/or Ordinary Shares;
- (v) to any pledge, charge, mortgage, lien or other structure for giving credit support to the financial institution granted over or in respect of GDRs and/or Ordinary Shares to a financial institution which is providing financing to such party in respect of GDRs and/or Ordinary Shares and the transfer of GDRs and/or Ordinary Shares to such financial institution pursuant to such security or its enforcement and any further pledge, repledge, hypothecation, re-hypothecation or lending transaction by such financial institution, provided that in the event that such security is enforced, the relevant financial institution agrees to be bound by the lock-up restrictions as set forth in this deed by the execution and delivery to the Company of a deed of adherence;
- (vi) to any GDRs and/or Ordinary Shares which are acquired or may be acquired by such party after the date of this deed, other than: (a) all or any GDRs and/or Ordinary Shares which are allotted or issued to such party pursuant to any capital reorganisation (including, for the avoidance of doubt, by way of capitalisation of profits, share premium account or any capital or reserve account of the Company) on or after the London Admission in respect of GDRs and/or Ordinary Shares beneficially owned, held or controlled by such party on or after the London Admission; (b) all or any GDRs and/or Ordinary Shares issued after the date hereof pursuant to the conversion of any convertible debt securities or the exercise of any warrants, options or similar rights held by such party at the London Admission; and (c) all or any GDRs and/or Ordinary Shares or other securities, if any, which are allotted or issued to such party by way of rights in respect of any GDRs and/or Ordinary Shares beneficially owned, held or controlled by such party on the London Admission;
- (vii) to any deposit of Ordinary Shares into a share depositary facility and receipt of the GDRs representing shares so deposited, and to any return of GDRs to a share depositary facility and receipt of the Ordinary Shares represented by those GDRs; and
- (vii) in relation to VTB Bank, to the transfer by VTB Bank of Ordinary Shares to Eastern Carriers Trading Limited in accordance with the provisions of the Forward Sale Agreement.

#### ***Lock-up of the Cornerstone Investor***

The Cornerstone Investor agreed, subject to certain exceptions set out below, that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period until (and including) 180 days from the date of the London Admission, offer, lend, mortgage, assign, charge, pledge, sell, create, issue, sell or purchase any option, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any legal or beneficial interest in the Cornerstone Investor GDRs (or any interests therein) or any other securities convertible into or exercisable or exchangeable for, or substantially similar to, or that represent the right to receive, the Cornerstone Investor GDRs or file any registration statement under the Securities Act with respect to any of the foregoing, or agree or contract to do any of the foregoing, whether directly or indirectly and whether conditionally or unconditionally, or enter into any swap or other agreement or arrangement that transfers, in whole or in part, any of the economic consequences or incidents of ownership of the Cornerstone Investor GDRs or such other securities convertible into or exchangeable for the Cornerstone Investor GDRs or enter into any other transaction with the same economic effect as any of the foregoing transactions, or agree or contract to enter into any of the foregoing transactions, in each case whether any of the foregoing transactions is to be settled by delivery of the Cornerstone Investor GDRs or such other securities, in cash or otherwise; nor shall it agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of the Cornerstone Investor GDRs.

Pursuant to the terms of the lock-up arrangement applicable to the Cornerstone Investor, the foregoing restrictions do not apply:

- (i) to any transfer the Cornerstone Investor GDRs to (i) any wholly-owned subsidiaries of the Cornerstone Investor, (ii) any holders of units in, or any partner in, or members of or in investors in

(as the case may be) such Cornerstone Investor or any nominee or trustee for such holders, partners, members or investors; (iii) any nominee or trustee of the Cornerstone Investor, (iv) any bank, trust, company, limited partnership or fund holding Cornerstone Investor GDRs for investment purposes, or its nominee or trustee, which is managed or advised by the same manager or adviser as the Cornerstone Investor or by a group undertaking of such manager or adviser, or (v) any person or entity under common control with the Cornerstone Investor's ultimate parent company; *provided that* prior to the transfer, such transferee had agreed to be bound by the restrictions of the Cornerstone Investment Agreement as if it were the transferor by the execution and delivery to the Company of a deed of adherence. If at any time prior to the expiry of the period until (and including) 180 days from the date of the London Admission, such a transferee ceases or will cease to match the conditions specified in (i)-(v) above, it shall (and the Cornerstone Investor shall procure that such transferee shall) transfer the Cornerstone Investor GDRs it holds to the Cornerstone Investor or another transferee matching such conditions which, prior to the transfer, shall have agreed to be bound by the restrictions of the Cornerstone Investment Agreement as if it were the transferor by the execution and delivery to the Company of a deed of adherence;

- (ii) to any disposal of GDRs by operation of law or pursuant to an order from a court of competent jurisdiction or as otherwise required pursuant to any applicable laws (including, without limitations, (i) (x) an acceptance of a general offer for the ordinary share capital of the Company made in accordance with the City Code on Takeovers and Mergers adopted by the Panel on Takeovers and Mergers (the “**City Code**”), (y) the provision of an irrevocable undertaking to accept such an offer, or (z) a sale of GDRs to an offeror or potential offeror during an offer period (within the meaning of the City Code); (ii) any disposal of GDRs pursuant to a compromise or arrangement under Article 125 of the Companies (Jersey) Law 1991 or pursuant to a merger under Part 18B of the Companies (Jersey) Law 1991, in each case providing for the acquisition by any person (or group of persons acting in concert as such expression is defined in the City Code) of 50% or more of the ordinary share capital of the Company; or (iii) any disposal of GDRs pursuant to an arrangement under Article 167 of the Companies (Jersey) Law 1991 in relation to the Company);
- (iii) to any disposal of GDRs pursuant to any offer by the Company to purchase its own GDRs which is made on identical terms to all holders of GDRs; and
- (iv) to any pledge, charge, mortgage, lien or other structure for giving credit support to the financial institution granted over or in respect of the Cornerstone Investor GDRs to a financial institution which is providing financing to the Cornerstone Investor in respect of the Cornerstone Investor GDRs and the transfer of the Cornerstone Investor GDRs to such financial institution pursuant to such security or its enforcement and any further pledge, repledge, hypothecation, rehypothecation or lending transaction by such financial institution, *provided that* in the event that such security is enforced, the relevant financial institution agrees to be bound by the lock-up restrictions as set forth in the Cornerstone Investment Agreement by the execution and delivery to the Company of a deed of adherence.

#### ***Lock-up of Glencore***

On 18 October 2017, the Company and AHL signed a non-binding term sheet setting out the terms and conditions of a transaction whereby AHL will subscribe for the GDRs pursuant to a subscription agreement between AHL and the Company in consideration for which AHL will transfer to the Company its shareholding in UC RUSAL (see “*Principal and Selling Shareholder—Conversion of Shareholding in RUSAL into the GDRs*”). Under the term sheet, AHL has agreed to the same lock-up provisions as the Cornerstone Investor under the Cornerstone Investment Agreement (see “*—Lock-up of the Cornerstone Investor*”).

#### **Other Relationships**

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future. As a result, the Managers and their respective affiliates may have a commercial interest in continuing to provide services to the Company and the Selling Shareholder and their respective affiliates that may be material to the Offering. In particular, Citigroup Global Markets Limited acts as a

joint global coordinator and its affiliate Citibank N.A. acts as the Depositary for the Company's GDR programme. Certain of the Managers have lending exposure to the Group that will be reduced by application of the net proceeds from the Offering received by the Company. In particular, the Group intends to fully repay the loan provided to it by VTB. The outstanding amount of this loan was U.S.\$942 million as at 30 June 2017. As at the date of this Prospectus, VTB is a 4.35% shareholder of the Company (see also "*Principal and Selling Shareholder—Arrangements between the Principal Shareholders and VTB*"). VTB Capital plc, a subsidiary of VTB, acts as a Joint Global Coordinator and Joint Bookrunner under the Offering. Furthermore, it is anticipated that VTB may enter into an agreement with the Cornerstone Investor in relation to providing financing to the Cornerstone Investor in respect of the Cornerstone Investor GDRs to be acquired pursuant to the Cornerstone Investment Agreement. Pursuant to this financing arrangements, VTB will also be subject to lock-up under deed of adherence under the Cornerstone Investment Agreement.

In connection with the Offering, each of the Managers and any affiliate, acting as an investor for its own account, may take up GDRs and in that capacity may retain, purchase or sell for its own account such GDRs and any related investments and may offer or sell such GDRs or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the GDRs being offered or placed should be read as including any offering or placement of GDRs to the Managers and any affiliate acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so.

## MATERIAL CONTRACTS

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the Group: (i) within the two years immediately preceding the date of this Prospectus and which is, or may be, material; or (ii) which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Company as at the date of this Prospectus:

### **Material Financings**

For details of the Company's material financings that are outstanding as at the date of this Prospectus, see "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Loans and Borrowings*".

### **Agreements Relating to the Offering**

#### ***Underwriting Agreement***

On 3 November 2017, the Company, the Selling Shareholder and the Managers entered into an underwriting agreement, providing for, *inter alia*, the underwriting of the Offering (see "*Plan of Distribution—Underwriting Arrangement*").

#### ***Deposit Agreements***

On 3 November 2017, the Company and the Depositary entered into the Deposit Agreements for the establishment and maintenance of: (i) the Regulation S Facility and the Regulation S GDRs issued pursuant thereto; and (ii) the Rule 144A Facility and the Rule 144A GDRs issued pursuant thereto, pursuant to which the Company also executed a Deed Poll in favour of the holders of the GDRs in the form attached to the Deposit Agreements (see "*Terms and Conditions of the Global Depositary Receipts*").

#### ***Cornerstone Investment Agreement***

On 7 September 2017, the Company and the Cornerstone Investor entered into the cornerstone investment agreement in connection with the Offering (see "*Plan of Distribution—Cornerstone Investor and Cornerstone Investment Agreement*").

### **Conversion Transaction**

On 18 October 2017, the Company and AHL signed a non-binding term sheet setting out the terms and conditions of a transaction whereby AHL will subscribe for the GDRs pursuant to a subscription agreement between AHL and the Company in consideration for which AHL will transfer to the Company its shareholding in UC RUSAL (see "*Principal and Selling Shareholder—Conversion of Shareholding in RUSAL into the GDRs*").

## TAXATION

*The following statements are intended only as a general guide to the main Jersey, Cypriot, U.K. and United States tax consequences which will apply to holders of the GDRs. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of holders of GDRs and is based on current law and practice which may be subject to change. Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction should seek professional advice immediately.*

### **Jersey Tax Considerations**

*The following summary of the material Jersey tax consequences pursuant to the ownership of the GDRs is based upon the Jersey laws, administrative practices and judicial decisions in effect at the date of this Prospectus. There may be forthcoming legislative, judicial or administrative changes or interpretations which could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences for holders of GDRs. This summary does not purport to be a legal opinion, nor does it purport to address all tax aspects which may be relevant to a holder of the GDRs. Each prospective holder of the GDRs is urged to consult his/her own tax adviser as to the particular tax consequences of the ownership and disposition of the GDRs for such holder, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes to the applicable tax laws after such date.*

### **Summary**

Under current Jersey law, there are no capital gains, capital transfer, gift, wealth or inheritance taxes or any death or estate duties. No capital or stamp duty is levied in Jersey on the issue, conversion, redemption or transfer of Ordinary Shares. On the death of an individual holder of Ordinary Shares (whether or not such individual was domiciled in Jersey), duty at rates of up to 0.75%, of the value of the relevant Ordinary Shares may be payable on the registration of any Jersey probate or letters of administration which may be required in order to transfer, convert, redeem or make payments in respect of, Ordinary Shares held by a deceased individual sole Shareholder, subject to a cap of GBP100,000.

### **Income tax—the Company**

Under the Income Tax (Jersey) Law 1961 (as amended) (“**Tax Law**”), the standard rate of income tax on the profits of companies regarded as resident in Jersey or having a permanent establishment in Jersey is 0% (“**zero tax rating**”). Certain exceptions from zero tax rating apply, namely:

- (1) companies which are regulated by the Jersey Financial Services Commission under certain sections of the Financial Services (Jersey) Law 1998, the Banking Business (Jersey) Law 1991 or the Collective Investment Funds (Jersey) Law 1988, shall be subject to income tax at a rate of 10%, (these companies are defined as “financial services companies” in the Tax Law);
- (2) specifically identified utility companies shall be subject to income tax at a rate of 20%, (these companies are defined as “utility companies” in the Tax Law); and
- (3) any income derived from the ownership or disposal of land in Jersey shall be subject to income tax at a rate of 20%.

It is anticipated that the Company will be subject to Jersey income tax at a rate of 0%.

### **Income tax—Shareholders**

Persons holding Ordinary Shares or GDRs who are not resident for taxation purposes in Jersey should not be subject to Jersey income tax on dividends from the Company.

Shareholders or holders of GDRs who are resident for income tax purposes in Jersey will be subject to income tax in Jersey at a rate up to the standard rate of 20%, on any dividends paid on Ordinary Shares held by them or on their behalf and income tax may be withheld by the Company on payment of any such dividends.

It should be noted that Article 134A of the Tax Law contains a general anti-avoidance provision, which in the view of the taxes office may be utilised, in certain circumstances, in respect of individuals who are resident in Jersey and who invest in capital investments, where the main or one of the main purposes of the investment is the avoidance of tax.

### ***Withholding tax—the Company***

For so long as the Company is subject to corporate income tax in Jersey at a rate of 0%, no withholding in respect of Jersey taxation will be required on payments in respect of the Ordinary Shares to any holder of the Ordinary Shares not resident in Jersey or, in respect of GDRs, to any holder of the GDRs.

### ***Stamp Duty***

In Jersey, no stamp duty is levied on the issue or transfer of the Ordinary Shares (unless there is any element of Jersey residential property being transferred, in which case a land transaction tax may apply pursuant to the Taxation (Land Transactions) (Jersey) Law 2009) except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer Ordinary Shares on the death of a holder of such Ordinary Shares. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situated in respect of a holder of Ordinary Shares domiciled in Jersey, or situated in Jersey in respect of a holder of Ordinary Shares domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75% on the value of an estate with a maximum value of GBP13,360,000. The rules for joint holders and holdings through a nominee are different and advice relating to this form of holding should be obtained from a professional adviser.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there otherwise estate duties.

### ***Goods and services tax***

Pursuant to the Goods and Services Tax (Jersey) Law 2007 (“**GST Law**”), a tax rate which is currently 5% applies to the supply of goods and services, unless the supply is regarded as exempt or zero rated, or the relevant supplier or recipient of such goods and services is registered as an “international services entity”.

A company must register for GST if its turnover is greater than GBP300,000 in any 12 month period, and will then need to charge GST to its customers. Companies can also choose to register voluntarily.

A company may apply to be registered as an International Services Entity (“**ISE**”) if it mainly serves non-Jersey residents. By virtue of a company being an ISE, it will be exempt from GST and will therefore not have to register for GST, will not charge GST on its supplies and will not be charged GST on its purchases.

The Company is expected to be an ISE within the meaning of the GST Law, as it satisfies the requirements of the Goods and Services Tax (International Services Entities) (Jersey) Regulations 2008, as amended. As long as it continues to be such an entity, a supply of goods or of a service made by or to the Company shall not be a taxable supply for the purposes of the GST Law.

### **Information Reporting Regimes and International Agreements to Improve Tax Compliance**

In recent years Jersey has signed up to two Automatic Exchange of Information (AEOI) Regulations—The Foreign Account Tax Compliance Act (“**FATCA**”) and the Common Reporting Standard (“**CRS**”).

FATCA was enacted in 2010 by the U.S. to identify U.S. taxpayers who fail to disclose details of offshore financial accounts. FATCA was implemented into Jersey law following the entry into force of an intergovernmental agreement between the U.S. and Jersey and came into effect from 1 June 2014. The CRS was implemented into Jersey law in 2015 and came into effect from 1 January 2016.

### **Cyprus Tax Considerations**

*The following summary of the material Cypriot tax consequences pursuant to the ownership of the GDRs is based upon the Cypriot laws, administrative practices and judicial decisions in effect at the date of this Prospectus. There may be forthcoming legislative, judicial or administrative changes or interpretations which could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences for holders of GDRs. This summary does not purport to be a legal opinion, nor does it purport to address all tax aspects which may be relevant to a holder of the GDRs. Each prospective holder of the GDRs is urged to consult his/her own tax adviser as to the particular tax consequences of the ownership and disposition of the GDRs for such holder, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes to the applicable tax laws after such date.*

## *General Cyprus tax considerations*

### *Definition of tax residency for corporate tax purposes*

The Cypriot income tax law defines the term “resident”, when applied to a company, as a company whose management and control is exercised from within Cyprus. There is no definition in the Cypriot income tax law as to what constitutes “management and control” and no detailed guidelines have been issued by the relevant Cypriot tax authorities. However, as per Circular 2015/19, issued by the Cypriot Tax Department on 30 October 2015, a company applying for a tax residency certificate should complete a questionnaire which requires the applicant to provide certain information on the particular areas which the Cypriot tax authorities take into account when assessing the tax residency status of a company.

The Special Contribution for the Defence Fund of the Republic Law (“**Defence Tax**”) applies the same definition for the term “resident” for corporate purposes, as the Cypriot income tax law.

### *Definition of tax residency for personal tax purposes*

The Cypriot income tax law defines the term “resident”, when applied to an individual, as an individual who is physically present in Cyprus for a period (or periods) exceeding, in aggregate, more than 183 days in any tax year (the tax year being the same as the calendar year).

Additionally, as of 1 January 2017 the definition of tax resident includes an individual who does not stay in any other state for one or more periods exceeding in aggregate 183 days in the same tax year and who is not considered a resident for tax purposes in any other state in the same tax year, provided that the individual cumulatively meets the following conditions:

- Stays in Cyprus for at least 60 days in the year of assessment;
- Exercises any business in Cyprus and/or is employed in Cyprus and/or holds an office for a person who is tax resident in Cyprus at any time during the tax year;
- Maintains a permanent residence in Cyprus which is owned or rented by him.

It is further provided that an individual, who cumulatively fulfils the aforementioned conditions, is not considered to a resident for tax purposes in Cyprus in the tax year, if during the said tax year the exercise of any business in Cyprus and/ or the employment in Cyprus and/or the holding of an office for a person tax resident in Cyprus is terminated.

The Defence Tax Law defines the term “resident”, when applied to an individual, as an individual who is a resident according to the provisions of the Cypriot income tax law and who additionally has his/her domicile in Cyprus. An individual is considered to have his/her domicile in Cyprus if he/she has a Cypriot domicile of origin, as defined in the Cypriot law on wills and succession, but it does not include an individual who has:

- obtained and maintained a domicile of choice outside Cyprus in accordance with the Cypriot law on wills and succession, *provided that* such an individual has not been a tax resident of Cyprus, as this is defined in the Cypriot income tax law, for a period of 20 consecutive years preceding the relevant tax year; or
- not been a tax resident of Cyprus for a period of 20 consecutive years prior to 16 July 2015 (prior to 2015 tax year).

Notwithstanding the above, an individual GDR holder who has been a tax resident of Cyprus for at least 17 out of the last 20 years, prior to the relevant tax year, is deemed to have his/her domicile in Cyprus.

### *Gains realised by the GDR holders from disposal of the GDRs*

A gain realised on the sale of the GDRs by a non-Cyprus tax resident holder shall not be subject to taxation in Cyprus.

A gain realised on the sale of GDRs by a Cyprus tax resident holder, or by a non-resident person having his/her permanent establishment in Cyprus for income tax purposes, shall be exempt from Corporate Income Tax in Cyprus, as the GDRs are considered to fall within the definition of securities for Cypriot tax purposes. Such gains shall also be exempt from Capital Gains Tax in Cyprus since GDRs will be traded on a recognised stock exchange.

#### *Dividends to be received by the GDR holders*

Dividends from the Company, to be received by non—resident GDR holders, shall not be subject to taxation in Cyprus either by way of withholding or otherwise.

Dividends from the Company, to be received by GDR holders who are corporate persons with their tax residency in Cyprus, shall be exempt from (corporate) income tax in Cyprus without any conditions. Such dividends shall also be exempt from the Defence Tax in Cyprus, asides for dividends which are paid indirectly and after the lapse of four years from the end of the year in which the profits were generated (out of which the said dividend is derived). If the 4-year condition is not met, the gross amount of the dividend shall be subject to Defence Tax at a rate of 17% (or such other rate as may be effective at the time of payment).

Dividends from the Company, to be received by resident individual GDR holders, regardless of whether they have their domicile in Cyprus, shall be exempt from (personal) income tax in Cyprus without any conditions.

Dividends from the Company, to be received by resident individual GDR holders who do not have their domicile in Cyprus (as explained above) shall not be subject to Defence Tax.

Dividends from the Company, to be received by resident individual GDR holders who have their domicile in Cyprus (as explained above), shall be subject to Defence Tax at a rate of 17% (or such other rate as may be effective at the time of payment).

This summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the GDRs should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the GDRs and the receipt of dividends thereon under the laws of their country of residence, citizenship or domicile.

#### *Deemed distribution rules*

The Defence Tax Law includes provisions for the deemed distribution of profits. If a Cypriot tax resident company does not distribute at least 70% of its after tax accounting profits (excluding revaluations, impairments and fair value adjustments) within two years from the end of the relevant tax year, there will be a deemed distribution of 70% of such profits. The amount of the deemed dividend is reduced by any actual distributions made up to the deemed distribution date. The Defence Tax is withheld only on the proportion of profits that are attributable to shareholders that are considered to be residents of Cyprus (both individuals and bodies of persons), as the deemed distribution rules do not apply to non-resident shareholders. However, no Defence Tax is withheld in case the individual shareholders do not have their domicile in Cyprus, as explained above. The Defence Tax is a tax on shareholders which is payable by the Cyprus company, the profits of which are subject to the deemed distribution rules. The deemed dividend is subject to Defence Tax at a rate of 17% (or such other rate as may be effective at the time of payment).

Through a Circular (2011/ 10 dated 13 September 2011), the Commissioner of Income Tax has clarified that the deemed distribution rules should only apply in cases where the ultimate shareholders of a Cyprus (tax resident) company are considered to be residents of Cyprus, for tax purposes. However, as per the same Circular, certain declarations should be filed with the tax authorities in case the direct registered shareholder(s) are companies considered to be residents of Cyprus, for tax purposes.

As per Circular 2006/1 dated 10 April 2006, as amended by Circular 2017/1 dated 2 March 2017, the Company is obliged to send out certain declaration forms (T.D.624/NP and T.D.624/LP) to all of its shareholders (both individuals and corporate bodies) to ascertain their tax residency and domicile status. Through the questionnaire, the shareholders should inform the Company of their tax residency status. The Company is required to safe-keep these questionnaires and present them to the Cyprus tax authorities upon request.

#### *Stamp duty*

Cyprus levies stamp duty on every document if:

- (a) it relates to any property situated in Cyprus; or
- (b) it relates to any matter or thing which is performed or done in Cyprus.



There are instruments which are subject to stamp duty based on the value of the instrument (0.15% for amounts exceeding EUR 5.000 and 0.20% for amounts exceeding EUR 170.000) with a maximum stamp duty payable of EUR 20.000 per instrument. The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad.

The Stamp Duty Law includes an exemption in respect of documents which certify transactions relating to the transfer of securities which are listed on a recognised stock exchange.

#### *Value added tax*

##### *Establishment for VAT purposes*

A legal person is considered to be established in Cyprus for VAT purposes, if the functions of the business's central administration are carried out in Cyprus. In practice this is determined based on the following (in order):

1. the place where essential decisions concerning the general management of the business are taken,
2. the place where the registered office of the business is located, and
3. the place where management meets.

With respect to natural persons, the place of establishment for VAT purposes is their permanent address entered in the population or similar register or with his/her relevant tax authorities or the address where he/she usually resides as a result of personal and occupational ties.

##### *Investing in the GDRs*

Investing in the GDRs will not create any Cypriot VAT obligations/costs to the GDR holders, unless such acquisition is performed as a part of the economic activities of the GDR holder, the GDR holder is resident or established in Cyprus and the GDR holder receives services from abroad in excess of €15,600

##### *Dividends*

Dividends paid to the GDR holders are outside the scope of Cypriot VAT, since they do not arise from economic activities or transactions falling within the scope of VAT.

##### *VAT registration*

Cypriot VAT considerations exist only for the GDR holders which are resident or established in Cyprus or which are registered or have an obligation to register for Cypriot VAT purposes.

The investment in the GDR may create an obligation to a GDR holder established in Cyprus to register for VAT purposes in Cyprus, if such acquisition is performed for the furtherance of an economic activity. GDR holders established in Cyprus will have the obligation to register for VAT purposes, if they receive expenses from non-Cypriot service providers, which are subject to Cypriot VAT, exceeding the registration threshold of €15,600 per 12 consecutive month period.

GDR Holders which are either resident or established outside Cyprus, should examine the VAT related obligations in their respective country of establishment.

##### *Restriction of input VAT*

GDR holders established and VAT registered in Cyprus, may have an obligation to restrict any input VAT incurred, which relates either directly or indirectly to their investment in the GDRs.

##### *Disposal of the GDRs*

No Cypriot VAT implications should arise from the disposal of the GDRs. This is because the sale of the GDRs is either exempt from VAT, if the investment is performed in the course of furthering an economic activity, or outside the scope of VAT if the investment in the GDRs was held for long term investment purposes.

## United Kingdom Tax Considerations

The comments below are of a general nature and are based on current U.K. law and published HM Revenue & Customs practice as at the date of this Prospectus, both of which are subject to change, possibly with retroactive effect. This summary only covers the principal U.K. tax consequences for the absolute beneficial owners of GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for U.K. tax purposes as those persons' own income, and not the income of some other person, and who are resident (and, in the case of individuals only, domiciled) in the U.K. for U.K. tax purposes and who are not resident in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected (“**U.K. holders**”). In addition, this summary: (a) only addresses the tax consequences for U.K. holders who hold the GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of U.K. holders, for example, dealers; (b) does not address the tax consequences for U.K. holders that are banks, financial institutions, insurance companies, collective investment schemes or persons connected (other than by reason of holding the GDRs) with the Company; (c) assumes that the U.K. holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the Ordinary Shares or voting power, rights to profit or capital of the Company; (d) assumes that the U.K. holder of GDRs is, for U.K. tax purposes, beneficially entitled to the underlying Ordinary Shares and to dividends on those Ordinary Shares; and (e) assumes that the U.K. holder has not (and is not deemed to have) acquired the GDRs by virtue of an office or employment.

**THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR U.K. HOLDER. POTENTIAL INVESTORS SHOULD SATISFY THEMSELVES AS TO THE OVERALL TAX CONSEQUENCES, INCLUDING, SPECIFICALLY, THE CONSEQUENCES UNDER U.K. LAW AND HM REVENUE & CUSTOMS PRACTICE, OF ACQUISITION, OWNERSHIP AND DISPOSITION OF GDRS IN THEIR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING THEIR OWN PROFESSIONAL TAX ADVISORS.**

### *Taxation of dividends*

#### *Withholding tax*

Dividend payments in respect of the GDRs should not be subject to U.K. withholding tax.

U.K. holders are referred to the statements regarding Jersey tax in “—*Jersey Tax Considerations—Withholding tax—the Company*” and Cyprus tax in “Dividends to be received by the GDR holders”. The following paragraphs proceed on the basis that no withholding tax is levied in Jersey and Cyprus on dividend payments in respect of the GDRs.

#### *Individual U.K. holders of GDRs*

An individual U.K. holder who is resident for tax purposes in the U.K. and who receives a dividend in respect of the GDRs will not be liable to U.K. tax on the dividend to the extent that (taking account of any other dividend income received by the U.K. holder in the same tax year) that dividend falls below the yearly dividend allowance of £5,000 (“**nil rate band**”). The 2017 Spring Budget announced a proposal to reduce the nil rate band to £2,000 from 6 April 2018 but it is yet to be confirmed whether this will be enacted.

To the extent that (taking account of any other dividend income received by the U.K. holder in the same tax year) the dividend exceeds the allowance, it will be subject to income tax at 7.5% to the extent that it falls below the threshold for higher rate income tax. To the extent that (taking account of other dividend income received in the same tax year) it falls above the threshold for higher rate income tax, then the dividend will be taxed at 32.5% to the extent that it is within the higher rate band, or 38.1% to the extent that it is within the additional rate band (each such rate as applicable in 2017/2018). For the purposes of determining which of the taxable bands dividend income falls into, dividend income is treated as the highest part of a U.K. holder's income. In addition, dividends within the nil rate band which (in the absence of the nil rate band exemption) would otherwise have fallen within the basic or higher rate bands will use up those bands respectively and so will be taken into account in determining whether the threshold for higher rate or additional rate income tax is exceeded.

### *Corporate U.K. holders of GDRs*

Where a corporate U.K. holder is within the charge to U.K. corporation tax, it will be subject to U.K. corporation tax on the actual amount of any dividend paid on the GDRs (at the current rate of 19% for the financial year 2017/2018), unless (subject to special rules for such U.K. holders that are small companies) the dividend falls within an exempt class and certain other conditions are met. Although it is likely that most dividends paid on the GDRs to U.K. holders within the charge to U.K. corporation tax would fall within one or more of the classes of dividend qualifying for exemption from U.K. corporation tax, the exemptions are not comprehensive and are also subject to anti-avoidance rules.

### *Taxation of disposals*

U.K. holders are referred to the statements regarding Jersey tax in “—*Jersey Tax Considerations—Summary*” and the statements regarding Cypriot tax in “—*Cypriot Tax Considerations—General Cyprus Tax Considerations—Gains realised by the GDR holders from disposal of the GDRs*”. The following paragraphs proceed on the basis that no withholding tax is levied in Jersey and no Cypriot or Russian tax is levied on the disposal of GDRs.

The disposal or deemed disposal of GDRs by a U.K. holder may give rise to a chargeable gain or an allowable loss for the purposes of U.K. taxation of chargeable gains, depending on the U.K. holder’s circumstances and subject to any available exemption or relief. In the case of a corporate U.K. holder indexation allowance may be available to reduce or eliminate a chargeable gain, but not to generate or increase an allowable loss. In the case of an individual U.K. holder indexation allowance is not available and chargeable gains are generally liable to capital gains tax at the applicable rate. An individual U.K. holder is currently entitled to an annual exemption from U.K. taxation of chargeable gains up to £11,300 (in the 2017/2018 tax year).

In addition, U.K. holders who are individuals and who dispose of their GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident in the U.K. if (broadly speaking) the period of non-residence is five years or less.

Any gains or losses in respect of currency fluctuations over the period of holding the GDRs would also be brought into account on the disposal.

### *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

No U.K. stamp duty or SDRT should be payable on: (i) the issue of the GDRs; (ii) the delivery of the GDRs into DTC, Euroclear or Clearstream; or (iii) any dealings in the GDRs once they are delivered into such clearance systems, where such dealings are effected in book-entry form in accordance with the procedures of DTC, Euroclear or Clearstream (as applicable) and not by written instrument of transfer.

No SDRT should be payable in respect of any agreement to transfer the GDRs.

Assuming that any document effecting a transfer of the GDRs, or containing an agreement to transfer an equitable interest in the GDRs is neither: (i) executed in the U.K.; nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the U.K. (the term “matter or thing done or to be done” is very wide and may include involvement of U.K. bank accounts in payment mechanics), then no U.K. stamp duty should be payable on such document.

Even if a document effecting a transfer of the GDRs, or containing an agreement to transfer an equitable interest in the GDRs, is: (i) executed in the U.K.; and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the U.K., in practice it should not be necessary to pay any U.K. stamp duty on such document unless the document is required for any purposes in the U.K. If it is necessary to pay U.K. stamp duty, it may also be necessary to pay interest and penalties.

### **United States Tax Considerations**

The following is a general summary of certain United States federal income tax consequences relating to the acquisition, ownership and disposition of GDRs by United States Holders (as defined below) that purchase GDRs pursuant to the Offering and that will hold the GDRs as capital assets, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person’s decision to acquire or dispose of GDRs. This summary is based upon the Internal Revenue Code of 1986, as amended (the “**Internal Revenue Code**”), Treasury Regulations promulgated thereunder, judicial decisions, and the United States Internal Revenue Service’s (the “**IRS**”) current administrative

rules, practices and interpretations of law, all as in effect on the date of this Prospectus and all of which are subject to change, possibly with retroactive effect, as well as on the Convention between the Government of the United States and the Government of the Republic of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “**Treaty**”). This summary is also based on the covenants of the Depositary and the assumption that each obligation in the Deposit Agreements and any related agreement will be performed in accordance with its terms.

For the purposes of this summary, a “**United States Holder**” means a beneficial owner of GDRs that is, for United States federal income tax purposes: (i) an individual that is a citizen or resident of the United States; (ii) a corporation, or an entity treated as such for United States federal income tax purposes, created or organised in or under the laws of the United States or any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source; or (iv) a trust if: (a) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States Holders have the authority to control all substantial decisions of such trust; or (b) the trust has a valid election in effect to be treated as a United States person for United States federal income tax purposes. If an entity or arrangement treated as a partnership for United States federal income tax purposes holds GDRs, the United States federal income tax treatment of a partner in the partnership generally will depend on the status and the activities of the partner and the partnership. A partnership holding GDRs should consult its own tax advisers with respect to the United States federal income tax consequences applicable to it and its partners of the acquisition, ownership and disposition of GDRs.

This summary is only a general discussion and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor. In addition, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a United States Holder in light of such person’s particular circumstances (including consequences under the alternative minimum tax or net investment income tax). Nor does this summary discuss all of the tax considerations that may be relevant to certain holders of GDRs subject to special treatment under the Internal Revenue Code (for example, persons that: (i) are tax-exempt organisations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts; (ii) are financial institutions, insurance companies, grantor trusts, real estate investment trusts, regulated investment companies, or brokers, dealers or traders in securities or currencies; (iii) will own GDRs as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position; (iv) are United States citizens or lawful permanent residents living abroad; (v) own (or are deemed to own) 5.0% (by voting power or value) or more of the Company’s stock; or (vi) do not use the U.S. Dollar as their functional currency). Moreover, this summary does not include any discussion of United States federal estate or gift tax consequences, net investment tax consequences or state, local or non-U.S. income, estate, gift or other tax consequences.

EACH UNITED STATES HOLDER WHO ACQUIRES GDRs IS STRONGLY URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISER WITH RESPECT TO THE UNITED STATES FEDERAL, STATE, LOCAL AND NON-U.S. INCOME, ESTATE, GIFT AND OTHER TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF GDRs, WITH SPECIFIC REFERENCE TO SUCH PERSON’S PARTICULAR CIRCUMSTANCES.

#### *Ownership of GDRs in General*

The discussion below assumes that the representations contained in the deposit agreement with respect to the GDRs are true and that the obligations in the deposit agreement and any related agreements will be complied with in accordance with their terms. For United States federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of the Company’s Ordinary Shares represented by such GDRs, and references herein to Ordinary Shares also refer to GDRs representing the Ordinary Shares.

The United States Treasury Department has expressed concern that depositaries for GDRs, or other intermediaries between the holders of Ordinary Shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of United States foreign tax credits by United States Holders holding such receipts or Ordinary Shares. Such actions include, for example, a pre-release of a global depositary receipt by a depositary. Accordingly, the analysis regarding the sourcing rules described below and the availability of U.S. tax credits for any taxes withheld on underlying dividend payments made to the Depositary could be materially and adversely affected by actions taken by intermediaries in the chain of ownership between the holder of a GDR and the Company.

### ***Treatment of Distributions with Respect to GDRs***

Subject to the discussion below under “—*Passive Foreign Investment Company Considerations*,” distributions paid on GDRs (including any amounts withheld in respect of non-U.S. withholding tax) generally will be includible in a United States Holder’s income as dividend income to the extent such distribution is paid out of the Group’s current or accumulated earnings and profits as determined under United States federal income tax principles. The Company does not maintain calculations of its earnings and profits under United States federal income tax principles, and, therefore, United States Holders should expect that any distributions will be reported as ordinary dividend incomes for United States federal income tax purposes. Dividends paid by us will not be eligible for the dividends received deduction provided under the Internal Revenue Code for certain U.S. corporate shareholders.

Subject to certain exceptions for short-term and hedged positions, dividends paid by “qualified foreign corporations” to certain non-corporate United States Holders are taxable at favourable rates, subject to applicable limitations, if the dividends are “qualified dividends”. Dividends paid on GDRs will be treated as qualified dividends if the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purpose of the qualified dividend rules, *provided that* the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Treaty has been approved by the IRS for the purposes of the qualified dividend rules. However, in order for a Cyprus company to qualify for this status, it is necessary that its existence in Cyprus does not have a principal purpose of obtaining treaty benefits under the Treaty. In non-precedential advice issued in 2013, the IRS held that a Cyprus holding company, organised under the laws of Cyprus and which owned an operating subsidiary in a third country, was established for reasons unrelated to the Treaty. The ruling indicated that the Cyprus holding company had never earned U.S.-source income or claimed any benefit under the Treaty. Accordingly, a U.S. individual who owned stock in such Cyprus holding company was held to be entitled to treat dividends he received from the Cyprus holding company as “qualified dividends”. If, as the Company believes, it will be established in Cyprus for purposes unrelated to the Treaty and it has not been and does not expect to become a PFIC, any dividends paid by the Company once it is redomiciled in Cyprus may be treated as “qualified dividends”. However, in the absence of a specific ruling from the IRS, there can be no assurance that the IRS would not challenge such a determination. Jersey has not entered into an income tax treaty with the United States, and as such, the dividends paid on GDRs will not be treated as qualified dividends while it is domiciled in Jersey. Accordingly, a holder of GDRs should consult his or her own tax advisor about the eligibility of dividends paid by the Company to be treated as “qualified dividends.”

The amount of any dividend paid in a currency other than the U.S. Dollar will equal the U.S. Dollar value of the currency received calculated by reference to the spot rate of exchange in effect on the date the dividend is actually or constructively received by the Depositary, regardless of whether the currency is converted into U.S. Dollars. If the currency received as a dividend is not converted into U.S. Dollars on the date of receipt, a United States Holder will have a tax basis in such currency equal to the U.S. Dollar value on the date of receipt. Any gain or loss realised on a subsequent conversion or other disposition of such currency will be treated as U.S. source ordinary income or loss.

Dividends paid on the GDRs generally will be treated for U.S. foreign tax credit purposes as foreign source passive category income. In the event non-U.S. withholding taxes are imposed, United States Holders should consult their own tax advisers regarding the availability of foreign tax credits.

### ***Exchange of GDRs for Ordinary Shares***

No gain or loss will be recognised upon the exchange of GDRs for the United States Holder’s proportionate interest in Ordinary Shares. A United States Holder’s tax basis in the withdrawn Ordinary Shares will be the same as the United States Holder’s tax basis in the GDRs surrendered, and the holding period of the Ordinary Shares will include the holding period of the GDRs.

### ***Sales, Exchanges or Dispositions of GDRs***

Subject to the discussion below under “—*Passive Foreign Investment Company Considerations*,” for United States federal income tax purposes, gain or loss recognised on the sale, exchange or other disposition of GDRs generally will be capital gain or loss. The amount of the gain or loss will equal the difference between the United States Holder’s adjusted tax basis in GDRs disposed of and the amount realised on the disposition (including any amounts withheld in respect of non-U.S. withholding tax), in each case as determined in U.S. Dollars. Any such gain or loss will be long-term capital gain or loss if GDRs have been

held for more than one year as at the time of the sale, exchange or other disposition. Certain non-corporate United States Holders may be eligible for preferential rates of United States federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Internal Revenue Code.

A United States Holder's initial tax basis in the GDRs should equal the U.S. Dollar value of the applicable foreign currency denominated purchase price on the date of purchase. If the GDRs are treated as traded on an "established securities market," a cash basis United States Holder, or, if it elects, an accrual basis United States Holder, will determine the U.S. Dollar value of the cost of GDRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. If an accrual basis tax payer makes such election, the election must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The conversion of U.S. Dollars to a foreign currency and the immediate use of that currency to purchase GDRs generally will not result in taxable gain or loss for a United States Holder.

If non-U.S. income tax is withheld on the sale, exchange or other disposition of GDRs, the amount realised by a United States Holder will include the gross amount of the proceeds of that sale, exchange or other disposition before deduction of the foreign income tax. Capital gain or loss recognised by a United States Holder on a sale, exchange or other disposition of GDRs generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of GDRs that is subject to non-U.S. income tax, the United States Holder may not be able to benefit from the foreign tax credit for that foreign income tax (i.e., because the gain from the disposition would be U.S. source), unless the United States Holder can apply the credit against United States federal income tax payable on other income from foreign sources. Alternatively, the United States Holder may take a deduction for the foreign income tax if it does not elect to claim a foreign tax credit with respect to any foreign income taxes paid or accrued during the taxable year. Any election by a United States Holder to deduct foreign income taxes applies to all foreign income taxes paid or accrued by such United States Holder during the taxable year.

The exchange of GDRs for the Ordinary Shares (or the exchange of the Ordinary Shares for GDRs) should not be a taxable event for U.S. federal income tax purposes and United States Holders should not recognise any gain or loss upon any such exchange.

The Company's redomiciliation from Jersey to Cyprus is expected constitute a tax free reorganisation for U.S. federal income tax purposes, and as such, the Company believes that the redomiciliation should not result in a deemed taxable exchange of the GDRs for U.S. federal income tax purposes. See "*Business—Corporate Organisation—Redomiciliation*".

United States Holders should consult their own tax advisers regarding the application of the foreign tax credit rules to their investment in, and disposition of, GDRs.

#### ***Passive Foreign Investment Company Considerations***

A non-U.S. corporation will be classified as a passive foreign investment company ("PFIC") for United States federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

- at least 75.0% of its gross income is "passive income"; or
- at least 50.0% of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of "passive income."

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on the Company's gross income and gross assets and the nature of the Company's business, the Company does not expect to become a PFIC for its taxable year ending on 31 December 2017 or in the foreseeable future, but the Company's possible status as a PFIC must be determined annually and therefore may be subject to change. This determination will depend on the Company's assets and activities in those years. The Company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC in 2017 and in future years, but there can be no assurance that the Company will not be considered a PFIC for any taxable years.

If the Company is or becomes a PFIC, any “excess distribution” (generally, a distribution in excess of 125% of the average distributions received by the United States Person in the three preceding taxable years or, if shorter, the United States Person’s holding period for the GDRs) and recognised gain on the sale or other disposition of the GDRs generally would be treated as ordinary income and would be subject to tax as if: (1) the excess distribution or gain had been recognised ratably over the United States Holder’s holding period; (2) the amount deemed recognised in each year had been subject to tax in each such year at the highest marginal rate for such year (other than income allocated to the current year or any taxable year before we became a PFIC, which would be subject to tax at the United States Holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed in clause (3) of this paragraph); and (3) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. If the Company was a PFIC, a United States Holder may be able to make certain elections that may alleviate certain of the tax consequences referred to in this paragraph. United States Holders should consult their own tax advisers regarding the tax consequences that would arise if we were treated as a PFIC, including with respect to any annual reporting requirement.

#### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S. related intermediaries generally are subject to information reporting and may be subject to backup withholding unless: (i) the United States Holder is an exempt recipient; or (ii) in the case of backup withholding, the United States Holder provides a correct taxpayer identification number, certifies that it is not subject to backup withholding, and complies with applicable certification requirements. The amount of any backup withholding from a payment to a United States Holder will be allowed as a credit against the United States Holder’s United States federal income tax liability and may entitle the United States Holder to a refund, *provided that* the required information is timely furnished to the IRS. United States Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to their investment in GDRs, including requirements related to the holding of certain foreign financial assets.

## SELLING AND TRANSFER RESTRICTIONS

### Selling Restrictions

#### *General*

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

#### *Canada*

The GDRs may be sold by underwriters who are registered dealers in Canada or who are relying on the international dealer exemption under National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (“**NI 31-103**”) only to purchasers that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario) who are purchasing or deemed to be purchasing as principal, and are permitted clients, as defined in NI 31-103. Any resale of the GDRs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

#### *China*

The GDRs are not being offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions of Taiwan), except as permitted by the securities laws of the People’s Republic of China.

#### *DIFC*

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“**DFSA**”). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The GDRs to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the GDRs offered should conduct their own due diligence on the GDRs. If you do not understand the contents of this Prospectus you should consult an authorised financial advisor.

#### *EEA*

In relation to each EEA Member State, no offer to the public of any GDRs has been, or will be, made in that EEA Member State prior to the publication of the Prospectus which has been approved by the competent authority in such EEA Member State or, where appropriate, approved in another EEA Member State and notified to the competent authority in that EEA Member State, all in accordance with the Prospectus Directive, except that an offer to the public in that EEA Member State of any GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that EEA Member State:

- (a) to legal entities which are “qualified investors” as defined under the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,



*provided that* no such offer of GDRs shall result in a requirement for the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, and each person in an EEA Member State who initially acquires any GDRs or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with the Company and the Managers that it is a qualified investor within the meaning of the law in that EEA Member State implementing Article 2(1)(e) of the Prospectus Directive.

In the case of any GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the GDRs acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer to the public other than their offer or resale in an EEA Member State to qualified investors, in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale.

The Company, the Managers and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of this representation, the expression an “**offer within the EEA of the GDRs**” in relation to any GDRs in any EEA Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs.

### ***Hong Kong***

The GDRs will not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the GDRs, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong has been issued or has been possessed for the purposes of issue, or will be issued or possessed for the purposes of issue, whether in Hong Kong or elsewhere (except if permitted to do so under the securities laws of Hong Kong), other than with respect to GDRs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Japan***

No registration pursuant to Article 4, paragraph 1 of the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948) (the “**FIEA**”) has been made or will be made with respect to the solicitation of the application for the acquisition of the GDRs as such solicitation falls within a Solicitation for Small Number Investors (as defined in Article 23-13 paragraph 4 of the FIEA). Accordingly, the GDRs have not been, directly or indirectly, offered, issued or delivered and will not be, directly or indirectly, offered, issued or delivered in Japan or to, or for the benefit of, any resident in Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan except in compliance with the requirements for the Small Number Private Placement Exemption under of Article 2, paragraph 3, item 2(c) of the FIEA and the other applicable laws and regulations of Japan.

Pursuant to the Small Number Private Placement Exemption, any transfer of the GDRs by a resident in Japan is prohibited other than by way of transfer of all GDRs (but not in part) that such resident in Japan holds.

### ***Jersey***

No offer to the public or any other person of any GDRs which are the subject of the Offering is contemplated herein in Jersey, with the exception of persons resident in Jersey solely by virtue of being a company incorporated in Jersey.

Furthermore, a copy of this Prospectus has been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the issue of securities in the Company. It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed with regard to it. If you are in any doubt about the contents of this Prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. The directors of the Company have taken all reasonable care to ensure that the facts stated in this Prospectus are true and accurate in all material respects, and that there are no other facts the omission of which would make any misleading any statement in the Prospectus, whether of facts or of opinion. All the directors accept responsibility accordingly.

### ***Qatar***

This Prospectus and any other material in relation to the Offering do not, and are not intended to, constitute an invitation or an offer of securities in the State of Qatar (including the Qatar Financial Centre) and accordingly should not be construed as such. The GDRs have not been, and shall not be, offered, sold or delivered at any time, directly or indirectly, in the State of Qatar. Any offering of the GDRs shall not constitute a public offer of securities in the State of Qatar.

By receiving this document, the person or entity to whom it has been provided understands, acknowledges and agrees that: (i) neither this document nor the GDRs have been registered, considered, authorised or approved by the Qatar Central Bank, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or any other authority or agency in the State of Qatar; (ii) neither the Company, the Selling Shareholder, nor persons representing them are authorised or licensed by the Qatar Central Bank, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, or any other authority or agency in the State of Qatar, to market or sell the GDRs within the State of Qatar; (iii) this document may not be provided to any person other than the original recipient and is not for general circulation in the State of Qatar; and (iv) no agreement relating to the sale of the GDRs shall be consummated within the State of Qatar.

No marketing of the GDRs has been or will be made from within the State of Qatar and no subscription to the GDRs may or will be consummated within the State of Qatar. Any applications to invest in the GDRs shall be received from outside of Qatar. This document shall not form the basis of, or be relied on in connection with, any contract in Qatar. Neither the Company, the Selling Shareholder, nor persons representing them are, by distributing this document, advising individuals resident in the State of Qatar as to the appropriateness of investing in or purchasing or selling securities or other financial products. Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice in, or in respect of, the State of Qatar.

### ***Russian Federation***

The GDRs are not offered or sold and will not be offered or sold to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, except that it may offer, sell or otherwise transfer GDRs to qualified investors within the meaning of Article 51.2 of the Russian Securities Market Law before the MOEX Admission, and to the extent otherwise permitted under Russian law.

### ***Saudi Arabia***

Any offer of GDRs to any investor in the Kingdom of Saudi Arabia or who is a Saudi person shall comply with Article 11 or Article 12 and Articles 13 and 15 of the “Offers of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated 21 December 2016.

### *Singapore*

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, GDRs have not been offered or sold made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and neither this Prospectus nor any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the GDRs have not been circulated or distributed, and will not be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where GDRs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the GDRs pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### *Switzerland*

The GDRs may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the GDRs or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company and/or the GDRs has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of GDRs will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (“FINMA”), and the offer of GDRs has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (“CISA”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of GDRs.

### *UAE (excluding the DIFC and the ADGM)*

The GDRs have not been and will not be offered, sold or publicly promoted or advertised in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering, promotion and sale of securities.

## *United Kingdom*

This Prospectus and any other material in relation to the Offering described herein is only being distributed to, and is only directed at persons in the United Kingdom who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (“**qualified investors**”) that are also: (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”); (ii) high net worth entities or other persons falling within Article 49(2)(a) to (d) of the Order; or (iii) persons to whom distributions may otherwise lawfully be made (all such persons together being referred to as “**Relevant Persons**”) or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to section 85(1) of the FSMA. The GDRs are only available to, and any investment or investment activity to which this Prospectus relates is available only to, and will be engaged in only with, Relevant Persons). This Prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Persons who are not Relevant Persons should not take any action on the basis of this Prospectus and should not rely on it.

## *United States*

This Prospectus is not a public offering (within the meaning of the Securities Act) of securities in the United States. The Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States for offer or sale as part of their distribution and may not be offered or sold within the United States unless the Securities are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. In the United States the GDRs will be sold only to persons reasonably believed to be QIBs as defined in, and in reliance on, Rule 144A under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements under the Securities Act and applicable state securities laws. All offers and sales of the GDRs outside the United States will be made in compliance with Regulation S under the Securities Act and in accordance with applicable law.

In addition, until the end of the fortieth calendar day after commencement of the Offering, an offering or sale of GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The Offering of the GDRs is being made in the United States through United States broker-dealer affiliates of the Managers only.

Each acquirer of GDRs within the United States, by accepting delivery of this document, will be deemed to have represented, agreed and acknowledged that it has received a copy of this document and such other information as it deems necessary to make an investment decision.

*Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.*

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

## **Transfer Restrictions**

### ***Rule 144A GDRs***

Each purchaser of GDRs located in the United States pursuant to Rule 144A, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser: (1) is a QIB as that term is defined in Rule 144A under the Securities Act; (2) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act; (3) is acquiring such GDRs for its own account

or for the account of one or more QIBs; and (4) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act and the Ordinary Shares represented by them have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to restrictions on transfer and are being offered in the United States only in transactions not involving any public offering in the United States and are Restricted Securities.
3. The purchaser understands that the Rule 144A GDRs will initially be represented by a Master Rule 144A GDR and, before any beneficial interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S GDRs represented by the Master Regulation S GDR, the transferor will be required to provide certain written certifications.
4. The purchaser agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, except in accordance with the following legend, which the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF EN+ GROUP PLC REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs ACKNOWLEDGES AND AGREES FOR THE BENEFIT OF EN+ GROUP PLC AND THE DEPOSITARY NAMED BELOW THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT: (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT; (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE); OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS FOR THE BENEFIT OF EN+

GROUP PLC AND THE DEPOSITARY NAMED BELOW THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

5. For so long as Shares or GDRs are Restricted Securities, it will not deposit such Shares or GDRs into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
6. The Company, the Managers, the Depositary and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

**Prospective purchasers are hereby notified that the sellers of the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.**

#### *Regulation S GDRs*

Each purchaser of the Regulation S GDRs outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. The purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. The purchaser is aware that the Regulation S GDRs and the Ordinary Shares represented by them have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are being offered outside the United States in reliance on Regulation S;
3. Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Regulation S GDRs;
4. The purchaser understands that the Regulation S GDRs and the Regulation S Master GDR will bear a legend substantially to the following effect:

THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE ORDINARY SHARES OF EN+ GROUP PLC REPRESENTED THEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF: (I) THE COMMENCEMENT OF THE OFFERINGS OF: (A) REGULATION S GDRS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT; AND (B) RULE 144A GDRs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS; AND (II) THE LAST CLOSING DATE WITH RESPECT TO THE REGULATION S GDRs) ONLY: (1) IN AN OFFSHORE TRANSACTION TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; (2) TO A PERSON WHOM THE HOLDER AND BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE

MEANING OF RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; *PROVIDED THAT* IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE REGULATION S DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDRs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED BY REGULATION S GDRs SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS SECURITIES ACT LEGEND, *PROVIDED THAT* AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDR CERTIFICATES, THE REGULATION S GDRs EVIDENCED THEREBY AND THE SHARES REPRESENTED HEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

5. It understands that the Master Regulation S GDR and the Regulation S GDRs will initially be represented by a Master Regulation S GDR and, before any beneficial interest in the Regulation S GDRs represented by the Master Regulation S GDR may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDRs represented by the Master Rule 144A GDR, the transferor will be required to provide certain written certifications; and
6. The Company, the Managers, the Depositary and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

If a purchaser of GDRs is acquiring such GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

#### *Other Provisions regarding Transfers of the GDRs*

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Regulation S GDR only upon receipt by the Depositary of written certification (in the form provided in the Deposit Agreement) from the transferor to the effect that, amongst other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by a Rule 144A GDR only upon receipt by the Depositary of written certifications from the transferor (in the forms provided in the Deposit Agreement) to the effect that, amongst other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the Master GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR for so long as it remains such an interest.

## SETTLEMENT AND DELIVERY

### Clearing and Settlement of GDRs

Custodial and depository links have been established between Euroclear, Clearstream, Luxembourg, NSD and the U.S. Clearing Agent to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

### The Clearing Systems

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depository, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

#### *The U.S. Clearing Agent*

The U.S. Clearing Agent has advised the Company as follows: the U.S. Clearing Agent is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act, the U.S. Clearing Agent holds securities for the U.S. Clearing Agent participants and facilitates the clearance and settlement of securities transactions between the U.S. Clearing Agent participants through electronic computerised book-entry changes in the U.S. Clearing Agent participants' accounts, the U.S. Clearing Agent participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the U.S. Clearing Agent system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a the U.S. Clearing Agent participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through the U.S. Clearing Agent will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through the U.S. Clearing Agent and the U.S. Clearing Agent participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations (see "*Taxation—United States Taxation*").

As the U.S. Clearing Agent can act on behalf of the U.S. Clearing Agent direct participants only, who in turn act on behalf of the U.S. Clearing Agent indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in the U.S. Clearing Agent, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

#### *NSD*

NSD is the central securities depository of the Russian Federation and is a part of the Moscow Exchange Group. NSD is Russia's national numbering agency and the substitute numbering agency for the CIS and is authorised to assign the international ISIN and CFI codes. NSD is a central system for handling securities by law. The status of central securities depository was assigned to the NSD by an order of the FSFM on



November 6, 2012. NSD holds a professional securities market participant licence for depositary activity, a clearing activities licence and a licence to perform banking operations. NSD holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of such participants. NSD participants are financial institutions, including underwriters, securities brokers and dealers, banks, clearing corporations and certain other organisations and entities. Access to NSD is also available to other organisations and entities which clear through or maintain a custodial relationship with an NSD participant, either directly or indirectly.

### ***Registration and Form***

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Regulation S Master GDR registered in the name of Citivic Nominees Limited, as nominee of Citibank Europe plc, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through the U.S. Clearing Agent will be represented by the Rule 144A Master GDR registered in the name of Cede & Co., as nominee for the U.S. Clearing Agent, which will be held by the Depositary as custodian for the U.S. Clearing Agent. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and the U.S. Clearing Agent, respectively. Beneficial ownership in the GDRs will be held through financial institutions, including NSD, as direct and indirect participants in Euroclear, Clearstream, Luxembourg and the U.S. Clearing Agent.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent and NSD will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent and NSD, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for the U.S. Clearing Agent. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through the U.S. Clearing Agent are received by the U.S. Clearing Agent. The address for the U.S. Clearing Agent is 55 Water Street, New York City, U.S. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg. The address for NSD is 12 Spartakovskaya Street, Moscow 105066, Russia.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent or NSD and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

### **Global Clearing and Settlement Procedures**

#### ***Initial Settlement***

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts, the U.S. Clearing Agent participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through the U.S. Clearing Agent will follow the delivery practices applicable to depositary receipts.

#### ***Transfer Restrictions***

For a description of the transfer restrictions relating to the GDRs, see “*Terms and Conditions of the Global Depositary Receipts—Transfer and Ownership*” and “*Selling and Transfer Restrictions*”.

***Trading between Euroclear and Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

***Trading between the U.S. Clearing Agent Participants***

Secondary market sales of book-entry interests in the GDRs held through the U.S. Clearing Agent will occur in the ordinary way in accordance with the U.S. Clearing Agent rules and will be settled using the procedures applicable to depositary receipts if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside the U.S. Clearing Agent are required to be made between the U.S. Clearing Agent participants.

***Trading between NSD Participants***

Secondary market sales of book-entry interests in the GDRs held through NSD to purchasers of book-entry interests in the GDRs through NSD will be conducted in accordance with the normal rules and operating procedures of NSD and will be settled using the usual procedures applicable to depositary receipts.

***Trading between the U.S. Clearing Agent Seller and Euroclear/Clearstream, Luxembourg Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of a the U.S. Clearing Agent participant to the account of a Euroclear or Clearstream, Luxembourg participant, the U.S. Clearing Agent participant must send to the U.S. Clearing Agent a delivery free of payment or a delivery versus payment instruction at least two business days prior to the settlement date, the U.S. Clearing Agent will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the U.S. Clearing Agent participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the U.S. Clearing Agent will debit the account of the U.S. Clearing Agent participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, the U.S. Clearing Agent will on the settlement date instruct the Depositary to: (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for the U.S. Clearing Agent and represented by the Rule 144A Master GDR; and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

***Trading between Clearstream, Luxembourg/Euroclear Seller and the U.S. Clearing Agent Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a the U.S. Clearing Agent participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment or a delivery versus payment instruction at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the U.S. Clearing Agent participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct the U.S. Clearing Agent to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment, as applicable, to the relevant account of the U.S. Clearing Agent participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, will on the settlement date instruct the Depositary to: (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and represented by the Regulation S Master GDR; and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for the U.S. Clearing Agent and represented by the Rule 144A Master GDR.

***Trading between NSD Seller and Euroclear/Clearstream, Luxembourg Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of an NSD participant to the account of a Euroclear or Clearstream, Luxembourg participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will credit the account of its participant, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the relevant account of the Euroclear or Clearstream, Luxembourg participant.

***Trading between Euroclear/Clearstream, Luxembourg Seller and NSD Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of an NSD participant, the Euroclear or Clearstream, Luxembourg participant must submit a delivery free of payment or a delivery versus payment instruction to Euroclear or Clearstream, Luxembourg, as the case may be, at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further transfer to the relevant NSD participant.

***Trading between NSD Seller and the U.S. Clearing Agent Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of an NSD participant to the account of a the U.S. Clearing Agent participant, the NSD participant must submit a delivery free of payment or a delivery versus payment instruction to the NSD at least one business day prior to the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the NSD participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, NSD will debit the account of its participant, and Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, and will instruct the Depository to instruct the U.S. Clearing Agent to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment or versus payment to the relevant account of the U.S. Clearing Agent participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, will on the settlement date instruct the Depository to: (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and represented by the Regulation S Master GDR; and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for the U.S. Clearing Agent and represented by the Rule 144A Master GDR.

***Trading between the U.S. Clearing Agent Seller and NSD Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of a the U.S. Clearing Agent participant to the account of an NSD participant, the U.S. Clearing Agent participant must send a delivery free of payment or a delivery versus payment instruction to the U.S. Clearing Agent at least one business day prior to the settlement date, the U.S. Clearing Agent will, in turn, transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, and Euroclear or Clearstream, Luxembourg, as the case may be, will transmit it to NSD on the settlement date. In case of delivery free of payment, separate payment arrangements are required to be made between the U.S. Clearing Agent participant and the NSD participant. On the settlement date, the U.S. Clearing Agent will debit the account of its participant and will instruct the Depository to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the account of NSD with Euroclear or Clearstream, Luxembourg, as the case may be, for further credit to the relevant NSD participant. In addition, the U.S. Clearing Agent will on the settlement date instruct the Depository to: (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the nominee for the U.S. Clearing Agent and represented by the Rule 144A Master GDR;

and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Regulation S Master GDR.

### **General**

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent and NSD in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent and NSD, none of Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent or NSD is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or its or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg, the U.S. Clearing Agent or NSD or their respective participants of their respective obligations under the rules and procedures governing their operations.

## INFORMATION RELATING TO THE DEPOSITARY

Citibank, N.A. (“**Citibank**”) has been appointed as Depositary pursuant to the Deposit Agreements. Citibank is an indirect wholly owned subsidiary of Citigroup Inc., a Delaware corporation. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organised on June 16, 1812, and is now a national banking association organised under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 399 Park Avenue, New York, NY 10043. Citibank’s Consolidated Balance Sheets are set forth in Citigroup’s most recent Annual Report (audited balance sheet) and Quarterly Report (unaudited), each on file on Form 10-K and Form 10-Q, respectively, with the United States Securities and Exchange Commission.

Citibank’s Articles of Association and By-laws, each as currently in effect, together with Citigroup’s Annual Report on Form 10-K and Quarterly Report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013.

## **LEGAL MATTERS**

Certain legal matters with respect to the Offering will be passed upon for the Company and the Selling Shareholder in respect of the laws of England and the United States by White & Case LLP, in respect of the laws of the Russian Federation by White & Case LLC and in respect of the laws of Jersey by Ogier. Certain legal matters with respect to the Offering will be passed upon for the Managers in respect of the laws of England and the United States by Linklaters LLP and in respect of the laws of the Russian Federation by Linklaters CIS.

## INDEPENDENT AUDITORS

The Annual Financial Statements of En+ Group plc included in this Prospectus have been audited and the Interim Financial Information of En+ Group plc included in this Prospectus has been reviewed by KPMG, independent auditors, as stated in their respective reports appearing herein. With respect to the Interim Financial Information, KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report as at and for the six months ended 30 June 2017, and included herein, states that they did not audit and they do not express an opinion on that Interim Financial Information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The address of KPMG is 10, Presnenskaya Naberezhnaya, Moscow, 123112, Russia. KPMG is a member of the “Russian Union of Auditors (Association)”, the self-regulated organisation of auditors. KPMG does not have a material interest in the Company.

KPMG has consented to the inclusion in this Prospectus of its reports on the Financial Statements on pages F-4 and F-42 in the form and context in which they are included and authorised the contents of such reports for the purposes of Prospectus Rule 5.5.4R(2)(f) and item 23.1 of Annex X of the Commission Regulation (EC) No 809/2004.

As this offer of securities is not being registered in the United States under the Securities Act of 1933, as amended, KPMG is not consenting to the inclusion of its reports under provisions of that act.

For the purposes of Prospectus Rule 5.5.4R(2)(f), KPMG is responsible for its reports on pages F-4 and F-42 as part of this Prospectus and declare that it has taken all reasonable care to ensure that the information contained in such reports is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in this Prospectus in compliance with item 1.2 of Annex X to the Commission Regulation (EC) No 809/2004.

## GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Regulation S Master GDR and the Rule 144A Master GDR, to the Official List on or about 8 November 2017. Application has been made for the GDRs to be traded on the London Stock Exchange's regulated market for listed securities. Prior to the London Admission, dealings will be permitted by the London Stock Exchange in accordance with its rules on an if-and-when issued basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
2. The MOEX Admission is expected to take place after the London Admission on or about 8 November 2017. Dealings in the GDRs on MOEX prior to the MOEX Admission are not permitted.
3. The Company has obtained all consents, approvals and authorisations required under Jersey law in connection with the issue of the GDRs. The Company's entry into the Underwriting Agreement and the Deposit Agreements was duly authorised by the Board of Directors on 16 October 2017 in accordance with the M&A.
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Company 44 Esplanade, St Helier, JE4 9WG, Jersey from the date of publication of this Prospectus:
  - this Prospectus;
  - the M&A;
  - the Deposit Agreements;
  - the Deed Poll; and
  - the Financial Statements.

The registered office of the Company is 44 Esplanade, St Helier, JE4 9WG, Jersey, and its telephone number is +44 1534 504333.

5. There has been no significant change in the financial or trading position of the Group since 30 June 2017, the end of the last financial period for which financial information has been published. The cash and cash equivalent position of the Company has changed since 30 June 2017 as discussed in "*Capitalisation*".
6. The GDRs are denominated in U.S. Dollars and have no nominal value. The Offer Price was determined based on the results of the bookbuilding exercise conducted by the Managers. The results of the Offering will be made public by the Company through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.
7. Holders of GDRs may contact Citibank N.A. as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's principal administrative establishment located at 388 Greenwich Street, 14th Floor, New York, New York 10013, United States.
8. If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom.
9. The ISIN for the Rule 144A GDRs is US29355E1091, the Common Code for the Rule 144A GDRs is 171560667, the CUSIP number for the Rule 144A GDRs is 29355E109 and the SEDOL for the Rule 144A GDRs is BF4W6N1. The CFI Code is EDSXDR.
10. The ISIN for the Regulation S GDRs is US29355E2081, the Common Code for the Regulation S GDRs is 170465199, the CUSIP number for the Regulation S GDRs is 29355E208 and the SEDOL for the Regulation S GDRs is BF4W6M0. The CFI Code is EDSXDR.
11. The London Stock Exchange trading symbol for Regulation S GDRs is ENPL and for Rule 144A GDRs is ENPL. The MOEX Regulation S GDR trading symbol is ENPL.
12. No expenses or taxes are to be charged to the subscribers or purchasers of GDRs.



13. The following table sets forth certain information regarding the Group's significant subsidiaries as at the date of this Prospectus:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Beneficial ownership/ voting rights</u>	<u>Registered Office</u>
United Company RUSAL Plc . . . . .	Jersey	48.13%	44 Esplanade, St Helier, JE4 9WG, Jersey
LLC Irkutskaya Energobytovaya Kompaniya . . . . .	Russia	92.5%	257 Lermontova Street, 664033, Irkutsk, Russia
JSC Krasnoyarsk Hydro Power Plant	Russia	100.0%	663090, Divnogorsk, Krasnoyarsk Region, Russia
PJSC Irkutskenergo . . . . .	Russia	92.5%	3 Sukhe-Batora Street, 664011, Irkutsk, Russia
OJSC Irkutsk Electric Grid Company . . . . .	Russia	52.3%	257 Lermontova Street, 664033, Irkutsk, Russia
JSC EuroSibEnergo . . . . .	Russia	100.0%	663090, Divnogorsk, Krasnoyarsk Region, Russia

## GLOSSARY OF TERMS AND DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following words and expressions have the following meanings.

“£” or “pound sterling” . . . . .	the lawful currency for the time being of the United Kingdom
“2011 PXF Facility Agreement” . . . . .	the aluminium pre-export finance facility agreement for up to U.S.\$4,750 million, dated 29 September 2011
“2013 PXF Facility Agreement” . . . . .	the multicurrency aluminium pre-export finance facility agreement for up to U.S.\$400 million, dated 30 January 2013
“2017 PXF Facility Agreement” . . . . .	a pre-export finance term facility agreement signed in May 2017 between, among others, UC RUSAL as borrower, ING Bank N.V. as facility agent and security agent, and the lenders named in the agreement for an amount of up to U.S.\$2 billion
“Adjusted EBITDA Margin” . . . . .	a non-IFRS measure, calculated for any period as Adjusted EBITDA for the relevant period divided by total revenue for the relevant period and expressed as a percentage
“Adjusted EBITDA” . . . . .	a non-IFRS measure, calculated for any period as the results from operating activities adjusted for amortisation and depreciation, impairment of non-current assets and gain/losses on the disposal of property, plant and equipment for the relevant period
“Adjusted Net Profit” . . . . .	a non-IFRS measure, calculated for any period as RUSAL’s net profit for the relevant period adjusted for the net effect from share in the results of Norilsk Nickel, the net effect of embedded derivative financial instruments and the net effect of non-current assets impairment
“AKME” . . . . .	JSC AKME-engineering, a project company incorporated in the Russian Federation on 10 December 2009, whose principal business is conducting research and development works, and in which the Group holds a 50% stake, with the remaining 50% stake held by Rosatom
“AnAn CEFC Cyprus” . . . . .	ANAN CEFC (CYPRUS) INTERNATIONAL INVESTMENT LTD
“AnAn Group” . . . . .	ANAN GROUP (SINGAPORE) PTE. LTD.
“Alpart” . . . . .	Alumina Partners of Jamaica
“ALSCON” . . . . .	the Aluminium Smelter Company of Nigeria Plc
“Annual Financial Statements” . . . . .	the audited consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2015 and 2014
“Arbitrazh Procedural Code” . . . . .	the Arbitrazh Procedural Code of the Russian Federation
“Articles of Association” or “Articles”	the articles of association of the Company to be in force on the date of the London Admission
“ATS” . . . . .	Joint-Stock Company “ <i>Trading System Administrator of Wholesale Electricity Market Transactions</i> ”
“Avtozavodskaya CHP” . . . . .	LLC Avtozavodskaya TEC, a company incorporated in the Russian Federation on 10 June 2004, whose principal business is electricity and heat generation, and which is a wholly owned, indirect subsidiary of the Company
“Baikal Protection Law” . . . . .	Federal Law “On the Protection of Lake Baikal” No. 94-FZ dated 1 May 1999

“BEMO Project”	Boguchansk Energy and Metals Complex, a joint venture between RUSAL and RusHydro, involving the construction of the 3,000 MW Boguchansk HPP on the Angara River and the approximately 600,000 tonnes per annum Boguchansk aluminium smelter
“BEPS”	Base Erosion and Profit Shifting
“BFIG”	BFI Group Divino Corporation
“Board of Directors” or “Board”	the board of directors of the Company
“Boguchansk HPP”	Boguchansk hydro power plant, operated by the joint venture of RusHydro and RUSAL under the BEMO Project
“Bratsk aluminium smelter”	PJSC RUSAL Bratsk, a company incorporated on 26 November 1992 under the laws of the Russian Federation, which is a wholly owned subsidiary of RUSAL
“Bratsk HPP”	a branch of Irkutskenergo
“Brexit”	the exit of the U.K. from the European Union
“CAATs Act”	the United States “Countering America’s Adversaries through Sanctions Act” of 2 August 2017
“CBR”	the Central Bank of Russia
“CEAC”	CEAC Holdings Limited, a subsidiary of the Company
“CFC Rules”	Russian rules on the taxation of “controlled foreign companies”
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus references in this prospectus to “China” and the “PRC” do not include Taiwan, the Macau Special Administrative Region and Hong Kong
“CHP”	a combined heat and power plant
“CHP-10”	LLC TEC-10, a company incorporated in the Russian Federation on 6 September 2002, which is a wholly owned subsidiary of Irkutskenergo
“CHP-6”	a branch of Irkutskenergo
“CIS”	the Commonwealth of Independent States (comprising Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan)
“City Code”	the United Kingdom City Code on Takeovers and Mergers
“Russian Civil Code”	Civil code of the Russian Federation No.51-FZ of 30 November 1994 (Part I), No. 14-FZ of 26 January 1996 (Part II), No. 146-FZ of 26 November 2001 (Part III) and No.230-FZ of 18 December 2006 (Part IV), as amended
“Clearstream, Luxembourg” or “Clearstream”	Clearstream Banking, <i>société anonyme</i>
“Closing Date”	8 November 2017
“Coal Segment”	the Group’s operations in the mining and sale of coal that do not include the coal mining operations of RUSAL
“Combined licences”	combined licences for geological research, exploration and the production of natural resources
“Combined PXF”	the PXF Facility Agreements combined into one agreement, in effect from August 2014

“Companies Act”	the Companies Act 2006 of the U.K.
“Companies Law”	the Companies (Jersey) Law 1991, as amended from time to time
“Company”	En+ Group plc
“Company Secretary”	Intertrust Corporate Services (Jersey) Limited
“Competition Law”	Federal Law of the Russian Federation No. 135-FZ “ <i>On Protection of Competition</i> ” of 26 July 2006, as amended
“Conditions”	the terms and conditions of the GDRs included in the section entitled “ <i>Terms and Conditions of the Global Depositary Receipts</i> ” of this Prospectus
“Cornerstone Investment Agreement”	the agreement between the Cornerstone Investor in connection with the Offering dated 7 September 2017
“Cornerstone Investor”	the ANAN GROUP (SINGAPORE) PTE. with whom the Company has entered into the Cornerstone Investment Agreement
“Cornerstone Investor GDRs”	the GDRs purchased by the Cornerstone Investor pursuant to the Cornerstone Investment Agreement
“Cornerstone Offering”	a placement of 35,714,285 GDRs to the Cornerstone Investor under the Cornerstone Investment Agreement.
“Corporations Act”	the Corporations Act 2001 (Cwth) of Australia
“Covenant Net Debt / EBITDA”	a non-IFRS measure, calculated for any period as covenant net debt divided by covenant EBITDA, in each case as reported, in accordance with the terms of credit facility agreements
“CRU”	CRU International Limited
“CRU Industry Report”	the industry report dated 12 April 2017 prepared by CRU at the request of the Company
“Custodian”	Citibank Hong Kong
“Cyprus”	the Republic of Cyprus
“Cyprus Takeover Law”	Section 13 of the Public Take Over Bids Law, law no. 41(I)/2007
“CySEC”	the Cyprus Securities and Exchange Commission
“day-ahead market”	the Russian wholesale market for electric energy deliverable 24 hours in advance of a given time in any day
“Defence Tax”	the Special Contribution for the Defence Fund of the Republic Law
“Deposit Agreements”	the agreements entered into on or about the date of this Prospectus between the Company and the Depositary
“Depositary”	Citibank N.A.
“Deposited Property”	the rights, interests and other securities, property and cash attributable to the Deposited Shares
“Deposited Shares”	the shares deposited with the Custodian pursuant to the Deposit Agreements
“Director(s)”	the director(s) of the Company
“Disclosure and Transparency Rules”	the UK Listing Authority disclosure and transparency rules
“Disclosure Guidance and Transparency Rules”	the disclosure guidance and transparency rules made by the FCA under Part VI of FSMA

“Document”	this Prospectus
“DPM”	agreements to supply capacity
“EBRD”	the European Bank for Reconstruction and Development
“ECD”	RUSAL’s Engineering and Construction division
“EEA Member States”	the member states of the European Economic Area
“EEA Relevant Member State”	a Member State of the EEA which has implemented the Prospectus Directive (including Directive 2010/73/EU, to the extent implemented in such Member State of the EEA)
“Electric Power Industry Law”	Federal Law of the Russian Federation No. 35-FZ “ <i>On the Electric Power Industry</i> ” of 26 March 2003
“En+ Power”	the Group’s business segment comprising the Power Segment, the Coal Segment, the Logistics Segment, the Other Segment and unallocated assets, but excluding RUSAL’s results of operations, described as “En+ Segment” in Note 4 to the Interim Financial Information and Note 4 to the Annual Financial Statements
“Enser”	JSC Enser
“Environmental Protection Law”	Federal Law of the Russian Federation No. 7-FZ “ <i>On Environmental Protection</i> ” of 10 January 2002
“ESE-E”	LLC EuroSibEnerg-Engineering, a company incorporated in the Russian Federation on 8 May 2002, whose principal business is engineering, maintenance and repair, and which is a wholly owned, indirect subsidiary of the Company
“ETO”	a single heat energy supply company
“EUR” or “euro”	the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended
“Euroclear”	Euroclear Bank S.A./N.V.
“European Union” or “E.U.”	a political and economic union of 28 member states that are located primarily in Europe
“Existing Ordinary Shares”	the Ordinary Shares in issue immediately prior to London Admission
“exploration and production licences”	licences for the exploration and production of natural resources
“FAS”	the Federal Antimonopoly Service of the Russian Federation
“FATCA”	Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 and any regulations or agreements thereunder or official interpretations thereof
“FATCA Withholding Tax”	any withholding or deduction pursuant to FATCA
“FCA”	the Financial Conduct Authority of the U.K.
“FGC”	the Federal Grid Company
“Financial Statements”	the Annual Financial Statements and the Interim Financial Information
“Forward Sale Agreement”	a forward sale agreement entered into in December 2013 between Eastern Carriers Trading Limited, Basic Element Limited, B-Finance Limited and VTB

“Free Cash Flow”	a non-IFRS measure, calculated for any period as the cash flows generated from operating activities before capital expenditures and interest less interest paid and less capital expenditures adjusted for restructuring fees, payments from settlement of derivative instruments, one-off acquisitions plus dividends from associates and joint ventures, in each case attributable to the Group, the En+ Segment or RUSAL, as the case may be
“FSC”	Joint-Stock Company “ <i>Financial Settling Centre</i> ”, a company incorporated in the Russian Federation on 29 September 2004, which is engaged in rendering services related to financial settlements between participants of the wholesale electricity market, and which is owned by the Market Council and ATS
“FSFM”	the Federal Service for Financial Markets of the Russian Federation
“FSMA”	the Financial Services and Markets Act 2000 of the U.K.
“FTS”	the Federal Tariffs Service of the Russian Federation
“GDRs”	global depositary receipts representing interests in Ordinary Shares
“GDP”	gross domestic product
“geological research licences”	licences for the geological research of a subsoil plot
“Glencore”	Glencore plc, a company, incorporated in Jersey, which is a leading integrated commodity producer and marketer
“Glencore Businesses”	certain of the alumina and aluminium businesses of Glencore acquired by RUSAL
“Gross Profit Margin”	a non-IFRS measure, for any period calculated as gross profit or loss divided by revenues and expressed as a percentage
“Group”	the Company and its consolidated subsidiaries
“GRP”	gross regional product
“Guarantee”	the corporate guarantee provided by the Company in favour of VTB securing the obligations of GrandStroy LLC under the VTB Facility of August 2015
“guaranteeing supplier”	a company under an obligation to enter into a contract for the sale and purchase of electricity at the request of any customer within a Guaranteeing Supplier’s area of operation
“Heat Market Roadmap”	a roadmap entitled “On Implementation of the Target Model of the Heat Market” approved by the Russian Government in 2014
“Heat Supply Law”	Federal Law of the Russian Federation No. 190-FZ “On Heat Supply” of 27 July 2010
“Holder”	in relation to any GDR, the person registered as the holder of that GDR on the Register
“HPP”	a hydro power plant
“hryvnia”	the lawful currency for the time being of the Ukraine
“HSE”	health, safety and environmental laws and regulations
“Hydraulic Constructions Safety Law”	Federal Law of the Russian Federation No. 117-FZ “On Safety of Hydraulic Constructions” of 23 June 1997
“IAS 34”	International Accounting Standard 34, Interim Financial Reporting

“IFRS”	International Financial Reporting Standards as issued by the International Accounting Standards Board
“Interim Financial Information”	the unaudited consolidated interim condensed financial information of the Group as at and for the six months ended 30 June 2017 and 2016
“Internal Revenue Code”	the United States Internal Revenue Code
“International Offering”	a private placement of 71,428,573 GDRs to certain institutional and other eligible investors in various jurisdictions
“IHA”	the International Hydropower Association
“Industrial Assets”	any assets or development opportunities related to the production of bauxite, alumina or aluminium
“INTER RAO”	PJSC Inter RAO, a state-owned holding company incorporated in the Russian Federation on 1 November 2002, and/or its affiliates
“IOB”	the London Stock Exchange’s international order book
“IPS”	one of the seven Integrated Power Systems in the Russian Federation, being North-West IPS, Centre IPS, South IPS, Middle Volga IPS, Urals IPS, Siberian IPS and Far East IPS
“Irkutsk GridCo”	OJSC Irkutsk Electronetwork Company, a company incorporated in the Russian Federation on 30 June 2009, whose principal business is electricity transmission and distribution, and in which Irkutskenergo holds a stake of 19.9%, and which the Group consolidates for the purposes of IFRS financial statements
“Irkutsk HPP”	a hydro power plant operated by Irkutskenergo
“Irkutskenergo”	Irkutsk Public Joint-Stock Company of Energetics and Electrification, a company incorporated in the Russian Federation on 20 November 1992, whose principal activity is electricity and heat generation, and in which the Company indirectly holds an attributable equity interest of 92.5%, with the remaining shares being held by minority investors
“Irkutskenergosbyt”	LLC Irkutskaya Energosbytovaya Kompaniya, a company incorporated in the Russian Federation on 11 April 2007, whose principal business is electricity and heat trading and supply, and which is a wholly owned subsidiary of Irkutskenergo
“IRS”	the United States Internal Revenue Service
“Jersey”	the island of Jersey
“JFSC”	the Jersey Financial Services Commission
“Joint Bookrunners”	Bank GPB International S.A., BMO Capital Markets Limited, Société Générale and UBS Limited
“Joint Global Coordinators”	Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc, Merrill Lynch International, SIB (Cyprus) Limited and VTB Capital plc
“KAP”	Kombinat Aluminijuma Podgorica
“KOM”	in respect of the Russian long-term capacity market, the competitive capacity selection process ( <i>konkurentniy otbor moshnosti</i> ) for the determination of prices and volumes of capacity through the selection of price bids quoting the minimum prices

“KPMG”	JSC KPMG
“KRAMZ”	Krasnoyarsk Metallurgical Plant LLC, a company incorporated in the Russian Federation on 9 January 1997, whose principal business is the manufacturing of semi-finished products from primary aluminium, and in which the Group owns a 100% shareholding.
“Krasnoyarsk aluminium smelter”	JSC RUSAL Krasnoyarsk, a company incorporated under the laws of the Russian Federation on 16 November 1992, and which is a wholly owned subsidiary of RUSAL
“Krasnoyarsk HPP”	JSC Krasnoyarsk Hydro-Power Station, a company incorporated in the Russian Federation on 7 October 1993, whose principal business is electricity generation, and which is the wholly owned indirect subsidiary of the Company
“Land Code”	the Land Code of the Russian Federation No. 136-FZ of 25 October 2001
“Law No. 122 FZ”	Federal Law “On State Registration of Rights to Immovable Property and Transactions Therewith” No. 122 FZ dated 21 July 1997, as amended
“Law No. 218 FZ”	Federal Law “On State Registration of Immovable Property” No. 218 FZ dated 13 July 2015, as amended
“LCIA”	the London Court of International Arbitration
“Licensing Law”	the Federal Law on Licensing of Certain Types of Activities No. 99-FZ dated 4 May 2011, as amended
“Licensing Regulation”	the Resolution of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended
“Listing Rules”	the Listing Rules of the U.K. Listing Authority
“LME”	the London Metal Exchange
“Lock-up Agreements”	an undertaking of the Company, the Selling Shareholder, B-Finance Limited, the Other Shareholders, VTB and the Cornerstone Investor, establishing that, subject to certain exceptions, until the expiry of a period of 180 days after the London Admission, neither they nor any of their subsidiaries or their affiliates nor any person acting on their behalf will, without the prior written consent of the Joint Global Coordinators, on behalf of the Managers, or the Company (as the case may be) sell, pledge or encumber the Ordinary Shares or the GDRs or, in the case of the Company, issue new Ordinary Shares
“Logistics Segment”	the Group’s operations in transportation services (excluding those of RUSAL)
“London Admission”	admission to the Official List and to trading on the regulated market
“London Stock Exchange”	the London Stock Exchange plc
“LTIFR”	the Lost Time Injury Frequency Rate
“M&A”	the Company’s memorandum and articles of association to be in force on the date of the London Admission
“Majority Shareholder”	Mr. Oleg Deripaska
“Managers”	the MOEX Bookrunner, the Joint Global Coordinators and the Joint Bookrunners



“MAREM+” .....	LLC MAREM+, a company incorporated in the Russian Federation on 16 February 1998, whose principal business is electricity trading and supply, and in which the Company indirectly holds a 99.9% stake
“Market Council” .....	the Nonprofit Partnership Council for Organising Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market, a self-regulatory organisation that unites, on a partnership basis, the participants in the power sector and large electric power and heat consumers. The Market Council is the main regulator of the wholesale electricity (capacity) market and, <i>inter alia</i> , develops wholesale market rules and regulations and monitors compliance with them by wholesale market participants, grants and withdraws wholesale market participant status to companies and supervises the System Operator
“Master GDRs” .....	the Regulation S Master GDR and the Rule 144A Master GDR
“MCAA CbCR” .....	the Multilateral Competent Authority Agreement for Country-by-Country Reporting
“MEP” .....	the Chinese Ministry of Environmental Protection
“Metals Segment” .....	the operations of RUSAL
“MOEX” .....	Public Joint-Stock Company “ <i>Moscow Exchange MICEX-RTS</i> ”
“MOEX Admission” .....	(i) the public circulation in the Russian Federation of the Regulation S GDRs to be issued from time to time; and (ii) the admission of the Regulation S GDRs to be issued from time to time to trading on MOEX under the symbol ENPL
“MOEX Bookrunner” .....	ATON LLC
“MRSK” .....	interregional distribution company
“Natural Monopolies Law” .....	Federal Law of the Russian Federation No. 147-FZ “ <i>On Natural Monopolies</i> ” of 17 August 1995
“NDRC” .....	the Chinese National Development and Reform Commission
“Net Debt” .....	a non-IFRS measure, calculated as the sum of secured and unsecured long-term and short-term debt (including deferred liability for acquisition of shares in Irkutskenergo) less total cash and cash equivalents as at the end of the relevant period
“Net Debt / Adjusted EBITDA” .....	a non-IFRS measure, calculated for any period as En+ Segment’s Net Debt divided by Adjusted EBITDA
“Net Profit Margin” .....	a non-IFRS measure, calculated for any period as net profit or loss for the relevant period divided by total revenue for the relevant period and expressed as a percentage
“Net Working Capital” .....	a non-IFRS measure, calculated as inventories plus short-term trade and other receivables (excluding dividend receivables from related parties) less trade and other payables (excluding short-term part of deferred liability for acquisition of shares in Irkutskenergo as at the end of the relevant period
“New Ordinary Shares” .....	the new Ordinary Shares to be allotted and issued by the Company pursuant to the Offering
“New York Convention” .....	the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958

<b>“Norilsk Nickel”</b> . . . . .	PJSC Mining and Metallurgical Company “NORILSK NICKEL”, a company incorporated in the Russian Federation on 4 July 1997, whose principal business is nonferrous metal production, and in which RUSAL holds a 27.82% stake
<b>“NSD”</b> . . . . .	the Russian National Settlement Depository
<b>“OECD”</b> . . . . .	the Organisation for Economic Co-operation and Development
<b>“OFAC”</b> . . . . .	the U.S. Office of Foreign Assets Control
<b>“Offer Price”</b> . . . . .	the final dollar price per GDR at which the GDRs are to be acquired pursuant to the Offering
<b>“Offering”</b> . . . . .	the offering of the GDRs by the Company and the Selling Shareholder
<b>“offer within the EEA of the GDRs”</b> . . . . .	in relation to any GDRs in any EEA Relevant Member State, the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the GDRs
<b>“Official List”</b> . . . . .	the official list of the FCA
<b>“OGK”</b> . . . . .	thermal generation companies (specifically “optovaya generiruiushchaya kompaniya”, wholesale generating company)
<b>“Operating Profit Margin”</b> . . . . .	a non-IFRS measure, calculated for any period as results from operating activities divided by revenues and expressed as a percentage
<b>“Order”</b> . . . . .	the Financial Services and Market Act (Financial Promotion) Order 2005, as amended, of the U.K.
<b>“Other Shareholders”</b> . . . . .	companies that are beneficially owned by the family of the Majority Shareholder or directly by members of his family, which hold 13.0% of the Company’s Ordinary Shares
<b>“Ordinary Shares”</b> . . . . .	ordinary shares, each with a nominal value of U.S.\$0.00007, in the share capital of the Company
<b>“Other Segment”</b> . . . . .	the operations of KRAMZ and SMR
<b>“Over-Allotment Option”</b> . . . . .	the option granted by the Selling Shareholder to the Managers to procure purchasers for, or failing which to purchase, up to 5,000,000 additional GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering
<b>“PFIC”</b> . . . . .	Passive Foreign Investment Company
<b>“Power Segment”</b> . . . . .	the Group’s power assets and operations (excluding those of RUSAL)
<b>“2010 PD Amending Directive”</b> . . . . .	Directive 2010/73/EU, as amended
<b>“Prospectus”</b> . . . . .	this prospectus dated 3 November 2017
<b>“Prospectus Directive”</b> . . . . .	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the EEA Relevant Member State), including any relevant implementing measure in each EEA Relevant Member State
<b>“Pre-Release”</b> . . . . .	the execution and delivery of GDRs or issuance of interests in a Master GDR by the Depository prior to the receipt of Shares by the Custodian or the Depository, as the case may be
<b>“Pre-Releasee”</b> . . . . .	the person to whom GDRs or Deposited Property are to be delivered in the event of a Pre-Release

“ <b>property-rich shares</b> ” . . . . .	shares of companies whose assets are more than 50% (directly or indirectly) represented by immovable property located in Russia
“ <b>Prospectus Rules</b> ” . . . . .	the Prospectus Rules of the FCA made under section 73A of the FSMA
“ <b>PXF Facility Agreements</b> ” . . . . .	the 2011 PXF Facility Agreement and the 2013 PXF Facility Agreement
“ <b>QIB</b> ” . . . . .	a “qualified institutional buyer” within the meaning of Rule 144A
“ <b>Qualified Investor</b> ” . . . . .	a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive (including Directive 2010/73/EU, to the extent implemented in such EEA Relevant Member State, and including any relevant implementing measure in such EEA Relevant Member State)
“ <b>RAB</b> ” . . . . .	regulated asset base
“ <b>RAO UESR</b> ” . . . . .	RAO UES Russia, holding company controlling AO-Energos
“ <b>RAS</b> ” . . . . .	Russian Accounting Standards
“ <b>Recurring Net Profit</b> ” . . . . .	a non-IFRS measure, calculated for any period as Adjusted Net Profit for the relevant period less change in derivative instruments, foreign exchange translation and impairments for the relevant period attributable to RUSAL
“ <b>Recurring Net Profit Margin</b> ” . . . . .	a non-IFRS measure, calculated for any period as Recurring Net Profit for the relevant period divided by total revenues and expressed as a percentage for the relevant period attributable to RUSAL
“ <b>Register of Real Estate</b> ” . . . . .	the Unified State Register of Real Estate, which combines the previously existing State Cadaster of Real Estate and Register of Rights
“ <b>Register of Rights</b> ” . . . . .	a previously existing Unified State Register of Rights to Immovable Property and Transactions Therewith, which is now part of the Register of Real Estate
“ <b>Regulation S</b> ” . . . . .	Regulation S under the Securities Act
“ <b>Regulation S GDRs</b> ” . . . . .	GDRs being offered and sold outside the United States
“ <b>Regulation S Master GDR</b> ” . . . . .	a Regulation S Master Global Depositary Receipt
“ <b>Relevant Persons</b> ” . . . . .	Persons: (1) outside the United Kingdom; (2) within the United Kingdom: (i) having professional experience in matters relating to investments falling within Article 19(5) of the Order; or (ii) to persons of a kind described in Article 49(2) (a) to (d) of the Order; or (3) in EEA Member States who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive
“ <b>Renminbi</b> ” or “ <b>RMB</b> ” . . . . .	the lawful currency for the time being of the People’s Republic of China
“ <b>Resolution No. 117</b> ” . . . . .	Resolution of the Government of the Russian Federation “On Procedure of Selection of Electric Energy Industry Entities and Electricity Consumers, Providing Services to Ensure System Reliability, and Rendering Such Services, and Approval of the Amendments to be Introduced to the Acts of the Government of the Russian Federation Regarding Services to Ensure System Reliability” No. 117 dated 3 March 2010

<b>“Resolution No. 526”</b> . . . . .	Resolution of the Government of the Russian Federation “On Restructuring the Electricity Power Industry of the Russian Federation” No. 526 dated 11 July 2001
<b>“Resolution No. 861”</b> . . . . .	Resolution of the Government of the Russian Federation “On Approval of Rules on Non-Discriminatory Access to the Electricity Transmission Services and Rendering Such Services, Rules on Non-Discriminatory Access to the System Dispatch Services in the Electric Power Sector and Rendering Such Services, Rules on Non-Discriminatory Access to Trade System Administrator’s Services and Rendering Such Services, and Rules on Technological Connection of Power Receivers of Companies and Individuals to the Electricity Grids” No. 861 dated 27 December 2004
<b>“Resolution No. 1075”</b> . . . . .	Resolution of the Government of the Russian Federation No. 1075 “On Pricing in Heat Supply Area” dated 22 October 2010
<b>“Resolution No. 1178”</b> . . . . .	Resolution of the Government of the Russian Federation No. 1178 “On Pricing in Electricity Area” dated 29 December 2011
<b>“Restricted Securities”</b> . . . . .	“restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act
<b>“Retail Market Rules”</b> . . . . .	Resolution of the Government of the Russian Federation “On approval of the general provisions regulating retail electricity markets” No. 442 dated 4 May 2012
<b>“Rosatom”</b> . . . . .	State Atomic Energy Corporation “Rosatom”, a company incorporated in the Russian Federation, which is authorised to regulate the use of nuclear energy in the Russian Federation and which is controlled by the Russian Federation
<b>“Rosstat”</b> . . . . .	the Federal State Statistics Service of the Russian Federation
<b>“Rosreestr”</b> . . . . .	the Russian Federal Service for State Registration, Cadastre and Cartography
<b>“RUB” or “rouble”</b> . . . . .	the lawful currency for the time being of the Russian Federation
<b>“Rule 144A”</b> . . . . .	Rule 144A under the Securities Act
<b>“Rule 144A GDRs”</b> . . . . .	GDRs being offered and sold within the United States
<b>“Rule 144A Master GDR”</b> . . . . .	a Rule 144A Master Global Depositary Receipt registered in the name of Cede & Co., as nominee for the U.S. Clearing Agent in New York
<b>“Rules”</b> . . . . .	the Rules of the LCIA
<b>“RUSAL”</b> . . . . .	United Company RUSAL Plc and its consolidated subsidiaries
<b>“RUSAL Energo”</b> . . . . .	RUSAL Energo Limited Liability Company, a wholly owned indirect subsidiary of RUSAL
<b>“RUSAL Major Shareholders”</b> . . . . .	the Company, SUAL Partners, Amokenga Holdings and Onexim Holdings Limited
<b>“RUSAL Shareholders’ Agreements”</b> . . . . .	the two shareholders’ agreements concluded in respect of RUSAL in January 2010: (i) the Shareholders’ Agreement between RUSAL Major Shareholders; and (ii) the Shareholders’ Agreement with RUSAL
<b>“RusHydro”</b> . . . . .	PJSC RusHydro, a holding company incorporated in the Russian Federation on 26 December 2004

“ <b>Russian EuroSibEnergo</b> ” . . . . .	JSC EuroSibEnergo, a company incorporated in the Russian Federation on 8 September 2008, which is the management company for the Group’s power assets and in which the Group owns 100% of its share capital
“ <b>Russian Securities Market Law</b> ” . . .	Federal Law of the Russian Federation No. 39-FZ “ <i>On the Securities Market</i> ” of 22 April 1996, as amended
“ <b>Russian Tax Code</b> ” . . . . .	the Tax Code of the Russian Federation
“ <b>Russian Qualified Investors</b> ” . . . . .	“qualified investors” (as defined under the Russian Securities Market Law) in Russia
“ <b>Safety Law</b> ” . . . . .	Federal Law of the Russian Federation No. 116-FZ “ <i>On Industrial Safety of Dangerous Industrial Facilities</i> ” of 21 July 1997
“ <b>Sayano-Shushenskaya HPP</b> ” . . . . .	a HPP operating in Siberia, which is a branch of RusHydro
“ <b>Sberbank</b> ” . . . . .	Sberbank of Russia
“ <b>SC 1</b> ” and “ <b>SC 2</b> ” . . . . .	supply contracts between Bratsk aluminium smelter and Irkutskenergo providing for Irkutskenergo to supply electricity to Bratsk aluminium smelter from 1 January 2017 to 31 December 2026
“ <b>SC 3</b> ” . . . . .	contract between RUSAL Energo and Russian EuroSibEnergo, providing for Russian EuroSibEnergo to supply RUSAL Energo with electricity from 1 November 2016 to 31 December 2025
“ <b>SEC</b> ” . . . . .	the United States Securities and Exchange Commission
“ <b>Securities</b> ” . . . . .	the GDRs and the Ordinary Shares represented by them
“ <b>Securities Act</b> ” . . . . .	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“ <b>SEEPX</b> ” . . . . .	SEEPX Energy Ltd
“ <b>SEEPX Industry Report</b> ” . . . . .	the industry report dated 27 April 2017 prepared by SEEPX at the request of the Company
“ <b>Selling Shareholder</b> ” . . . . .	Basic Element Limited
“ <b>Senior Management</b> ” . . . . .	the senior management of the Group as at the date of this Prospectus
“ <b>Shareholder(s)</b> ” . . . . .	means, unless specified otherwise, holder(s) of Share(s)
“ <b>Shareholders’ Agreement between RUSAL Major Shareholders</b> ” . . . . .	the shareholders’ agreement concluded in January 2010 in respect of RUSAL between the RUSAL Major Shareholders
“ <b>Shareholders’ Agreement with RUSAL</b> ” . . . . .	the shareholders’ agreement concluded in January 2010 in respect of RUSAL between RUSAL and the RUSAL Major Shareholders
“ <b>Shareholders’ Agreement with VTB</b> ” . . . . .	the shareholders’ agreement entered into by the Company, Basic Element Limited, B-Finance Limited and VTB in July 2011 regarding, <i>inter alia</i> , the corporate governance of the Company
“ <b>Siberian IPS</b> ” . . . . .	Siberian integrated power system
“ <b>SMR</b> ” . . . . .	Strikeforce Mining and Resources PLC and its consolidated subsidiaries, whose principal activity is the production of molybdenum and ferromolybdenum.
“ <b>Stabilisation Period</b> ” . . . . .	a period of 30 days after the announcement of the Offer Price

“ <b>Stabilisation Manager</b> ” . . . . .	VTB Capital plc
“ <b>Stockholm Convention</b> ” . . . . .	the Stockholm Convention on Persistent Organic Pollutants
“ <b>State Cadaster of Real Estate</b> ” . . . .	a previously existing unified register, or “cadastre”, held by Rosreestr recording details of land plots, including their measurements and boundaries, which is now part of the Register of Real Estate
“ <b>SUAL</b> ” . . . . .	SUAL International Limited, a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of RUSAL
“ <b>SUAL Partners</b> ” . . . . .	SUAL Partners Limited, a company incorporated under the laws of the Bahamas, which is a shareholder of RUSAL
“ <b>Subsoil Law</b> ” . . . . .	Federal Law of the Russian Federation No. 2395-1 “On Subsoil” of 21 February 1992
“ <b>System Operator</b> ” . . . . .	the “ <i>System Operator of the United Power System</i> ”, Joint-stock Company, a holding company incorporated in the Russian Federation on 17 July 2002, which is responsible for providing operational dispatch control services, and is controlled by the Russian Federation
“ <b>Teploseti</b> ” . . . . .	LLC Teploseti
“ <b>TGC</b> ” . . . . .	LLC Tuva Mining Company
“ <b>TGK</b> ” . . . . .	thermal generation companies (specifically “territorialnaya generiruiushchaya kompaniya”, territorial generating company)
“ <b>Trade Union Law</b> ” . . . . .	Federal Law of the Russian Federation No. 10-FZ “On Trade Unions, their Rights and Guaranties of their Activity” of 12 January 1996
“ <b>Transparency Law</b> ” . . . . .	the Cyprus Transparency Requirements (Securities Admitted to Trading in a Regulated Market) Law, No.190(I)/2007 as amended
“ <b>U.K.</b> ” . . . . .	the United Kingdom
“ <b>U.K. holders</b> ” . . . . .	absolute beneficial owners of GDRs who are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the U.K. for U.K. tax purposes and who are not resident in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of GDRs is connected
“ <b>U.S.\$</b> ”, “ <b>U.S. Dollar</b> ” or “ <b>dollar</b> ” . . .	the lawful currency for the time being of the United States
“ <b>U.S. Securities Act</b> ” . . . . .	the United States Securities Act of 1933, as amended
“ <b>UC RUSAL</b> ” . . . . .	United Company RUSAL Plc, a holding company incorporated in Jersey on 26 October 2006, in which the Group owns a 48.13% interest
“ <b>UES</b> ” . . . . .	the Unified Energy System of Russia, made up of seven Integrated Power Systems
“ <b>Underwriting Agreement</b> ” . . . . .	the underwriting agreement dated 3 November 2017 between the Company, the Selling Shareholder and the Managers
“ <b>United States</b> ” or “ <b>U.S.</b> ” . . . . .	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“ <b>United States Person</b> ” . . . . .	a beneficial owner of GDRs as applicable under the United States federal income tax purposes

“U.S. Clearing Agent” or “DTC” . . . .	The Depository Trust Company
“Ust-Ilimsk HPP” . . . . .	a branch of Irkutskenergo
“VAPs” . . . . .	value-added products
“VAT” . . . . .	value added tax
“Volgaenergosbyt” . . . . .	JSC Volgaenergosbyt, a company incorporated in the Russian Federation on 1 August 2006, whose principal business is electricity and heat trading and supply, and which is an indirect wholly owned subsidiary of the Company
“VostSibUgol” . . . . .	LLC Kompaniya VostSibUgol, a company incorporated in the Russian Federation on 24 April 2001, whose principal business is coal mining, and which is an indirect wholly owned subsidiary of Irkutskenergo
“VTB” . . . . .	VTB Bank (PJSC)
“VTB Facility” . . . . .	the facility agreement between VTB Bank (PJSC) as lender and GrandStroy LLC as borrower, entered into in August 2015
“Wholesale Market Rules” . . . . .	the Rules of the Wholesale Electricity and Capacity Market and Amendments into Certain Regulations of the Russian Government Relating to the Operation of the Wholesale Electricity and Capacity Market approved by the Resolution of the Russian Government No. 1172 dated 27 December 2010, as amended
“ZALK” . . . . .	PJSC Zaporozhye Aluminium Combine
“Zavodskie Seti” . . . . .	LLC Zavodskie Seti, a company incorporated in the Russian Federation on 10 June 2004, whose principal business is electricity and heat distribution, and which is an indirect wholly owned subsidiary of the Company

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**En+ Group PLC**  
**Consolidated Interim Condensed Financial**  
**Information for the six months ended**  
**30 June 2017**

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## Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors  
En+ Group PLC

### **Introduction**

We have reviewed the accompanying consolidated interim condensed statement of financial position of En+ Group PLC (the "Company") and its subsidiaries (the "Group") as at 30 June 2017, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information 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 consolidated interim condensed financial information 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.

Audited entity: En+ Group PLC  
Registration No. 91061.  
Jersey, British Channels Islands

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11803053203.



**En+ Group PLC**

*Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information*

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### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2017 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*.



Andrei Ryazantsev

Director

JSC "KPMG"

Moscow, Russia

1 September 2017

**En+ Group PLC**  
*Consolidated Interim Condensed Statement of Comprehensive Income*  
*for the six months ended 30 June 2017*

	Note	<b>Six months ended 30 June</b>	
		<b>2017</b>	<b>2016</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>USD million</b>	<b>USD million</b>
Revenue	5	5,841	4,748
Cost of sales		(3,909)	(3,463)
<b>Gross profit</b>		<b>1,932</b>	<b>1,285</b>
Distribution expenses		(318)	(239)
General and administrative expenses		(399)	(337)
Impairment of non-current assets		(85)	(59)
Other operating (expenses)/income, net	6	(66)	19
<b>Results from operating activities</b>		<b>1,064</b>	<b>669</b>
Share of profits of associates and joint ventures	10	297	439
Finance income	7	53	54
Finance costs	7	(773)	(724)
<b>Profit before tax</b>		<b>641</b>	<b>438</b>
Income tax expense	8	(93)	(121)
<b>Profit for the period</b>		<b>548</b>	<b>317</b>
Attributable to:			
Shareholders of the Parent Company		279	137
Non-controlling interests	11(g)	269	180
<b>Profit for the period</b>		<b>548</b>	<b>317</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (USD)	9	<b>0.558</b>	<b>0.274</b>

The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information set out on pages 12 to 38.

**En+ Group PLC**  
*Consolidated Interim Condensed Statement of Comprehensive Income*  
*for the six months ended 30 June 2017 (continued)*

	Note	Six months ended 30 June	
		2017	2016
		(unaudited)	(unaudited)
		USD million	USD million
<b>Profit for the period</b>		<b>548</b>	<b>317</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified subsequently to profit or loss:</i>			
Actuarial losses on post retirement benefit plans		-	(2)
Revaluation of non-current assets		-	2,033
Taxation		-	(407)
		-	1,624
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences on foreign operations		4	359
Foreign currency translation differences for equity-accounted investees	10	122	476
Share of other comprehensive income of associate	10	(28)	-
Change in fair value of cash flow hedge	13	-	23
Unrealised gain on available-for-sale assets		6	-
		104	858
<b>Total comprehensive income for the period</b>		<b>652</b>	<b>2,799</b>
Attributable to:			
Shareholders of the Parent Company		332	1,731
Non-controlling interests		320	1,068
<b>Total comprehensive income for the period</b>		<b>652</b>	<b>2,799</b>

This consolidated interim condensed financial information was approved by the Board of Directors on 1 September 2017 and was signed on its behalf by:

Maxim Sokov  
 Director

Andrey Yashchenko  
 Chief Financial Officer

	Note	<b>30 June 2017 (unaudited) USD million</b>	<b>31 December 2016 USD million</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		9,446	9,355
Goodwill and intangible assets		2,353	2,300
Interests in associates and joint ventures	10	4,192	4,156
Long-term investments		30	25
Trade and other receivables		32	149
Deferred tax assets		97	108
Derivative financial assets	13	67	51
Other non-current assets		12	7
<b>Total non-current assets</b>		<b>16,229</b>	<b>16,151</b>
<b>Current assets</b>			
Short-term investments		42	38
Inventories		2,197	2,034
Trade and other receivables		1,455	1,401
Prepaid expenses and other current assets		17	14
Derivative financial assets	13	29	16
Cash and cash equivalents		722	669
Assets held for sale		7	7
<b>Total current assets</b>		<b>4,469</b>	<b>4,179</b>
<b>Total assets</b>		<b>20,698</b>	<b>20,330</b>

	Note	<b>30 June 2017 (unaudited) USD million</b>	<b>31 December 2016 USD million</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	11		
Share capital		-	-
Additional paid-in capital		9,193	9,193
Revaluation reserve		2,540	2,456
Other reserves		(70)	(63)
Foreign currency translation reserve		(4,606)	(4,683)
Accumulated losses		(6,311)	(6,503)
<b>Total equity attributable to shareholders of the Parent Company</b>		<b>746</b>	<b>400</b>
Non-controlling interests		1,911	1,785
<b>Total equity</b>		<b>2,657</b>	<b>2,185</b>
<b>Non-current liabilities</b>			
Loans and borrowings	12	12,444	12,095
Deferred tax liabilities		1,322	1,394
Provisions – non-current portion		607	618
Derivative financial liabilities	13	31	3
Other non-current liabilities		113	177
<b>Total non-current liabilities</b>		<b>14,517</b>	<b>14,287</b>
<b>Current liabilities</b>			
Loans and borrowings	12	1,767	2,110
Provisions – current portion		79	64
Trade and other payables		1,640	1,652
Derivative financial liabilities	13	38	32
<b>Total current liabilities</b>		<b>3,524</b>	<b>3,858</b>
<b>Total equity and liabilities</b>		<b>20,698</b>	<b>20,330</b>



	Note	<b>Six months ended 30 June</b>	
		<b>2017</b>	<b>2016</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>USD million</b>	<b>USD million</b>
<b>OPERATING ACTIVITIES</b>			
<b>Profit for the period</b>		<b>548</b>	<b>317</b>
<i>Adjustments for:</i>			
Depreciation and amortization		365	322
Impairment loss		85	59
Foreign exchange (gain)/loss	7	(36)	108
(Gain)/loss on disposal of property, plant and equipment	6	(1)	1
Share of profits of associates and joint ventures	10	(297)	(439)
Interest expense	7	621	497
Interest income	7	(12)	(52)
Change in fair value of derivative financial instruments	7	138	119
Unwinding of discount of trade and other receivables	7	(4)	-
Unwinding of discount of other payables	7	14	-
Income tax expense	8	93	121
Dividend income	7	(1)	(2)
Impairment of inventory		-	2
Impairment/(reversal of impairment) of receivables	6	15	(1)
Provision/(reversal of provision) for legal claims	6	1	(3)
Environmental provision		1	-
<b>Operating profit before changes in working capital, site restoration and pension provisions</b>		<b>1,530</b>	<b>1,049</b>
(Increase)/decrease in inventories		(147)	78
Increase in trade and other receivables		(1)	(54)
Decrease in trade and other payables and provisions		(208)	(68)
<b>Cash flows generated from operations before income taxes paid</b>		<b>1,174</b>	<b>1,005</b>
Income taxes paid		(173)	(89)
<b>Cash flows generated from operating activities</b>		<b>1,001</b>	<b>916</b>

	Note	<b>Six months ended 30 June</b>	
		<b>2017</b>	<b>2016</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>USD million</b>	<b>USD million</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		15	2
Acquisition of property, plant and equipment		(371)	(240)
Acquisition of intangible assets		(8)	(4)
Interest received		8	20
Dividends from associates and joint ventures		325	182
Dividends from available-for-sale investments		1	-
Contribution to short-term investments		-	(2)
Proceeds from promissory notes		8	7
Acquisition of a subsidiary		(4)	-
Loans issued		(9)	(57)
<b>Cash flows used in investing activities</b>		<b>(35)</b>	<b>(92)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings		5,235	4,389
Repayment of borrowings		(5,323)	(3,353)
Restructuring fees		(36)	(14)
Payment for acquisition of non-controlling interests		(108)	(676)
Interest paid		(515)	(371)
Settlement of derivative financial instruments		(101)	(197)
Dividends to shareholders	11(f)	(69)	(60)
Other distributions	11(d)	(3)	(263)
<b>Cash flows used in financing activities</b>		<b>(920)</b>	<b>(545)</b>
<b>Net change in cash and cash equivalents</b>		<b>46</b>	<b>279</b>
Cash and cash equivalents at beginning of period, excluding restricted cash		656	577
Effect of exchange rate fluctuations on cash and cash equivalents		3	56
<b>Cash and cash equivalents at end of the period, excluding restricted cash</b>		<b>705</b>	<b>912</b>

Restricted cash amounted to USD 17 million, USD 13 million and USD 12 million at 30 June 2017, 31 December 2016 and 30 June 2016, respectively.

	Attributable to shareholders of the Parent Company							
	Additional paid-in capital	Revaluation reserve	Other reserves	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2016</b>	9,193	-	(96)	(5,078)	(5,889)	(1,870)	873	(997)
<b>Comprehensive income</b>								
Profit for the period (unaudited)	-	-	-	-	137	137	180	317
Revaluation of hydro assets as at 1 January 2016	-	1,479	-	-	-	1,479	554	2,033
Taxation	-	(296)	-	-	-	(296)	(111)	(407)
Other comprehensive income for the period (unaudited)	-	-	10	401	-	411	445	856
<b>Total comprehensive income for the period (unaudited)</b>	-	1,183	10	401	137	1,731	1,068	2,799
<b>Transactions with owners</b>								
Change in effective interest in subsidiaries	-	271	-	24	(750)	(455)	(525)	(980)
Mandatory offer	-	96	-	14	11	121	(177)	(56)
Other distribution	-	-	-	-	(258)	(258)	(5)	(263)
<b>Total transactions with owners</b>	-	367	-	38	(997)	(592)	(707)	(1,299)
<b>Balance at 30 June 2016 (unaudited)</b>	9,193	1,550	(86)	(4,639)	(6,749)	(731)	1,234	503
<b>Balance at 1 January 2017</b>	9,193	2,456	(63)	(4,683)	(6,503)	400	1,785	2,185
<b>Comprehensive income</b>								
Profit for the period (unaudited)	-	-	-	-	279	279	269	548
Other comprehensive income for the period (unaudited)	-	-	(7)	60	-	53	51	104
<b>Total comprehensive income for the period (unaudited)</b>	-	-	(7)	60	279	332	320	652
<b>Transactions with owners</b>								
Mandatory offer (11(a)(ii)) (unaudited)	-	84	-	17	(38)	63	(194)	(131)
Dividends to shareholders (11(f)) (unaudited)	-	-	-	-	(46)	(46)	-	(46)
Other distributions (11(d)) (unaudited)	-	-	-	-	(3)	(3)	-	(3)
<b>Total transactions with owners (unaudited)</b>	-	84	-	17	(87)	14	(194)	(180)
<b>Balance at 30 June 2017 (unaudited)</b>	9,193	2,540	(70)	(4,606)	(6,311)	746	1,911	2,657

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information set out on pages 12 to 38.

# 1 Background

## (a) Organisation

En+ Group PLC (the “Parent Company”) was established as a limited liability company according to the legislation of the British Virgin Islands on 30 April 2002 under the name of Baufinanz Limited. On 18 March 2004 the Parent Company registered a change of its legal name to Eagle Capital Group Limited. On 25 August 2005 the Parent Company changed its domicile to Jersey and was renamed to En+ Group Limited. On 1 June 2017 the Parent Company changed its status to a public company and was renamed to En+ Group PLC. The Parent Company’s registered office is 44 Esplanade, St Helier, Jersey, JE4 9WG, British Channel Islands.

En+ Group PLC is a private equity management company which focuses on investing in promising sectors of the Russian, CIS and other developing economies.

The Parent Company directly or through its subsidiaries controls a number of entities engaged in aluminium production, energy generation and distribution and other businesses (together with the Parent Company referred to as “the Group”).

As at 30 June 2017 the Parent Company’s major shareholders were B-Finance Limited with a 61.55% ownership interest and Basic Element Limited with a 21.10% ownership interest (61.55% and 21.10% as at 31 December 2016, respectively).

The ultimate parent undertaking of the Group is Fidelitas International Investments Corp., the company incorporated in the Republic of Panama (“Fidelitas”), and the ultimate beneficial owner of the Group (the “Shareholder”) is Mr. Oleg Deripaska (“Mr. Deripaska”). He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 16.

## (b) Operations

As at 30 June 2017 the Group’s operations comprised the following:

United Company RUSAL Plc and its subsidiaries (“UC RUSAL”) operate in the aluminium industry primarily in the Russian Federation, Ukraine, Guinea, Jamaica, Ireland, Nigeria and Sweden and are 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.

Other activities of the Group include generation, transmission and distribution of energy in East Siberia, Russia, through its main power subsidiaries: PJSC Irkutskenergo (“Irkutskenergo”), PJSC Krasnoyarsk Hydro-Power Plant (“Krasnoyarsk HPP”) and JSC Eurosibenergo (“Eurosibenergo”), as well as its supporting operations engaged in the supply of logistics services and coal resources to the Group. The Group’s subsidiaries are also engaged in metallurgy production in Krasnoyarsk region and production and processing of molybdenum and ferromolybdenum at plants located in the eastern part of the Russian Federation.

## (c) Seasonality

Demand for heat and electricity is subject to seasonal fluctuations and depends on weather conditions. The highest revenues from heat sales are generated in the period from October to March. Electricity sales are also subject to seasonality, though to a lesser extent, with the highest revenue period also falling on October through March. The seasonality factor affects fuel consumption and energy purchases.

Furthermore, equipment repair and maintenance costs tend to grow in the period from April to September. The seasonality of these operations does not have an impact on the accounting treatment of operating income and expenses in accordance with the Group accounting policies.

## 2 Basis of preparation

### (a) Statement of compliance

This consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting. This consolidated interim condensed financial information does not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and therefore should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this consolidated interim condensed financial information, the Group has adopted these new and revised IFRSs where applicable:

Amendments to IAS 7: *Disclosure Initiative*

Amendments to IFRS 12: *Recognition of Deferred Tax Assets for Unrealised Losses*

Annual Improvements to IFRSs, 2014-2016 cycle: Amendments to IFRS 12 *Disclosure of Interests in Other Entities*

None of these developments have had a material effect on how the Group's results and financial position for the current and the prior periods have been prepared and presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### (b) Consolidation of UC RUSAL

Following the Global Offering and issuance of additional shares by UC RUSAL the Group's interest in UC RUSAL reduced below 50% to 47.41% by 31 December 2010. In November 2012 the Parent Company purchased additional 0.72% shares of UC RUSAL for cash consideration of USD 70 million.

In order to ensure continuing control over UC RUSAL and in connection with the Global Offering, the Parent Company entered into the Shareholders' agreement with non-controlling shareholders of UC RUSAL. The Shareholders' agreement provides to the shareholders of the Parent Company certain rights which, based on its current shareholding in UC RUSAL, enables it to retain the power over UC RUSAL and to use it to obtain benefits from UC RUSAL's activities:

- The Parent Company is entitled to nominate more than 50 percent of the Board of Directors, including two independent directors;
- The Parent Company is entitled to provide instructions to one of the non-controlling shareholders for voting at the Board of Directors and Shareholders' meetings on matters including appointment and removal of Directors and distribution of dividends and this non-controlling shareholder is obliged to vote according to such instructions pursuant to the terms of the Shareholders' agreement; and
- The Parent Company is entitled to appoint the CEO of UC RUSAL.

Management believes that its shareholding in UC RUSAL and the terms of the shareholders agreement described above enable the Group to retain control over UC RUSAL despite holding less than 50%.

**(c) Consolidation of OJSC Irkutsk Electric Grid Company (“Irkutsk GridCo”)**

In December 2009, the Group sold to third parties under share purchase contracts all the shares in two Cyprus companies of the Group controlling 34.16% of the shares in Irkutsk GridCo; subsequently the Group purchased back 19.9% in Irkutsk GridCo. The arrangements attached to the share purchase contracts enable the Group to retain certain rights with respect to the disposed shares and the sale did not result in deconsolidation. As at 30 June 2017 effective interest in Irkutsk GridCo held by the Group is 53.8% (31 December 2016: 51.9%).

As laws and regulations in the electricity sector in Russia are in the developing stage there is an uncertainty with respect to the legal interpretation of the existing arrangements which enable the Group to control Irkutsk GridCo and may be interpreted by the Russian regulatory authorities as noncompliant with applicable legislation upon enforcement. Management believes that such arrangements are compliant with the legislation and therefore the Group has the ability to control Irkutsk GridCo as described above. Should the arrangements be found non-compliant upon their enforcement, the Group may be required to unwind the arrangements subsequent to their enforcement and sell Irkutsk GridCo to a third party at that time.

**3 Significant accounting policies**

The accounting policies and judgments applied by the Group in this consolidated interim condensed financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

**4 Segment reporting****(a) Reportable segments**

Based on the current management structure and internal reporting the Group has identified the following five segments:

- *Metals.* The Metals segment is comprised of UC RUSAL which is involved in mining and refining of bauxite into alumina; production and sale of primary aluminium, alumina and related products and also includes equity investment in Norilsk Nickel. The Metals segment is disclosed based on public financial statements of UC RUSAL. All adjustments made to UC RUSAL, including adjustments arising from different time of IFRS first time adoption, are included into reconciliation of reportable segment revenue, profit or loss, assets and liabilities.
- *Power.* The Power segment is involved in generation, transmission and distribution of energy in East Siberia and Volga regions of Russia.
- *Coal.* The Coal segment is engaged in the mining and sale of coal in the East Siberia region. Brown and fossil coals are the products of the segment.
- *Logistics.* The logistics segment is engaged in transportation services both for other segments and for the third parties.
- *Other.* The Other segment is comprised of production and processing of molybdenum and ferromolybdenum, and also aluminium processing plant.

The Power and Coal assets of UC RUSAL are included into the Metals segment.

These business units are managed separately and results of their operations are reviewed by the CEO on a regular basis.

**(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:

Total segment assets include all tangible, intangible assets and current assets.

Total segment liabilities include all current and non-current liabilities.

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.

The measures used for reporting segment results are the net profit and the net profit adjusted for income tax and other items not specifically attributed to individual segments, such as finance income, costs of loans and borrowings. 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, interest income and expenses, other finance income and costs, income tax, loss on disposal of property, plant and equipment, impairment of non-current assets and additions of non-current segment assets used by the segments in their operations. Inter-segment pricing is determined primarily on a consistent basis using market benchmarks.

**(i) Reportable segments****Six months ended 30 June 2017**

USD million	Metals	Power	Coal	Logistics	Other	Total
Revenue from external customers	4,684	928	59	20	137	5,828
Inter-segment revenue	80	443	100	38	7	668
<b>Total segment revenue</b>	<b>4,764</b>	<b>1,371</b>	<b>159</b>	<b>58</b>	<b>144</b>	<b>6,496</b>
<b>Segment profit/(loss)</b>	<b>470</b>	<b>170</b>	<b>1</b>	<b>9</b>	<b>(14)</b>	<b>636</b>
Impairment of non-current assets	(81)	-	-	-	-	(81)
(Loss)/gain on disposal of property, plant and equipment	(1)	1	-	-	-	-
Share of profits of associates and joint ventures	297	-	-	-	-	297
Interest expense, net	(344)	(221)	(5)	(4)	(11)	(585)
Other finance (costs)/income, net	(115)	3	(2)	-	-	(114)
Depreciation and amortisation	(243)	(111)	(8)	-	(3)	(365)
Income tax (expense)/benefit	(28)	(67)	2	(3)	1	(95)
Additions to non-current segment assets during the period	(287)	(62)	(11)	(14)	(4)	(378)

USD million	Metals	Power	Coal	Logistics	Other	Total
<b>At 30 June 2017</b>						
Cash and cash equivalents	619	87	4	3	2	715
Interests in associates and joint ventures	4,183	9	-	-	-	4,192
Other segment assets	10,144	6,006	319	74	132	16,675
<b>Total segment assets</b>	<b>14,946</b>	<b>6,102</b>	<b>323</b>	<b>77</b>	<b>134</b>	<b>21,582</b>
Loans and borrowings	(8,955)	(4,204)	(197)	(43)	(331)	(13,730)
Other segment liabilities	(2,139)	(1,426)	(111)	(50)	(105)	(3,831)
<b>Total segment liabilities</b>	<b>(11,094)</b>	<b>(5,630)</b>	<b>(308)</b>	<b>(93)</b>	<b>(436)</b>	<b>(17,561)</b>

**Six months ended 30 June 2016**

USD million	Metals	Power	Coal	Logistics	Other	Total
Revenue from external customers	3,832	745	32	26	110	4,745
Inter-segment revenue	64	231	81	17	5	398
<b>Total segment revenue</b>	<b>3,896</b>	<b>976</b>	<b>113</b>	<b>43</b>	<b>115</b>	<b>5,143</b>
<b>Segment profit/(loss)</b>	<b>261</b>	<b>143</b>	<b>(9)</b>	<b>5</b>	<b>(15)</b>	<b>385</b>
Impairment of non-current assets	(55)	(4)	-	-	-	(59)
(Loss)/gain on disposal of property, plant and equipment	(2)	1	-	-	-	(1)
Share of profits of associates and joint ventures	439	-	-	-	-	439
Interest expense, net	(285)	(93)	(8)	(2)	(12)	(400)
Other finance (costs)/income, net	(227)	25	(3)	-	5	(200)
Depreciation and amortisation	(231)	(81)	(7)	-	(3)	(322)
Income tax expense	(34)	(72)	(4)	(2)	(9)	(121)
Additions to non-current segment assets during the period	(222)	(58)	(3)	-	(4)	(287)
<b>At 31 December 2016</b>						
Cash and cash equivalents	544	96	7	5	3	655
Interests in associates and joint ventures	4,147	9	-	-	-	4,156
Other segment assets	9,761	5,981	302	74	123	16,241
<b>Total segment assets</b>	<b>14,452</b>	<b>6,086</b>	<b>309</b>	<b>79</b>	<b>126</b>	<b>21,052</b>
Loans and borrowings	(8,965)	(4,071)	(188)	(42)	(304)	(13,570)
Other segment liabilities	(2,188)	(1,464)	(114)	(41)	(105)	(3,912)
<b>Total segment liabilities</b>	<b>(11,153)</b>	<b>(5,535)</b>	<b>(302)</b>	<b>(83)</b>	<b>(409)</b>	<b>(17,482)</b>



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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
<b>Revenue</b>		
Reportable segment revenue	6,496	5,143
Elimination of inter-segment revenue	(668)	(398)
Unallocated revenue	13	3
<b>Consolidated revenue</b>	<b>5,841</b>	<b>4,748</b>
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
<b>Profit</b>		
Reportable segment profit	636	385
Impairment of non-current assets	(4)	-
Gain from disposal of property, plant and equipment	1	-
Income tax benefit	2	-
Interest expense, net	(24)	(45)
Other finance income/(costs)	3	(25)
Other unallocated expenses and consolidation adjustments, net	(66)	2
<b>Consolidated profit</b>	<b>548</b>	<b>317</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
<b>Assets</b>		
Reportable segment assets	21,582	21,052
Elimination of inter-segment receivables	(433)	(394)
Consolidation adjustments	(513)	(469)
Unallocated assets, net of elimination of receivables between unallocated and reportable segments	62	141
<b>Consolidated total assets</b>	<b>20,698</b>	<b>20,330</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
<b>Liabilities</b>		
Reportable segment liabilities	(17,561)	(17,482)
Elimination of inter-segment payables	433	394
Consolidation adjustments	2	-
Unallocated liabilities, net of elimination of payables between unallocated and reportable segments	(915)	(1,057)
<b>Consolidated total liabilities</b>	<b>(18,041)</b>	<b>(18,145)</b>

(c) **Principal business segments**

Management additionally analyses performance of the Group through two principal business segments:

1. En+ Group excluding UC RUSAL (“EN+”) is predominantly comprised of power assets and operations as described in note 1(b).
2. UC RUSAL as described in note 4(a).

USD million	30 June 2017				31 December 2016			
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>Non-current assets</b>								
Property, plant and equipment	9,446	4,057	-	5,389	9,355	4,065	-	5,290
Goodwill and intangible assets	2,353	2,521	(469)	301	2,300	2,470	(469)	299
Interests in associates and joint ventures	4,192	4,183	-	9	4,156	4,147	-	9
Long-term investments	30	-	(4,053)	4,083	25	-	(4,053)	4,078
Trade and other receivables	32	-	4	28	149	-	4	145
Deferred tax assets	97	62	-	35	108	51	-	57
Derivative financial assets	67	67	-	-	51	51	-	-
Other non-current assets	12	58	(46)	-	7	52	(45)	-
	<b>16,229</b>	<b>10,948</b>	<b>(4,564)</b>	<b>9,845</b>	<b>16,151</b>	<b>10,836</b>	<b>(4,563)</b>	<b>9,878</b>
<b>Current assets</b>								
Short-term investments	42	-	34	8	38	-	28	10
Inventories	2,197	2,127	(44)	114	2,034	1,926	-	108
Trade and other receivables	1,455	1,223	(112)	344	1,401	1,130	(77)	348
Prepaid expenses and other current assets	17	-	16	1	14	-	13	1
Derivative financial assets	29	29	-	-	16	16	-	-
Cash and cash equivalents	722	619	-	103	669	544	-	125
Assets held for sale	7	-	-	7	7	-	-	7
	<b>4,469</b>	<b>3,998</b>	<b>(106)</b>	<b>577</b>	<b>4,179</b>	<b>3,616</b>	<b>(36)</b>	<b>599</b>
<b>Total assets</b>	<b>20,698</b>	<b>14,946</b>	<b>(4,670)</b>	<b>10,422</b>	<b>20,330</b>	<b>14,452</b>	<b>(4,599)</b>	<b>10,477</b>

	<b>30 June 2017</b>				<b>31 December 2016</b>			
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>Equity</b>								
Share capital	-	152	(152)	-	-	152	(152)	-
Additional paid-in capital	9,193	15,786	(8,925)	2,332	9,193	15,786	(8,925)	2,332
Revaluation reserve	2,540	-	-	2,540	2,456	-	-	2,456
Other reserves	(70)	2,854	(2,954)	30	(63)	2,882	(2,969)	24
Foreign currency translations reserve	(4,606)	(8,947)	4,419	(78)	(4,683)	(9,058)	4,477	(102)
Retained earnings/(accumulated losses)	(6,311)	(5,993)	1,301	(1,619)	(6,503)	(6,463)	1,587	(1,627)
<b>Total equity attributable to shareholders of the Parent</b>	<b>746</b>	<b>3,852</b>	<b>(6,311)</b>	<b>3,205</b>	<b>400</b>	<b>3,299</b>	<b>(5,982)</b>	<b>3,083</b>
Non-controlling interests	1,911	-	1,747	164	1,785	-	1,460	325
	<b>2,657</b>	<b>3,852</b>	<b>(4,564)</b>	<b>3,369</b>	<b>2,185</b>	<b>3,299</b>	<b>(4,522)</b>	<b>3,408</b>
<b>Non-current liabilities</b>								
Loans and borrowings	12,444	7,983	-	4,461	12,095	7,532	-	4,563
Deferred tax liabilities	1,322	552	(2)	772	1,394	585	-	809
Provisions – non-current portion	607	418	-	189	618	423	-	195
Derivative financial liabilities	31	31	-	-	3	3	-	-
Other non-current liabilities	113	62	-	51	177	51	-	126
	<b>14,517</b>	<b>9,046</b>	<b>(2)</b>	<b>5,473</b>	<b>14,287</b>	<b>8,594</b>	<b>-</b>	<b>5,693</b>
<b>Current liabilities</b>								
Loans and borrowings	1,767	971	-	796	2,110	1,433	-	677
Provisions – current portion	79	41	-	38	64	40	-	24
Trade and other payables	1,640	998	(104)	746	1,652	1,054	(77)	675
Derivative financial liabilities	38	38	-	-	32	32	-	-
	<b>3,524</b>	<b>2,048</b>	<b>(104)</b>	<b>1,580</b>	<b>3,858</b>	<b>2,559</b>	<b>(77)</b>	<b>1,376</b>
<b>Total equity and liabilities</b>	<b>20,698</b>	<b>14,946</b>	<b>(4,670)</b>	<b>10,422</b>	<b>20,330</b>	<b>14,452</b>	<b>(4,599)</b>	<b>10,477</b>

**Six months ended**

	<b>30 June 2017</b>				<b>30 June 2016</b>			
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>USD million</b>								
Revenue	5,841	4,764	(522)	1,599	4,748	3,896	(300)	1,152
Cost of sales	(3,909)	(3,478)	478	(909)	(3,463)	(3,053)	300	(710)
<b>Gross profit</b>	<b>1,932</b>	<b>1,286</b>	<b>(44)</b>	<b>690</b>	<b>1,285</b>	<b>843</b>	<b>-</b>	<b>442</b>
Distribution expenses	(318)	(210)	-	(108)	(239)	(162)	-	(77)
General and administrative expenses	(399)	(292)	-	(107)	(337)	(257)	-	(80)
Impairment of non-current assets	(85)	(81)	-	(4)	(59)	(55)	-	(4)
Other operating (expenses)/income, net	(66)	(43)	-	(23)	19	(1)	-	20
<b>Results from operating activities</b>	<b>1,064</b>	<b>660</b>	<b>(44)</b>	<b>448</b>	<b>669</b>	<b>368</b>	<b>-</b>	<b>301</b>
Share of profits of associates and joint ventures	297	297	-	-	439	439	-	-
Finance income	53	32	-	21	54	14	-	40
Finance costs	(773)	(491)	-	(282)	(724)	(526)	-	(198)
<b>Profit before tax</b>	<b>641</b>	<b>498</b>	<b>(44)</b>	<b>187</b>	<b>438</b>	<b>295</b>	<b>-</b>	<b>143</b>
Income tax expense	(93)	(28)	2	(67)	(121)	(34)	-	(87)
<b>Profit for the period</b>	<b>548</b>	<b>470</b>	<b>(42)</b>	<b>120</b>	<b>317</b>	<b>261</b>	<b>-</b>	<b>56</b>
<b>Profit attributable to:</b>								
Shareholders of the Parent Company	279	470	(286)	95	137	261	(135)	11
Non-controlling interests	269	-	244	25	180	-	135	45
<b>Profit for the period</b>	<b>548</b>	<b>470</b>	<b>(42)</b>	<b>120</b>	<b>317</b>	<b>261</b>	<b>-</b>	<b>56</b>

**Six months ended**

	<b>30 June 2017</b>				<b>30 June 2016</b>			
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>USD million</b>								
<b>Profit for the period</b>	<b>548</b>	<b>470</b>	<b>(42)</b>	<b>120</b>	<b>317</b>	<b>261</b>	<b>-</b>	<b>56</b>
Adjustments for non-cash items	982	518	(2)	466	732	390	-	342
<b>Operating profit before changes in working capital and provisions</b>	<b>1,530</b>	<b>988</b>	<b>(44)</b>	<b>586</b>	<b>1,049</b>	<b>651</b>	<b>-</b>	<b>398</b>
Changes in working capital and provisions	(356)	(375)	44	(25)	(44)	(21)	-	(23)
<b>Cash flows from operations before income tax</b>	<b>1,174</b>	<b>613</b>	<b>-</b>	<b>561</b>	<b>1,005</b>	<b>630</b>	<b>-</b>	<b>375</b>
Income taxes paid	(173)	(44)	-	(129)	(89)	(33)	-	(56)
<b>Cash flows from operating activities</b>	<b>1,001</b>	<b>569</b>	<b>-</b>	<b>432</b>	<b>916</b>	<b>597</b>	<b>-</b>	<b>319</b>
<b>Cash flows (used in)/ generated from investing activities, including:</b>	<b>(35)</b>	<b>8</b>	<b>-</b>	<b>(43)</b>	<b>(92)</b>	<b>1</b>	<b>-</b>	<b>(93)</b>
Capital expenditure (including pot rebuilds and intangible assets)	(379)	(321)	-	(58)	(244)	(194)	-	(50)
Dividends from associates and joint ventures	325	325	-	-	182	180	-	2
Acquisition of a subsidiary	(4)	(1)	-	(3)	-	-	-	-
Interest received	8	4	-	4	20	14	-	6
Other receipts/(payments), net	15	1	-	14	(50)	1	-	(51)
<b>Cash flows used in financing activities, including:</b>	<b>(920)</b>	<b>(506)</b>	<b>-</b>	<b>(414)</b>	<b>(545)</b>	<b>(397)</b>	<b>-</b>	<b>(148)</b>
Interest paid	(515)	(261)	-	(254)	(371)	(211)	-	(160)
(Repayment of) proceeds from borrowings, net	(88)	(108)	-	20	1,036	25	-	1,011
Payment for acquisition of non-controlling interest	(108)	-	-	(108)	(676)	-	-	(676)

**Six months ended**

<b>USD million</b>	<b>30 June 2017</b>				<b>30 June 2016</b>			
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
Payments from settlement of derivative instruments	(101)	(101)	-	-	(197)	(197)	-	-
Restructuring fees	(36)	(36)	-	-	(14)	(14)	-	-
Other distributions	(3)	-	-	(3)	(263)	-	-	(263)
Dividends to shareholders	(69)	-	-	(69)	(60)	-	-	(60)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>46</b>	<b>71</b>	<b>-</b>	<b>(25)</b>	<b>279</b>	<b>201</b>	<b>-</b>	<b>78</b>
Cash and cash equivalents at beginning of the year, excluding restricted cash	656	531	-	125	577	494	-	83
Effect of exchange rate changes on cash and cash equivalents	3	-	-	3	56	5	-	51
<b>Cash and cash equivalents at end of the year, excluding restricted cash</b>	<b>705</b>	<b>602</b>	<b>-</b>	<b>103</b>	<b>912</b>	<b>700</b>	<b>-</b>	<b>212</b>

## 5 Revenue

	Six months ended 30 June	
	2017	2016
	USD million	USD million
<b>Sales of primary aluminium and alloys</b>	<b>3,929</b>	<b>3,174</b>
<i>Third parties</i>	2,665	1,952
<i>Related parties – companies capable of exerting significant influence</i>	1,258	1,218
<i>Related parties – companies under common control</i>	6	4
<b>Sales of alumina and bauxite</b>	<b>371</b>	<b>313</b>
<i>Third parties</i>	216	182
<i>Related parties – companies capable of exerting significant influence</i>	103	88
<i>Related parties – associates</i>	52	43
<b>Sales of semi-finished products and foil</b>	<b>243</b>	<b>198</b>
<i>Third parties</i>	243	197
<i>Related parties – companies under common control</i>	-	1
<b>Sales of electricity</b>	<b>675</b>	<b>549</b>
<i>Third parties</i>	645	524
<i>Related parties – companies capable of exerting significant influence</i>	-	2
<i>Related parties – companies under common control</i>	22	16
<i>Related parties – associates</i>	8	7
<b>Sales of heat</b>	<b>244</b>	<b>197</b>
<i>Third parties</i>	228	180
<i>Related parties – companies capable of exerting significant influence</i>	1	1
<i>Related parties – companies under common control</i>	15	16
<b>Sales of ferromolybdenum</b>	<b>32</b>	<b>25</b>
<i>Third parties</i>	32	25
<b>Other revenue</b>	<b>347</b>	<b>292</b>
<i>Third parties</i>	298	244
<i>Related parties – companies capable of exerting significant influence</i>	4	5
<i>Related parties – companies under common control</i>	17	12
<i>Related parties – associates</i>	28	31
	<b>5,841</b>	<b>4,748</b>

## 6 Net other operating income and expenses

	Six months ended 30 June	
	2017	2016
	USD million	USD million
(Impairment)/reversal of impairment of accounts receivable	(15)	1
Charity	(14)	(12)
(Provision)/reversal of provision for legal claims	(1)	3
Gain/(loss) on disposal of property, plant and equipment	1	(1)
Other operating (expenses)/ income, net	(37)	28
	<b>(66)</b>	<b>19</b>

Other operating expenses in amount USD 37 million during six months ended 30 June 2017 include penalties of USD 22 million that relate to the amount paid by UC RUSAL in relation to the legal claim from Swedish electricity supplier.

## 7 Finance income and costs

	Six months ended 30 June	
	2017	2016
	<u>USD million</u>	<u>USD million</u>
<b>Finance income</b>		
Foreign exchange gain	36	-
Interest income	12	52
Unwinding of discount of trade and other receivables	4	-
Dividend income	1	2
	<u>53</u>	<u>54</u>
<b>Finance costs</b>		
Interest expense	(621)	(497)
Change in fair value of derivative financial instruments (note 13)	(138)	(119)
Unwinding of discount of other payables	(14)	-
Foreign exchange loss	-	(108)
	<u>(773)</u>	<u>(724)</u>

## 8 Income tax

	Six months ended 30 June	
	2017	2016
	<u>USD million</u>	<u>USD million</u>
<b>Current tax expense</b>		
Current tax for the period	(173)	(114)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	80	(7)
	<u>(93)</u>	<u>(121)</u>

Pursuant to the rules and regulations of Jersey, the Parent Company is not subject to any income tax in Jersey. The Parent Company's applicable tax rate is 0%. 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%; Cyprus of 12.5%; 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 27.9%. For the Group's subsidiaries domiciled in Switzerland the applicable tax rate for the year is the corporate income tax rate in the Canton of Zug, Switzerland, which differs depending on the company's tax status. The rate consists of a federal income tax and a 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 2017 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 period ended 30 June 2017 were the same as for the period ended 30 June 2016 and the year ended 31 December 2016, except for Italy where the tax rate was 30.4%.



## 9 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the six months ended 30 June 2017 and 30 June 2016.

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of shares	500,000,000	500,000,000
Profit for the period attributable to the shareholders of the Parent Company, USD million	279	137
<b>Basic and diluted earnings per share, USD</b>	<b>0.558</b>	<b>0.274</b>

In June 2017 the number of shares of the Parent Company was changed as described in Note 11(a)(i). Therefore, basic and diluted earnings per share for the six months ended 30 June 2016 were retrospectively adjusted for the effect of the shares split during six months ended 30 June 2017.

There were no outstanding dilutive instruments during the periods ended 30 June 2017 and 30 June 2016.

## 10 Interests in associates and joint ventures

The Group has the following movements in investments in associates and joint ventures:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
<b>Balance at beginning of the period</b>	<b>4,156</b>	<b>3,222</b>
Group's share of post acquisition profits	297	439
Dividends	(355)	(165)
Share of other comprehensive income of associate	(28)	-
Reversal of provision for guarantee included in share of profits	-	(50)
Foreign currency translation	122	476
<b>Balance at end of the period</b>	<b>4,192</b>	<b>3,922</b>
Goodwill included in interests in associates	2,543	2,339

### Investment in Norilsk Nickel

The market value of the investment in Norilsk Nickel at 30 June 2017 is USD 6,012 million (31 December 2016: USD 7,348 million). The market value is determined by multiplying the quoted bid price per share on the Moscow Exchange on the period-end date by the number of shares held by the Group.

## **11 Equity**

### **(a) Share capital, additional paid-in capital and transactions with shareholders**

#### **(i) *Company's share capital***

As at 31 December 2016 and 30 June 2016 the Parent Company's authorised share capital comprised 50,000 ordinary shares, out of which 2,000 shares were issued with a par value of USD 1 each.

In June 2017 the number of shares of the Parent Company was changed such that each share in the capital of the Parent Company was subdivided into 250,000 shares.

As at 30 June 2017 the Parent Company's authorised share capital comprises 12,500,000,000 shares, out of which 500,000,000 were issued with a par value of USD 0.000004 each.

As at 30 June 2017 and 31 December 2016 all issued ordinary shares were fully paid.

#### **(ii) *Mandatory offer to non-controlling shareholders of Irkutskenergo***

According to the Group's accounting policy a put option (a mandatory offer) to acquire a non-controlling interest in subsidiary after control has been obtained and accounted by the Group as an equity transaction whereby the issue of the put option results in the recognition of a liability for the present value of the expected exercise price and the derecognition of non-controlling interests within consolidated equity. Subsequent to initial recognition, changes in the carrying amount of the put liability are recognised within equity. If the put option expires unexercised then the put liability is derecognised and non-controlling interests are recognised.

In June 2017 LLC Telmamskaya GES submitted the mandatory offer to non-controlling shareholders of Irkutskenergo for purchase of non-controlling interest. The offer price was based on weighted six-months trading average price prior to the offer and amounted to RUB 17.42 per share (USD 0.3).

This transaction resulted in an increase of the effective interest in Irkutskenergo held by the Group to 100.00% despite existence of nominal non-controlling interest of 9.2% (Group's effective interest is 90,8%) and respective decrease in non-controlling interests in Irkutskenergo in the amount of USD 194 million.

### **(b) 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.

### **(c) Other reserves**

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 change in fair value of cash flow hedges, the Group's share of other comprehensive income of equity-accounted investees other than foreign currency transaction and the cumulative unrealised gain on available-for-sale assets.

**(d) Other distributions under the guarantee**

During six months ended 30 June 2017, the Group paid additional USD 3 million under the guarantee agreement in respect of loan obligations of entity under common control and recorded this transaction as other distribution.

**(e) Revaluation reserve**

The revaluation reserve comprises the cumulative net change in the fair value of hydro assets at the reporting date.

During six-month period ended 30 June 2017 as a result of changes in effective interest in Irkutskenergo (note 11(a)(ii)), revaluation reserve attributable to the Parent company increased by USD 84 million, net of tax.

**(f) Dividends**

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.

During six months ended 30 June 2017, the Group declared interim dividends in the amount of USD 46 million. Dividends in the total amount of USD 69 million were distributed in cash including USD 23 million, which were accrued as a liability as at 31 December 2016.

**(g) Non-controlling interest**

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest:

**30 June 2017**

	UC RUSAL	Irkutskenergo*	LLC Baikal Yacht Club	JSC Irkutsk Electric Grid Company	Total
<b>NCI percentage</b>	<b>51.9%</b>	<b>0.0%**</b>	<b>49.0%</b>	<b>46.2%</b>	
Assets	14,462	4,080	1	539	
Liabilities	(11,094)	(2,104)	(32)	(144)	
<b>Net assets</b>	<b>3,368</b>	<b>1,976</b>	<b>(31)</b>	<b>395</b>	
Carrying amount of NCI	1,747	-	(15)	179	<b>1,911</b>
Revenue	4,764	1,240	-	176	
Profit/(loss)	470	230	(2)	11	
Other comprehensive income	83	-	-	-	
<b>Total comprehensive income</b>	<b>553</b>	<b>230</b>	<b>(2)</b>	<b>11</b>	
Profit/(loss) attributable to NCI	244	21	(1)	5	<b>269</b>
Other comprehensive income attributable to NCI	43	3	-	5	<b>51</b>
Cash flows from operating activities	569	236	-	61	
Cash flows from/(used in) investing activities	8	(202)	(1)	(26)	
Cash flows (used in)/from financing activities	(506)	(54)	2	(35)	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>71</b>	<b>(20)</b>	<b>1</b>	<b>-</b>	

\*Net assets of Irkutskenergo were adjusted for the effect of Irkutskenergo investment in JSC Irkutsk Electric Grid Company.

\*\*According to the Group's accounting policy, a put option (a mandatory offer) resulted in the derecognition of the non-controlling interest of Irkutskenergo despite of existence of nominal non-controlling interest of 9.2% (Group's effective interest is 90.8%) (see note 11 (a)(ii)).

**30 June 2016**

	UC RUSAL	Irkutskenergo*	LLC Baikal Yacht Club	Krasnoyarsk HPP	JSC Irkutsk Electric Grid Company	Total
<b>NCI percentage</b>	<b>51.9%</b>	<b>9.4%</b>	<b>49.0%</b>	<b>0.0%**</b>	<b>48.1%</b>	
Assets	13,152	3,252	1	1,775	485	
Liabilities	(11,313)	(1,880)	(26)	(312)	(147)	
<b>Net assets</b>	<b>1,839</b>	<b>1,372</b>	<b>(25)</b>	<b>1,463</b>	<b>338</b>	
Carrying amount of NCI	954	129	(12)	-	163	<b>1,234</b>
Revenue	3,896	963	-	34	125	
Profit/(loss)	261	104	(1)	36	6	
Other comprehensive income	672	811	-	815	-	
<b>Total comprehensive income</b>	<b>933</b>	<b>915</b>	<b>(1)</b>	<b>850</b>	<b>6</b>	
Profit/(loss) attributable to NCI	135	41	(1)	2	3	<b>180</b>
Other comprehensive income attributable to NCI	349	446	(1)	74	20	<b>888</b>
Cash flows from operating activities	597	146	-	1	41	
Cash flows from/(used in) investing activities	1	(306)	-	7	(12)	
Cash flows (used in)/from financing activities	(397)	197	1	(6)	(27)	
<b>Net increase in cash and cash equivalents</b>	<b>201</b>	<b>37</b>	<b>1</b>	<b>2</b>	<b>2</b>	

\*Net assets of Irkutskenergo were adjusted for the effect of Irkutskenergo investments in JSC Irkutsk Electric Grid Company and Krasnoyarsk HPP.

\*\*According to the Group's accounting policy, a put option (a mandatory offer) resulted in the derecognition of the non-controlling interest of Krasnoyarsk HPP.

## 12 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	<b>30 June 2017</b>	<b>31 December 2016</b>
	<b>USD million</b>	<b>USD million</b>
<i><b>Non-current liabilities</b></i>		
Secured bank loans	10,147	9,812
Secured company loans	-	1,000
Unsecured bank loans	940	1,088
Bonds	1,357	195
	<b>12,444</b>	<b>12,095</b>
<i><b>Current liabilities</b></i>		
Secured bank loans	1,217	1,431
Secured company loans	-	50
Unsecured bank loans	397	492
Accrued interest	122	136
Bonds	31	1
	<b>1,767</b>	<b>2,110</b>

### (a) Loans and borrowings

#### UC RUSAL

On 17 March 2017 UC RUSAL executed amendments to the existing credit facilities with Sberbank. Under USD credit agreements the interest rate was decreased from 3M Libor + 5.75% p.a. (incl. 1.05% PIK) to 3M Libor + 4.75% p.a. (subject to min 3M Libor at the level of 1%), effective from 29 December 2016. Under RUB credit facility outstanding exposure was converted into USD (at the rate of Central Bank of Russia as of the date of conversion). The interest rate of 3M Libor + 4.75% p.a. (subject to min 3M Libor at the level of 1%), is effective from 18 March 2017.

In March 2017 UC RUSAL through its subsidiaries entered into the REPO transaction backed by bonds issued by RUSAL Bratsk – in number of 7,527,646 series 08 bonds. As a result of the transactions the Group raised funding in the amount of EUR 100 million (USD 107 million) with fifteen months maturity at an effective rate of 2.6% p.a.

On 24 May 2017 UC RUSAL entered into a new syndicated Pre-Export Finance Term Facility Agreement (New PXF Facility) in the amount of USD 1.7 billion, interest rate 3M LIBOR+3% per annum, maturity 5 years (repayment starting in 2 years). The proceeds of the facility were used for the purpose of refinancing UC RUSAL's current debt.

During the six month period ended 30 June 2017 UC RUSAL made a principal repayment in total amounts of USD 2,821 million and EUR 76 million (USD 102 million) under the Combined PXF Facility, credit facilities with Gazprombank, VTB Capital, Sovcombank and Credit Bank of Moscow.

The nominal value of the UC RUSAL's loans and borrowings was USD 7,635 million at 30 June 2017 (31 December 2016: USD 8,852 million).

## EN+

### (i) **VTB facility**

In January 2017, the Group acquired 100% of the shares in GrandStroy LLC, the Lender of the Parent company under the loan agreement, for a cash consideration of USD 3 million.

As at 30 June 2017 the outstanding amount under the VTB facility was USD 942 million bearing interest 6% p.a.

### (ii) **Sberbank facilities of Eurosibenergo**

As at 30 June 2017 Eurosibenergo had RUB-denominated loan in the amount of USD 1,102 million (RUB 65,090 million) bearing 11.55% effective interest and USD-denominated loan in the amount of USD 486 million bearing 7.4% effective interest.

### (iii) **Syndicate facilities of Telmamskaya HPP LLC**

During six months ended 30 June 2017 scheduled two tranches of USD 54 million (RUB 3,125 million) each were received.

As at 30 June 2017 the outstanding amount of this loan was USD 1,385 million (RUB 81,818 million).

The nominal value of EN+ loans and borrowings was USD 5,212 million at 30 June 2017 (31 December 2016: USD 5,204 million).

## **Security and pledges**

The Group's bank loans and guarantees are secured by pledges of shares of the Group's subsidiaries and by a pledge of shares of an associate, the details of which are disclosed in the Group's consolidated financial statements as of and for the year ended 31 December 2016 with the following changes:

- release of 25%+1 share of Eurosibenergo;
- release of 100% stake of LLC Tyvinskaya Gornorudnaya Company;
- release of 22.78% shares of Irkutskenergo in February 2017 and their subsequent pledge in June 2017;
- pledge of dams acquired in November 2016;
- pledge of 1.48% shares of Krasnoyarsk HPP;
- pledge of 100% shares of Strikeforce Mining and Resources Limited;
- release of 25% less two shares of each of Rusal Bratsk, Rusal Sayanogorsk, 25% plus one share of SUAL, 50% less one share of Rusal Krasnoyarsk and 40% plus one share of Rusal Novokuznetsk.

Pledge of 47.84% shares of JSIC Ingosstrakh under the Group's bank loans was released in March 2017.

The secured bank loans are also secured by the following:

- Property, plant and equipment with a carrying amount of USD 1,378 million (31 December 2016: USD 274 million), including pledged dams of USD 1,091 million;
- Inventories with a carrying amount of USD 378 million (31 December 2016: USD 402 million);
- Export revenues of ferromolybdenum.

As at 30 June 2017 and 31 December 2016 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 New PXF Facility dated 24 May 2017 and the Combined PXF Facility dated 18 August 2014, respectively.

**(b) Bonds payable**

As at 30 June 2017 1,821,565 series 07 bonds, 51,509 series 08 bonds and 6,461,320 series BO-01 bonds were outstanding (traded in the market).

The closing market price at 30 June 2017 was RUB 1,021, RUB 995, RUB 1,062 per bond for the first, second and the third tranches, respectively.

In February 2017 UC RUSAL completed the debut offering of Eurobonds with the following key terms: principal amount of USD 600 million, tenor of 5 years, coupon rate of 5.125% per annum. The bonds proceeds, excluding related expenses, in the amount of USD 597 million were applied for partial prepayment of UC RUSAL's existing pre-export finance facility. The closing market price at 30 June 2017 was USD 1,000 per bond.

In February 2017 UC RUSAL registered Panda Bond Offering Circular for the total amount of RMB 10 billion (c. USD 1.5 billion) with the Shanghai Stock Exchange with the right to make placement in tranches with different maturities but not higher than 7 years. In March 2017 the first tranche of RMB 1 billion was placed for 3 years and 5.5% per annum. The tranche is subject to put option after 2 years. The funds were used for working capital needs and refinancing of existing debt.

On 3 April 2017 RUSAL Bratsk announced a coupon rate in respect to the series 08 bonds at the level of 9% per annum for the 13-16 semi-annual coupon periods after which the series 08 bonds will be subject to a put option and coupon rate revision. On 12 April 2017 UC RUSAL exercised a put option on the outstanding RUB-denominated bonds series 08.

In May 2017 UC RUSAL completed the offering of Eurobonds with the following key terms: principal amount of USD 500 million, tenor of 6 years, coupon rate of 5.3% per annum. The bonds proceeds were applied for partial prepayment of UC RUSAL's debt. The closing market price at 30 June 2017 was USD 1,011.



## 13 Derivative financial assets and liabilities

Derivative financial instruments are attributable to the following contracts of UC RUSAL:

	30 June 2017		31 December 2016	
	USD million		USD million	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Petroleum coke supply contracts and other raw materials	81	38	62	5
Forward contracts for aluminium and other instruments	15	31	5	30
<b>Total</b>	<b>96</b>	<b>69</b>	<b>67</b>	<b>35</b>

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. There were no changes in valuation techniques during six-month period ended 30 June 2017. 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	1,920	1,944	1,972	1,996	2,024	2,064	2,112	2,160	2,208
Platt's FOB Brent, USD per barrel	49	51	52	54	55	56	-	-	-

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

	Six months ended 30 June	
	2017	2016
	USD million	USD million
Balance at the beginning of the period	32	(300)
Unrealised changes in fair value recognised in other comprehensive income during the period	-	23
Unrealised changes in fair value recognised in statement of comprehensive income during the period	(138)	(119)
Realised portion of electricity, coke and raw material contracts	133	216
Balance at the end of the period	<b>27</b>	<b>(180)</b>

Sensitivity analysis showed that derivative financial instruments are not particularly sensitive to changes in main inputs.

## **14 Commitments**

### **Capital commitments**

#### ***UC RUSAL***

UC RUSAL has entered into contracts that result in contractual obligations primarily relating to various construction and capital repair works. The commitments at 30 June 2017 and 31 December 2016 approximated USD 180 million and USD 157 million, respectively. These commitments are due over a number of years.

#### ***EN+***

The Group had outstanding capital commitments which had been contracted for at 30 June 2017 and 31 December 2016 in the amount of USD 43 million and USD 55 million, respectively. These commitments are due over a number of years.

## **15 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.

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. The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon). The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

Effective 1 January 2015 the concept of "beneficial ownership" which is broadly in line with the concept developed by the OECD were introduced into Russian tax legislation. In particular, based on this concept the double tax treaty relief should be available to foreign legal entities provided they have the actual right to receive income (i.e., they qualify as a "beneficial owner of income"). When determining the beneficial owner, the functions of a foreign person that is claiming the application of reduced tax rates under a double tax treaty and the risks that such person takes should be analyzed.

Effective 1 January 2017, a non-resident income recipient should be obliged to provide a tax agent with confirmation that it is the beneficial owner of the income. However, at the moment there is no clear guidance in the tax legislation in what form such confirmation should be obtained.

No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact on the Group.

### ***UC RUSAL***

In addition to the amounts of income tax UC RUSAL already has provided, there are certain tax positions 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. UC RUSAL'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 30 June 2017 is USD 244 million (31 December 2016: USD 225 million).

### ***EN+***

During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to an increased number of material tax assessments issued by them as a result of tax audits. In practice, the Russian tax authorities generally interpret the tax laws in ways that do not favor taxpayers.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for three calendar years of review (one year in the case of customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances, new tax regulations effectively have been given retroactive effect. Moreover, in October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, formulating a concept of "unjustified tax benefit", which is defined in the Ruling by reference to specific examples of such tax benefits (e.g., tax benefits obtained as a result of a transaction that has no reasonable business purpose). There is a growing practice on the interpretation of this concept by the Russian tax authorities and the Russian courts and it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. The tax authorities have actively sought to apply this concept when challenging tax positions taken by taxpayers in court, and this trend is anticipated to continue in the future. It is possible that additional taxes may be payable in respect of some operations of the Group upon examination by the tax authorities or in connection with ongoing disputes with tax authorities. It could potentially have a significant impact on the consolidated financial statements of the Group.

Russian tax legislation includes "thin capitalisation" rules which limit the amount of interest that could be deducted by the Russian subsidiaries of the Company for corporate income tax purposes on "controlled" debts. The deductibility of interest is restricted to the extent that the controlled debt of a Russian company exceeds its net assets by more than three times. Interest on excess debt is non-deductible and treated as a dividend subject to Russian withholding tax. Prior to 2017 loans provided between Russian affiliated companies were subject to thin capitalisation rules in case they have direct or indirect foreign shareholder owning more than 20%. There is contemplated tax practice with respect to such kind of transactions and tax authorities interpreted these rules differently. It is currently unclear how the Russian tax authorities will interpret and apply the amended thin capitalisation rules.

The Russian subsidiaries of the Company may be affected by the Russian Federation's thin capitalisation rules which may result in assessment of additional taxes. 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 30 June 2017 is USD 10 million (31 December 2016: USD 18 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 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 an 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 interim condensed financial information. As at 30 June 2017 the amount of claims, where management assesses outflow as possible approximates USD 37 million (31 December 2016: USD 60 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 USD 2.8 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 26 September 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.

## **16 Related party transactions**

**(a) Transactions with related parties**

The Group transacts with related parties, the majority of which are entities under common control with the Group or under the common control of minority shareholders of main subsidiaries or entities under their control.

Sales to related parties for the period are disclosed in note 5.

Purchases of raw materials and services from related parties for the period were as follows:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
<b>Purchase of raw materials</b>	<b>(300)</b>	<b>(254)</b>
<i>Companies capable of exerting significant influence</i>	(87)	(64)
<i>Companies under common control</i>	(23)	(18)
<i>Associates and joint ventures</i>	(190)	(172)
	<b>(21)</b>	<b>(108)</b>
<b>Energy costs</b>	<b>(21)</b>	<b>(108)</b>
<i>Companies capable of exerting significant influence</i>	(6)	(2)
<i>Companies under common control</i>	(1)	(1)
<i>Associates and joint ventures</i>	(14)	(105)
<b>Other services</b>	<b>(1)</b>	<b>(1)</b>
<i>Companies under common control</i>	(1)	(1)
	<b>(322)</b>	<b>(363)</b>

Receivables from and advances paid at the end of the period were as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
Current trade and other receivables, and advances issued	103	143
<i>Companies capable of exerting significant influence</i>	28	56
<i>Companies under common control</i>	16	30
<i>Associates and joint ventures</i>	59	57
Dividends receivable from related parties	316	311
<i>Associates and joint ventures</i>	316	311
	<b>419</b>	<b>454</b>

Trade and other payables owing to related parties at the end of the period were as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>
	<b>USD million</b>	<b>USD million</b>
Current trade and other payables, and advances received		
<i>Companies capable of exerting significant influence</i>	118	183
<i>Companies under common control</i>	3	4
<i>Associates and joint ventures</i>	35	33
<i>Dividends payable</i>	-	23
	<b>156</b>	<b>243</b>

On 11 April 2016 the Group pledged 15% shares of JSC Eurosibenergo with the bank for the corporate guarantee provided by the related party under common control till 20 December 2019.

**(b) Remuneration to key management**

For the six month period ended 30 June 2017 remuneration to key management personnel was represented by short-term employee benefits and amounted to USD 3 million (for the six-month period ended 30 June 2016: USD 3 million).

## **17 Events subsequent to the reporting date**

### **(a) Dividends distribution**

Subsequently to the reporting date, the Parent Company declared interim dividends for 2017 in the amount of USD 35 million.

### **(b) UC RUSAL dividends**

On 24 August 2017 board of directors of UC RUSAL approved an interim dividend of USD 299.3 million (USD 0.0197 per ordinary share) for 2017.

### **(c) Loans and borrowings**

On 31 August 2017 UC RUSAL has signed the agreement with Sberbank to extend final maturity under loans secured by Norilsk Nickel shares to 2024 and decrease interest margin from 4.75% to 3.75%.

In August UC RUSAL executed amendments to Gazprombank facilities, reducing interest margin from 4.5% to 3.5%, extending final maturity and adjusting covenants in line with New PXF Facility.

### **(d) The second tranche of UC RUSAL Panda Bonds**

On 1 September 2017 UC RUSAL announced that the second tranche of the Panda Bonds have been priced at principal amount of RMB 500 million, with a tenor of 2+1 years and a coupon rate of 5.5 per cent per annum.



**En+ Group Limited**  
**Consolidated Financial Statements**  
**for the years ended**  
**31 December 2016, 2015 and 2014**

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## Independent Auditors' Report

To the Board of Directors and Shareholders  
En+ Group Limited

### **Opinion**

We have audited the consolidated financial statements of En+ Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2016, 2015 and 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

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

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

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

Audited entity: En+ Group Limited  
Registration No. 91061  
Jersey, British Channels Islands

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.

Registration No. in the United State Register of Legal Entities 1027700129626

Member of the Self-regulated organization of auditors (Russian Union of auditors' Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 1160305200



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

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

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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



Andrei Ryazantsev

JSC "KPMG"

Moscow, Russia

30 March 2017

	Note	Year ended 31 December		
		2016	2015	2014
		USD million	USD million	USD million
Revenues	7	9,776	10,529	11,917
Cost of sales		(6,850)	(7,184)	(8,718)
<b>Gross profit</b>		<b>2,926</b>	<b>3,345</b>	<b>3,199</b>
Distribution expenses		(523)	(442)	(571)
General and administrative expenses		(699)	(731)	(939)
Reversal of impairment/(impairment) of non-current assets	6	18	(143)	(368)
Net other operating expenses	8	(49)	(59)	(222)
<b>Results from operating activities</b>		<b>1,673</b>	<b>1,970</b>	<b>1,099</b>
Share of profits of associates and joint ventures	14	847	368	521
Finance income	10	88	36	46
Finance costs	10	(1,241)	(1,629)	(2,170)
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	2(h)	298	95	-
<b>Profit/(loss) before taxation</b>		<b>1,665</b>	<b>840</b>	<b>(504)</b>
Income tax expense	11	(304)	(260)	(120)
<b>Profit/(loss) for the year</b>		<b>1,361</b>	<b>580</b>	<b>(624)</b>
<b>Other comprehensive income</b>				
<i>Items that will never be reclassified subsequently to profit or loss:</i>				
Actuarial (loss)/gain on post retirement benefit plans	19(b)	(2)	(9)	24
Revaluation of non-current assets	12	3,175	-	-
Taxation	11(c)	(635)	-	-
		2,538	(9)	24
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation differences on foreign operations		284	(216)	(1,068)
Foreign currency translation differences for equity-accounted investees		675	(975)	(3,452)
Change in fair value of cash flow hedges		36	144	(81)
Items recycled from other comprehensive income on deconsolidation of subsidiaries	2(h)	22	(95)	-
Share of other comprehensive income of associates	14	-	4	10
Unrealised gain/(loss) on available-for-sale assets	16(a)	7	(4)	-
Taxation	11(a)	-	(41)	(182)
		1,024	(1,183)	(4,773)
Other comprehensive income/(loss) for the year, net of tax		3,562	(1,192)	(4,749)
<b>Total comprehensive income/(loss) for the year</b>		<b>4,923</b>	<b>(612)</b>	<b>(5,373)</b>

The consolidated statements of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 123.

*En+ Group Limited*  
*Consolidated Statement of Comprehensive Income for the years ended 31 December 2016, 2015 and 2014*

Note	Year ended 31 December		
	2016	2015	2014
	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>
Net profit/(loss) attributable to:			
Shareholders of the Parent Company	689	166	(622)
Non-controlling interests	672	414	(2)
<b>Profit/(loss) for the year</b>	<b><u>1,361</u></b>	<b><u>580</u></b>	<b><u>(624)</u></b>
Total comprehensive income/(loss) for the year attributable to:			
Shareholders of the Parent Company	3,170	(295)	(2,763)
Non-controlling interests	1,753	(317)	(2,610)
<b>Total comprehensive income/(loss) for the year</b>	<b><u>4,923</u></b>	<b><u>(612)</u></b>	<b><u>(5,373)</u></b>

These consolidated financial statements were authorised for issue by the Board of Directors on 29 March 2017 and were signed on its behalf by:



Maxim Sokov  
 Director



Andrey Yashchenko  
 Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 123.

	Note	<b>31 December</b>		
		<b>2016</b>	<b>2015</b>	<b>2014</b>
		<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12	9,355	5,186	5,668
Goodwill and intangible assets	13	2,300	2,053	2,424
Interests in associates and joint ventures	14	4,156	3,222	4,885
Long-term investments	16(a)	25	28	42
Trade and other receivables	16(b)	149	4	31
Deferred tax assets	11(b)	108	96	90
Derivative financial assets	20	51	71	30
Other non-current assets		7	11	45
<b>Total non-current assets</b>		<b>16,151</b>	<b>10,671</b>	<b>13,215</b>
<b>Current assets</b>				
Short-term investments	16(a)	38	34	74
Inventories	15	2,034	1,922	2,135
Trade and other receivables	16(b)	1,401	1,157	914
Prepaid expenses and other current assets		14	22	37
Derivative financial assets	20	16	50	32
Cash and cash equivalents	16(d)	669	591	710
Assets held for sale	5	7	36	1
<b>Total current assets</b>		<b>4,179</b>	<b>3,812</b>	<b>3,903</b>
<b>Total assets</b>		<b>20,330</b>	<b>14,483</b>	<b>17,118</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	17	-	-	-
Additional paid-in capital		9,193	9,193	9,192
Revaluation reserve		2,456	-	-
Other reserves		(63)	(96)	(157)
Foreign currency translation reserve		(4,683)	(5,078)	(4,555)
Accumulated losses		(6,503)	(5,889)	(5,731)
<b>Total equity attributable to shareholders of the Parent Company</b>		<b>400</b>	<b>(1,870)</b>	<b>(1,251)</b>
Non-controlling interests	17(g)	1,785	873	1,429
<b>Total equity</b>		<b>2,185</b>	<b>(997)</b>	<b>178</b>
<b>Non-current liabilities</b>				
Loans and borrowings	18	12,095	9,604	9,626
Deferred tax liabilities	11(b)	1,394	592	575
Provisions – non-current portion	19	618	650	593
Derivative financial liabilities	20	3	-	350
Other non-current liabilities		177	88	66
<b>Total non-current liabilities</b>		<b>14,287</b>	<b>10,934</b>	<b>11,210</b>
<b>Current liabilities</b>				
Loans and borrowings	18	2,110	2,724	3,484
Provisions – current portion	19	64	97	137
Trade and other payables	16(c)	1,652	1,293	1,778
Derivative financial liabilities	20	32	421	318
Liabilities held for sale	5	-	11	13
<b>Total current liabilities</b>		<b>3,858</b>	<b>4,546</b>	<b>5,730</b>
<b>Total equity and liabilities</b>		<b>20,330</b>	<b>14,483</b>	<b>17,118</b>

The consolidated statements of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 123.

	Note	Year ended 31 December		
		2016	2015	2014
		USD million	USD million	USD million
<b>OPERATING ACTIVITIES</b>				
<b>Profit/(loss) for the year</b>				
		<b>1,361</b>	<b>580</b>	<b>(624)</b>
Adjustments for:				
		641	593	684
	6	(18)	143	368
		(57)	302	450
	8	15	26	17
		-	-	24
	14	(847)	(368)	(521)
	10	1,060	992	1,192
		29	(5)	(3)
	10	(39)	(30)	(41)
	11	304	260	120
	10	(2)	(1)	(2)
		(9)	23	19
	8	3	27	67
	8	4	(11)	30
		3	-	7
		-	(13)	-
	10	157	352	467
	2(h)	(298)	(95)	-
	17(b)	-	-	1
<b>Operating profit before changes in working capital and provisions</b>				
		<b>2,307</b>	<b>2,775</b>	<b>2,255</b>
		(85)	197	387
		(37)	3	250
		(80)	(486)	(627)
<b>Cash flows from operations before income tax</b>				
		<b>2,105</b>	<b>2,489</b>	<b>2,265</b>
	11(f)	(155)	(326)	(239)
<b>Cash flows from operating activities</b>				
		<b>1,950</b>	<b>2,163</b>	<b>2,026</b>

The consolidated statements of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 123.

	Note	Year ended 31 December		
		2016	2015	2014
		USD million	USD million	USD million
<b>INVESTING ACTIVITIES</b>				
Proceeds from disposal of property, plant and equipment		35	20	38
Acquisition of property, plant and equipment		(834)	(677)	(844)
Acquisition of intangible assets		(17)	(14)	(20)
Interest received		27	31	33
Dividends from associates and joint ventures		336	755	926
Loans given to joint ventures		(6)	-	-
Dividends received		2	1	2
Acquisition of joint ventures	14	-	(5)	-
Contribution to short-term and long-term investments		(2)	(1)	(1)
Proceeds from long-term investments	16(a)	11	10	13
Acquisition of available-for-sale investments		-	(66)	(343)
Proceeds from disposal of available-for-sale investments	16(b)	60	-	91
Acquisition of promissory notes		(22)	(4)	(26)
Proceeds from promissory notes		29	-	15
Repayment of short-term deposit		2	47	-
Proceeds from disposal of a subsidiary	2(h)	298	-	-
Loans issued		(99)	-	-
<b>Cash flows (used in)/generated from investing activities</b>		<b>(180)</b>	<b>97</b>	<b>(116)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from borrowings		7,035	4,188	4,940
Repayment of borrowings		(5,858)	(4,850)	(4,849)
Acquisition of non-controlling interest	17(a)	(827)	(16)	-
Proceeds from disposal of shares in subsidiaries		39	9	-
Interest paid		(867)	(855)	(1,052)
Restructuring fees and other expenses		(14)	(2)	(149)
Purchase of shares for vesting	17(b)	-	-	(1)
Payments from settlement of derivative instruments		(446)	(320)	(452)
Acquisition of subsidiaries from related party under common control	17(a)	-	-	(16)
Distributions to shareholder	17(a)	(318)	(1)	(64)
Dividends to shareholders	17(e)	(318)	(262)	(203)
Dividends to non-controlling shareholders of subsidiaries	17(e)	(130)	(149)	(23)
<b>Cash flows used in financing activities</b>		<b>(1,704)</b>	<b>(2,258)</b>	<b>(1,869)</b>
<b>Net increase in cash and cash equivalents</b>		<b>66</b>	<b>2</b>	<b>41</b>
Cash and cash equivalents at beginning of the year, excluding restricted cash		577	697	811
Effect of exchange rate changes on cash and cash equivalents		13	(122)	(155)
<b>Cash and cash equivalents at end of the year, excluding restricted cash</b>	16(d)	<b>656</b>	<b>577</b>	<b>697</b>

Restricted cash amounted to USD 13 million, USD 14 million and USD 13 million at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

Non-cash repayment of borrowings and interest amounted to USD 192 million, USD 173 million and USD 57 million for the years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

The consolidated statements of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 123.



USD million	Attributable to shareholders of the Parent Company						Total equity	
	Additional paid-in capital	Revaluation reserve	Other reserves	Foreign currency translation reserve	Accumulated losses	Total		Non-controlling interests
<b>Balance at 1 January 2014</b>	9,192	-	(134)	(2,436)	(4,854)	1,768	4,284	6,052
<b>Comprehensive income</b>								
Loss for the year	-	-	-	-	(622)	(622)	(2)	(624)
Other comprehensive loss	-	-	(22)	(2,119)	-	(2,141)	(2,608)	(4,749)
<b>Total comprehensive loss for the year</b>	-	-	(22)	(2,119)	(622)	(2,763)	(2,610)	(5,373)
<b>Transactions with owners</b>								
Share based compensation (note 17(b))	-	-	(1)	-	-	(1)	(1)	(2)
Change in effective interest in subsidiaries (note 17(a))	-	-	-	-	24	24	(219)	(195)
Acquisition of non-controlling interest (note 17(a))	-	-	-	-	(14)	(14)	(2)	(16)
Dividends to shareholders (note 17(e))	-	-	-	-	(201)	(201)	-	(201)
Dividends to non-controlling shareholders (note 17(e))	-	-	-	-	-	-	(23)	(23)
Other distributions (note 17(a))	-	-	-	-	(64)	(64)	-	(64)
<b>Total transactions with owners</b>	-	-	(1)	-	(255)	(256)	(245)	(501)
<b>Balance 31 December 2014</b>	9,192	-	(157)	(4,555)	(5,731)	(1,251)	1,429	178
<b>Balance at 1 January 2015</b>	9,192	-	(157)	(4,555)	(5,731)	(1,251)	1,429	178
<b>Comprehensive income</b>								
Profit for the year	-	-	-	-	166	166	414	580
Other comprehensive loss	-	-	62	(523)	-	(461)	(731)	(1,192)
<b>Total comprehensive loss for the year</b>	-	-	62	(523)	166	(295)	(317)	(612)
<b>Transactions with owners</b>								
Share based compensation (note 17(b))	1	-	(1)	-	-	-	-	-
Change in effective interest in subsidiaries (note 17(a))	-	-	-	-	-	-	(16)	(16)
Write off of intragroup loans (note 17(a))	-	-	-	-	67	67	(67)	-
Accrual of provision for guarantees (note 17(f))	-	-	-	-	(95)	(95)	-	(95)
Dividends to shareholders (note 17(e))	-	-	-	-	(287)	(287)	-	(287)
Dividends to non-controlling shareholders (note 17(e))	-	-	-	-	-	-	(149)	(149)
Other distributions (note 17(a))	-	-	-	-	(9)	(9)	(7)	(16)
<b>Total transactions with owners</b>	1	-	(1)	-	(324)	(324)	(239)	(563)
<b>Balance 31 December 2015</b>	9,193	-	(96)	(5,078)	(5,889)	(1,870)	873	(997)

The consolidated statements of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 123.

	Attributable to shareholders of the Parent Company							
	Additional paid-in capital	Revaluation reserve	Other reserves	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	9,193	-	(96)	(5,078)	(5,889)	(1,870)	873	(997)
<b>Balance at 1 January 2016</b>								
<b>Comprehensive income</b>								
Profit for the year	-	-	-	-	689	689	672	1,361
Revaluation of hydro assets as at 1 January 2016 (12(g))	-	1,479	-	-	-	1,479	554	2,033
Taxation	-	(296)	-	-	-	(296)	(111)	(407)
Revaluation of hydro assets as at 31 December 2016 (12(g))	-	1,131	-	-	-	1,131	11	1,142
Taxation	-	(226)	-	-	-	(226)	(2)	(228)
Other comprehensive income for the year	-	-	33	360	-	393	629	1,022
<b>Total comprehensive income for the year</b>	-	<b>2,088</b>	<b>33</b>	<b>360</b>	<b>689</b>	<b>3,170</b>	<b>1,753</b>	<b>4,923</b>
<b>Transactions with owners</b>								
Change in effective interest in subsidiaries (note 17(a))	-	368	-	35	(726)	(323)	(690)	(1,013)
Dividends to shareholders (note 17(e))	-	-	-	-	(280)	(280)	-	(280)
Dividends to non-controlling shareholders (note 17(e))	-	-	-	-	-	-	(130)	(130)
Other distributions (note 17(a) and (f))	-	-	-	-	(297)	(297)	(21)	(318)
<b>Total transactions with owners</b>	-	<b>368</b>	-	<b>35</b>	<b>(1,303)</b>	<b>(900)</b>	<b>(841)</b>	<b>(1,741)</b>
<b>Balance 31 December 2016</b>	<b>9,193</b>	<b>2,456</b>	<b>(63)</b>	<b>(4,683)</b>	<b>(6,503)</b>	<b>400</b>	<b>1,785</b>	<b>2,185</b>

## **1. Background**

### **(a) Organisation**

En+ Group Limited (the “Parent Company” or the “Company”) was established as a Limited Liability Company according to the legislation of the British Virgin Islands on 30 April 2002 under the name of Baufinanz Limited. On 18 March 2004 the Parent Company registered a change of its legal name to Eagle Capital Group Limited. On 25 August 2005 the Parent Company changed its domicile to Jersey and was renamed to En+ Group Limited. The Parent Company’s registered office is 44 Esplanade, St Helier, Jersey, JE4 9WG, British Channel Islands.

En+ Group Limited is a private equity management company which focuses on investing in promising sectors of the Russian, CIS and other developing economies.

The Parent Company directly or through its subsidiaries controls a number of entities engaged in aluminium production, energy generation and distribution and other businesses (together with the Parent Company referred to as “the Group”).

As at 31 December 2016 the Parent Company’s major shareholders were B-Finance Limited with a 61.55% ownership interest and Basic Element Limited with a 21.10% ownership interest (61.55% and 21.10% as at 31 December 2015 and 70.50% and 21.10% as at 31 December 2014, respectively).

During 2015 B-Finance Limited acquired 1 and then sold 180 ordinary shares of En+ Group Limited to non-controlling shareholder. As a result, the share of B-Finance in En+ Group Limited decreased to 61.55%.

The ultimate parent undertaking of the Group is Fidelitas International Investments Corp., the company incorporated in the Republic of Panama (“Fidelitas”), and the ultimate beneficial owner of the Group (the “Shareholder”) is Mr. Oleg Deripaska (“Mr. Deripaska”). He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 24.

### **(b) Operations**

As at 31 December 2016 the Group’s operations comprised the following:

United Company RUSAL Plc and its subsidiaries (“UC RUSAL”) operate in the aluminium industry primarily in the Russian Federation, Ukraine, Guinea, Jamaica, Ireland, 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.

Other activities of the Group include generation, transmission and distribution of energy in East Siberia, Russia, through its main power subsidiaries: PJSC Irkutskenergo (“Irkutskenergo”), PJSC Krasnoyarsk Hydro-Power Plant (“Krasnoyarsk HPP”) and JSC Eurosibenergo (“Eurosibenergo”), as well as its supporting operations engaged in the supply of logistics services and coal resources to the Group. The Group’s subsidiaries are also engaged in metallurgy production in Krasnoyarsk region and production and processing of molybdenum and ferromolybdenum at plants located in the cities of eastern part of the Russian Federation.

### **(c) 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 Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. 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").

In preparing these financial statements 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*

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 for all periods presented in these financial statements. 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.

	<b>Effective for accounting periods beginning on or after</b>
IFRS 9, Financial Instruments	1 January 2018
IFRS 15, Revenue from Contracts with Customers	1 January 2018
IFRS 16, Leases	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 7. 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 notes 12 and 20.

(c) **Functional and presentation currency**

The Parent 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 judgments, 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.

Judgement 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 are discussed in note 26.

(e) **Significant accounting policies and changes in accounting policies and presentation**

Significant accounting policies are described in the related notes to the financial statements captions.

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 years ended 31 December 2015 and 2014, except for changes described in note 12(a)(i).

(f) **Consolidation of UC RUSAL**

Following the Global Offering and issuance of additional shares by UC RUSAL the Group's interest in UC RUSAL reduced below 50% to 47.41% by 31 December 2010. In November 2012 the Parent Company purchased additional 0.72% shares of UC RUSAL for cash consideration of USD 70 million.

In order to ensure continuing control over UC RUSAL and in connection with the Global Offering, the Parent Company entered into the Shareholders' agreement with non-controlling shareholders of UC RUSAL. The Shareholders' agreement provides to the shareholders of the Parent Company certain rights which, based on its current shareholding in UC RUSAL, enables it to retain the power over UC RUSAL and to use it to obtain benefits from UC RUSAL's activities:



- The Parent Company is entitled to nominate more than 50 percent of the Board of Directors, including two independent directors;
- The Parent Company is entitled to provide instructions to one of the non-controlling shareholders for voting at the Board of Directors and Shareholders' meetings on matters including appointment and removal of Directors and distribution of dividends and this non-controlling shareholder is obliged to vote according to such instructions pursuant to the terms of the Shareholders' agreement; and
- The Parent Company is entitled to appoint the CEO of UC RUSAL.

Management believes that its shareholding in UC RUSAL and the terms of the shareholders agreement described above enable the Group to retain control over UC RUSAL despite holding less than 50%.

**(g) Consolidation of OJSC Irkutsk Electric Grid Company (Irkutsk GridCo)**

In December 2009, the Group sold to third parties under share purchase contracts all the shares in two Cyprus companies of the Group controlling 34.16% of the shares in Irkutsk GridCo; subsequently the Group purchased back 19.9% in Irkutsk GridCo. The arrangements attached to the share purchase contracts enable the Group to retain certain rights with respect to the disposed shares and the sale did not result in deconsolidation. As at 31 December 2016 effective interest in Irkutsk GridCo held by the Group is 51.93%.

As laws and regulations in the electricity sector in Russia are in the developing stage there is an uncertainty with respect to the legal interpretation of the existing arrangements which enable the Group to control Irkutsk GridCo and may be interpreted by the Russian regulatory authorities as non-compliant with applicable legislation upon enforcement. Management believes that such arrangements are compliant with the legislation and therefore the Group has the ability to control Irkutsk GridCo as described above. Should the arrangements be found non-compliant upon their enforcement, the Group may be required to unwind the arrangements subsequent to their enforcement and sell Irkutsk GridCo to a third party at that time.

**(h) Deconsolidation and disposal of subsidiaries**

*PJSC Zaporozhye Aluminium Combine ('ZALK')*

On 11 March 2015, the Supreme Court of Ukraine denied the UC RUSAL's appeal to reconsider the previous court decision that 68% of shares of ZALK, an indirect subsidiary of UC RUSAL PLC, should be deprivatised and returned to the State of Ukraine.

On 9 June 2015 ZALK shares were written off the Company's account and transferred to the State of Ukraine.

As a result of the Supreme Court ruling the Group no longer has the rights to varying returns from ZALK or the ability to control this entity to affect those returns.

The assets and liabilities of ZALK have been deconsolidated which resulted in recognition of USD 9 million gain in these consolidated financial statements. Additionally, USD 155 million of foreign currency translation gain arising on the translation of ZALK accumulated from 2007 was recycled through profit and loss.

In August 2015 one of the UC RUSAL's intermediary holding subsidiaries was liquidated. Consequently, USD 60 million of foreign currency translation loss arising on translation of investments in foreign assets accumulated by this subsidiary was recycled through profit and loss.

### *Alpart*

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 USD 299 million. In November 2016 the Group completed the sale of Alpart.

## **3. Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied to all periods presented in these consolidated financial statements.

Since 1 January 2016 there were changes in the accounting policy relating to property, plant and equipment, described in note 12(a)(i).

(a) **Basis of consolidation**

(i) ***Subsidiaries and non-controlling interests***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing control, potential voting rights that presently are exercisable are taken into account.

The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Group, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Group. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Group.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling-interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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 the statement of income. 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 (refer to notes

16 and 20) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (refer to note 14).

**(ii) *Acquisitions of non-controlling interests***

The acquisition of an additional non-controlling interest in an existing subsidiary after control has been obtained is accounted for as an equity transaction with any difference between the cost of the additional investment and the carrying amount of the net assets acquired at the date of exchange recognised directly in equity.

A put option (a mandatory offer) to acquire a non-controlling interest in subsidiary after control has been obtained and accounted by the Group as an equity transaction whereby the issue of the put option results in the recognition of a liability for the present value of the expected exercise price and the derecognition of non-controlling interests within consolidated equity. Subsequent to initial recognition, changes in the carrying amount of the put liability are recognised within equity. If the put option expires unexercised then the put liability is derecognised and non-controlling interests are recognised.

**(iii) *Acquisitions from entities under common control***

Business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of the equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

**(iv) *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 statement of 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.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

**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 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.

In 2016, the Group has changed its internal management reporting structure, which resulted in a revision of its reportable segments and restatement of comparative information for earlier periods, respectively.

Based on the current management structure and internal reporting the Group has identified the following five segments:

- *Metals*. The Metals segment is comprised of UC RUSAL which is involved in mining and refining of bauxite into alumina; production and sale of primary aluminium, alumina and related products and also includes equity investment in Norilsk Nickel. The Metals segment

is disclosed based on public financial statements of UC RUSAL. All adjustments made to UC RUSAL, including adjustments arising from different time of IFRS first time adoption, are included into reconciliation of reportable segment revenue, profit or loss, assets and liabilities.

- *Power.* The Power segment is involved in generation, transmission and distribution of energy in East Siberia and Volga regions of Russia.
- *Coal.* The Coal segment is engaged in the mining and sale of coal in the East Siberia region. Brown and fossil coals are the products of the segment.
- *Logistics.* The logistics segment is engaged in transportation services both for other segments and for the third parties.
- *Other.* The Other segment is comprised production and processing of molybdenum and ferromolybdenum, and also aluminium processing plant.

The Power and Coal assets of UC RUSAL are included into the Metals segment.

These business units are managed separately and results of their operations are reviewed by the CEO on a regular basis.

Prior to the changes in management reporting structure the Group reported the following operating segments:

- *Metals.* The Metals segment is involved in mining and refining of bauxite into alumina; production and sale of primary aluminum, alumina and related products;
- *Mining.* The Mining segment is involved in production and processing of molybdenum and ferromolybdenum at plants located in the cities of eastern part of the Russian Federation. These products are mainly sold abroad.
- *Coal.* The Coal segment is engaged in the mining and sale of coal in the Irkutsk region. Brown and fossil coals are the products of the segment.
- *Logistics.* The logistics segment is engaged in transportation services both for other segments and for the third parties.
- *Energy.* The Energy segment is involved in generation, transmission and distribution of energy in East Siberia, Russia.

(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:

Total segment assets include all tangible, intangible assets and current assets.

Total segment liabilities include all current and non-current liabilities.

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.

The measure used for reporting segment results is the net profit adjusted for income tax and other items not specifically attributed to individual segments, such as finance income, costs of loans and borrowings. 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, interest income and expenses, other finance income and costs, income tax, loss on disposal of property, plant and equipment, impairment of non-current assets and additions of non-current segment assets used by the segments in their operations. Inter-segment pricing is determined primarily on a consistent basis using market benchmarks.

### **Reportable segments**

#### **Year ended 31 December 2016**

<b>USD million</b>	<b>Metals</b>	<b>Power</b>	<b>Coal</b>	<b>Logistics</b>	<b>Other</b>	<b>Total</b>
Revenue from external customers	7,849	1,546	93	55	231	9,774
Inter-segment revenue	134	531	167	78	14	924
<b>Total segment revenue</b>	<b>7,983</b>	<b>2,077</b>	<b>260</b>	<b>133</b>	<b>245</b>	<b>10,698</b>
<b>Segment profit/(loss)</b>	<b>1,179</b>	<b>317</b>	<b>(15)</b>	<b>18</b>	<b>(18)</b>	<b>1,481</b>
Reversal of impairment/ (impairment) of non-current assets	44	(26)	-	-	-	18
Loss on disposal of property, plant and equipment	(12)	-	(3)	-	-	(15)
Share of profits/(loss) of associates and joint ventures	848	(1)	-	-	-	847
Interest expense, net	(598)	(320)	(12)	(4)	(24)	(958)
Other finance (costs)/income, net	(262)	155	(6)	(2)	1	(114)
Result from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	298	-	-	-	-	298
Depreciation and amortisation	(453)	(166)	(15)	(1)	(6)	(641)
Income tax	(175)	(119)	(5)	(4)	-	(303)
Additions to non-current segment assets during the year	(583)	(262)	(11)	(28)	(11)	(895)
Cash and cash equivalents	544	96	7	5	3	655
Interests in associates and joint ventures	4,147	9	-	-	-	4,156
Other segment assets	9,761	5,981	302	74	123	16,241
<b>Total segment assets</b>	<b>14,452</b>	<b>6,086</b>	<b>309</b>	<b>79</b>	<b>126</b>	<b>21,052</b>

USD million	Metals	Power	Coal	Logistics	Other	Total
Loans and borrowings	(8,965)	(4,071)	(188)	(42)	(304)	(13,570)
Other segment liabilities	(2,188)	(1,464)	(114)	(41)	(105)	(3,912)
<b>Total segment liabilities</b>	<b>(11,153)</b>	<b>(5,535)</b>	<b>(302)</b>	<b>(83)</b>	<b>(409)</b>	<b>(17,482)</b>

**Year ended 31 December 2015**

USD million	Metals	Power	Coal	Logistics	Other	Total
Revenue from external customers	8,551	1,599	88	49	231	10,518
Inter-segment revenue	129	476	155	57	18	835
<b>Total segment revenue</b>	<b>8,680</b>	<b>2,075</b>	<b>243</b>	<b>106</b>	<b>249</b>	<b>11,353</b>

**Segment profit/(loss)**

	<b>558</b>	<b>172</b>	<b>(20)</b>	<b>23</b>	<b>(39)</b>	<b>694</b>
Impairment of non-current assets	(132)	-	-	-	-	(132)
Loss on disposal of property, plant and equipment	(17)	(5)	(4)	-	-	(26)
Share of profits of associates and joint ventures	368	-	-	-	-	368
Interest expense, net	(617)	(200)	(5)	(3)	(23)	(848)
Other finance (costs)/income, net	(492)	(179)	(2)	5	(11)	(679)
Depreciation and amortisation	(457)	(112)	(19)	(1)	(5)	(594)
Income tax	(205)	(51)	(2)	(5)	4	(259)
Foreign currency translation gain recycled from other comprehensive income on deconsolidation of subsidiaries	95	-	-	-	-	95
Additions to non-current segment assets during the year	(540)	(138)	(10)	(1)	(11)	(700)
Cash and cash equivalents	508	68	5	4	2	587
Interests in associates and joint ventures	3,214	8	-	-	-	3,222
Other segment assets	9,087	1,731	188	79	101	11,186
<b>Total segment assets</b>	<b>12,809</b>	<b>1,807</b>	<b>193</b>	<b>83</b>	<b>103</b>	<b>14,995</b>
Loans and borrowings	(8,880)	(2,288)	(145)	(33)	(265)	(11,611)
Other segment liabilities	(2,538)	(332)	(99)	(21)	(77)	(3,067)
<b>Total segment liabilities</b>	<b>(11,418)</b>	<b>(2,620)</b>	<b>(244)</b>	<b>(54)</b>	<b>(342)</b>	<b>(14,678)</b>

**Year ended 31 December 2014**

USD million	Metals	Power	Coal	Logistics	Other	Total
Revenue from external customers	9,120	2,257	107	42	371	11,897
Inter-segment revenue	237	599	248	87	30	1,201
<b>Total segment revenue</b>	<b>9,357</b>	<b>2,856</b>	<b>355</b>	<b>129</b>	<b>401</b>	<b>13,098</b>
<b>Segment profit/(loss)</b>	<b>(91)</b>	<b>(192)</b>	<b>(95)</b>	<b>33</b>	<b>(57)</b>	<b>(402)</b>
Impairment of non-current assets	(103)	(124)	(97)	-	(6)	(330)
Loss on disposal of property, plant and equipment	(10)	(6)	-	-	-	(16)
Share of profits/(loss) of associates and joint ventures	536	(15)	-	-	-	521
Interest expense, net	(817)	(175)	(17)	(4)	(24)	(1,037)
Other finance (costs)/income, net	(514)	(463)	(5)	5	(41)	(1,018)
Depreciation and amortisation	(459)	(182)	(35)	(1)	(7)	(684)
Income tax	(238)	100	21	(3)	-	(120)
Additions to non-current segment assets during the year	(477)	(345)	(16)	(1)	(18)	(857)
Cash and cash equivalents	570	112	2	13	5	702
Interests in associates and joint ventures	4,879	6	-	-	-	4,885
Other segment assets	9,408	2,352	466	48	136	12,410
<b>Total segment assets</b>	<b>14,857</b>	<b>2,470</b>	<b>468</b>	<b>61</b>	<b>141</b>	<b>17,997</b>
Loans and borrowings	(9,407)	(2,531)	(189)	(48)	(269)	(12,444)
Other segment liabilities	(3,213)	(498)	(150)	(14)	(87)	(3,962)
<b>Total segment liabilities</b>	<b>(12,620)</b>	<b>(3,029)</b>	<b>(339)</b>	<b>(62)</b>	<b>(356)</b>	<b>(16,406)</b>

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

	Year ended 31 December		
	2016	2015	2014
	USD million	USD million	USD million
<b>Revenue</b>			
Reportable segment revenue	10,698	11,353	13,098
Elimination of inter-segment revenue	(924)	(835)	(1,201)
Unallocated revenue	2	11	20
<b>Consolidated revenue</b>	<b>9,776</b>	<b>10,529</b>	<b>11,917</b>



	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Profit/(loss)</b>			
Reportable segment profit/(loss)	1,481	694	(402)
Impairment of non-current assets	-	(11)	(38)
Income tax expense	(1)	(2)	(1)
Interest expense, net	(63)	(113)	(114)
Other finance costs	(19)	48	46
Unallocated income/(expense)	(37)	(36)	(115)
<b>Consolidated profit/(loss) for the year</b>	<b>1,361</b>	<b>580</b>	<b>(624)</b>
	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Assets</b>			
Reportable segment assets	21,052	14,995	17,997
Elimination of inter-segment receivables	(394)	(290)	(609)
Consolidation adjustment	(469)	(469)	(469)
Unallocated assets	141	247	199
<b>Consolidated total assets</b>	<b>20,330</b>	<b>14,483</b>	<b>17,118</b>
<b>Liabilities</b>			
Reportable segment liabilities	(17,482)	(14,678)	(16,406)
Elimination of inter-segment payables	394	290	609
Unallocated liabilities	(1,057)	(1,092)	(1,143)
<b>Consolidated total liabilities</b>	<b>(18,145)</b>	<b>(15,480)</b>	<b>(16,940)</b>

(ii) **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 the bauxite mines and an alumina refinery in Guinea and an aluminium plant in Nigeria. In the Americas the Group operates production facilities 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 the Group's revenue from external customers and the Group's property, plant and equipment, intangible assets, interests in associates and joint ventures and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods 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**

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Russia	3,371	3,431	4,219
USA	1,193	637	892
Netherlands	664	1,754	1,631
Turkey	634	836	979
Japan	610	584	871
Poland	377	404	267
South Korea	313	411	530
Greece	260	254	272
Italy	244	228	219
Germany	200	142	181
Sweden	182	220	182
Norway	179	103	226
France	178	189	179
Switzerland	52	6	10
China	24	78	91
Other countries	1,295	1,252	1,168
	<b>9,776</b>	<b>10,529</b>	<b>11,917</b>

**Specified non-current assets**

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Russia	12,454	7,329	9,187
Ireland	414	372	355
Ukraine	192	195	227
Guinea	117	56	46
Sweden	152	16	15
Unallocated	2,822	2,703	3,385
	<b>16,151</b>	<b>10,671</b>	<b>13,215</b>

(c) **Principal business segments**

Management additionally analyses performance of the Group through two principal business segments:

1. En+ Group excluding UC RUSAL (“EN+”) is predominantly comprised of power assets and operations as described in note 1(b).
2. UC RUSAL as described in note 4(a).

	31 December 2016			31 December 2015			31 December 2014					
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>USD million</b>												
<b>Non-current assets</b>												
Property, plant and equipment	9,355	4,065	-	5,290	5,186	3,854	-	1,332	5,668	3,953	-	1,715
Goodwill and intangible assets	2,300	2,470	(469)	299	2,053	2,274	(469)	248	2,424	2,572	(469)	321
Interests in associates and joint ventures	4,156	4,147	-	9	3,222	3,214	-	8	4,885	4,879	-	6
Long term investments	25	-	(4,053)	4,078	28	-	(4,053)	4,081	42	-	(4,053)	4,095
Trade and other receivables	149	-	4	145	4	-	3	1	31	-	2	29
Derivative financial assets	51	51	-	-	71	71	-	-	30	30	-	-
Deferred tax assets	108	51	-	57	96	51	-	45	90	57	-	33
Other non-current assets	7	52	(45)	-	11	51	(41)	1	45	80	(37)	2
	<b>16,151</b>	<b>10,836</b>	<b>(4,563)</b>	<b>9,878</b>	<b>10,671</b>	<b>9,515</b>	<b>(4,560)</b>	<b>5,716</b>	<b>13,215</b>	<b>11,571</b>	<b>(4,557)</b>	<b>6,201</b>
<b>Current assets</b>												
Short term investments	38	-	28	10	34	-	23	11	74	-	13	61
Inventories	2,034	1,926	-	108	1,922	1,837	-	85	2,135	1,998	-	137
Trade and other receivables	1,401	1,130	(77)	348	1,157	899	(65)	323	914	686	(83)	311
Prepaid expenses and other current assets	14	-	13	1	22	-	21	1	37	-	33	4
Derivative financial assets	16	16	-	-	50	50	-	-	32	32	-	-
Cash and cash equivalents	669	544	-	125	591	508	-	83	710	570	-	140
Assets held for sale	7	-	-	7	36	-	-	36	1	-	-	1
	<b>4,179</b>	<b>3,616</b>	<b>(36)</b>	<b>599</b>	<b>3,812</b>	<b>3,294</b>	<b>(21)</b>	<b>539</b>	<b>3,903</b>	<b>3,286</b>	<b>(37)</b>	<b>654</b>
<b>Total assets</b>	<b>20,330</b>	<b>14,452</b>	<b>(4,599)</b>	<b>10,477</b>	<b>14,483</b>	<b>12,809</b>	<b>(4,581)</b>	<b>6,255</b>	<b>17,118</b>	<b>14,857</b>	<b>(4,594)</b>	<b>6,855</b>

USD million	31 December 2016			31 December 2015			31 December 2014					
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>Equity</b>												
Share capital	-	152	(152)	-	-	152	(152)	-	-	152	(152)	-
Additional paid-in capital	9,193	15,786	(8,925)	2,332	9,193	15,786	(8,925)	2,332	9,192	15,785	(8,925)	2,332
Revaluation reserve	2,456	-	-	2,456	-	-	-	-	-	-	-	-
Other reserves	(63)	2,882	(2,969)	24	(96)	2,823	(2,939)	20	(157)	2,679	(2,860)	24
Foreign currency translations reserve	(4,683)	(9,058)	4,477	(101)	(5,078)	(9,978)	4,954	(54)	(4,555)	(8,679)	4,280	(156)
Retained earnings/(accumulated losses)	(6,503)	(6,463)	1,587	(1,627)	(5,889)	(7,392)	2,070	(567)	(5,731)	(7,700)	2,226	(257)
<b>Total equity attributable to shareholders of the Parent</b>	<b>400</b>	<b>3,299</b>	<b>(5,982)</b>	<b>3,083</b>	<b>(1,870)</b>	<b>1,391</b>	<b>(4,992)</b>	<b>1,731</b>	<b>(1,251)</b>	<b>2,237</b>	<b>(5,431)</b>	<b>1,943</b>
Non-controlling interests	1,785	-	1,460	325	873	-	471	402	1,429	-	910	519
	<b>2,185</b>	<b>3,299</b>	<b>(4,522)</b>	<b>3,408</b>	<b>(997)</b>	<b>1,391</b>	<b>(4,521)</b>	<b>2,133</b>	<b>178</b>	<b>2,237</b>	<b>(4,521)</b>	<b>2,462</b>
<b>Non-current liabilities</b>												
Loans and borrowings	12,095	7,532	-	4,563	9,604	7,525	-	2,079	9,626	8,960	-	666
Deferred tax liabilities	1,394	585	-	809	592	531	-	61	575	515	-	60
Provisions – non-current portion	618	423	-	195	650	487	-	163	593	507	-	86
Derivative financial liabilities	3	3	-	-	-	-	-	-	350	350	-	-
Other non-current liabilities	177	51	-	126	88	63	-	25	66	48	-	18
	<b>14,287</b>	<b>8,594</b>	<b>-</b>	<b>5,693</b>	<b>10,934</b>	<b>8,606</b>	<b>-</b>	<b>2,328</b>	<b>11,210</b>	<b>10,380</b>	<b>-</b>	<b>830</b>
<b>Current liabilities</b>												
Loans and borrowings	2,110	1,433	-	677	2,724	1,355	-	1,369	3,484	447	-	3,037
Provisions – current portion	64	40	-	24	97	85	-	12	137	113	-	24
Trade and other payables	1,652	1,054	(77)	675	1,293	951	(60)	402	1,778	1,362	(73)	489
Derivative financial liabilities	32	32	-	-	421	421	-	-	318	318	-	-
Liabilities held for sale	-	-	-	-	11	-	-	11	13	-	-	13
	<b>3,858</b>	<b>2,559</b>	<b>(77)</b>	<b>1,376</b>	<b>4,546</b>	<b>2,812</b>	<b>(60)</b>	<b>1,794</b>	<b>5,730</b>	<b>2,240</b>	<b>(73)</b>	<b>3,563</b>
<b>Total equity and liabilities</b>	<b>20,330</b>	<b>14,452</b>	<b>(4,599)</b>	<b>10,477</b>	<b>14,483</b>	<b>12,809</b>	<b>(4,581)</b>	<b>6,255</b>	<b>17,118</b>	<b>14,857</b>	<b>(4,594)</b>	<b>6,855</b>

**Year ended**

	31 December 2016			31 December 2015			31 December 2014		
	En+ Group Consolidated	UC RUSAL* Adjustments	EN+	En+ Group Consolidated	UC RUSAL* Adjustments	EN+	En+ Group Consolidated	UC RUSAL* Adjustments	EN+
<b>USD million</b>									
Revenues	9,776	7,983 (689)	2,482	10,529	8,680 (610)	2,459	11,917	9,357 (866)	3,426
Cost of sales	(6,850)	(6,070) 689	(1,469)	(7,184)	(6,215) 609	(1,578)	(8,718)	(7,223) 852	(2,347)
<b>Gross profit</b>	<b>2,926</b>	<b>1,913</b> -	<b>1,013</b>	<b>3,345</b>	<b>2,465</b> (1)	<b>881</b>	<b>3,199</b>	<b>2,134</b> (14)	<b>1,079</b>
Distribution expenses	(525)	(331) -	(192)	(442)	(336) 1	(107)	(571)	(402) 1	(170)
General and administrative expenses	(699)	(521) -	(178)	(731)	(533) -	(198)	(939)	(605) 3	(337)
Reversal/(impairment) of non-current assets	18	44 -	(26)	(143)	(132) -	(11)	(368)	(103) -	(265)
Other operating (expenses)/income, net	(49)	(37) -	(12)	(59)	(55) -	(4)	(222)	(82) 12	(152)
<b>Results from operating activities</b>	<b>1,673</b>	<b>1,068</b> -	<b>605</b>	<b>1,970</b>	<b>1,409</b> -	<b>561</b>	<b>1,099</b>	<b>942</b> 2	<b>155</b>
Share of profits of associates and joint ventures	847	848 -	(1)	368	368 -	-	521	536 -	(15)
Dividend income	-	- (120)	120	-	- (120)	120	-	- -	-
Results from disposal and deconsolidation of subsidiaries including items recycled from other comprehensive income	298	298 -	-	95	95 -	-	-	- -	-
Finance income	88	19 -	69	36	23 -	13	46	30 -	16
Finance costs	(1,241)	(879) -	(362)	(1,629)	(1,132) -	(497)	(2,170)	(1,361) 20	(829)
<b>Profit/(loss) before tax</b>	<b>1,665</b>	<b>1,354</b> (120)	<b>431</b>	<b>840</b>	<b>763</b> (120)	<b>197</b>	<b>(504)</b>	<b>147</b> 22	<b>(673)</b>
Income tax expense	(304)	(175) -	(129)	(260)	(205) -	(55)	(120)	(238) -	118
<b>Profit/(loss) for the period</b>	<b>1,361</b>	<b>1,179</b> (120)	<b>302</b>	<b>580</b>	<b>558</b> (120)	<b>142</b>	<b>(624)</b>	<b>(91)</b> 22	<b>(555)</b>

\* 48.13% of UC RUSAL profit for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 is attributable to shareholders of the Parent company.

USD million	Year ended								
	31 December 2016		31 December 2015		31 December 2014				
	En+ Group Consolidated	UC RUSAL Adjustments	EN+ EN+	UC RUSAL Adjustments	EN+ EN+	UC RUSAL Adjustments			
<b>Profit/(loss) for the period</b>	<b>1,361</b>	<b>1,179</b>	<b>-</b>	<b>580</b>	<b>558</b>	<b>20</b>	<b>(91)</b>	<b>20</b>	<b>(553)</b>
Adjustments for non-cash items	946	298	-	2,195	1,490	-	1,611	(20)	1,288
<b>Operating profit before changes in working capital and provisions</b>	<b>2,307</b>	<b>1,477</b>	<b>-</b>	<b>2,775</b>	<b>2,048</b>	<b>-</b>	<b>1,520</b>	<b>-</b>	<b>735</b>
Changes in working capital and provisions	(202)	(177)	-	(286)	(282)	-	(27)	-	37
<b>Cash flows from operations before income tax</b>	<b>2,105</b>	<b>1,300</b>	<b>-</b>	<b>2,489</b>	<b>1,766</b>	<b>-</b>	<b>1,493</b>	<b>-</b>	<b>772</b>
Income taxes paid	(155)	(55)	-	(326)	(199)	-	(93)	-	(146)
<b>Cash flows from operating activities</b>	<b>1,950</b>	<b>1,245</b>	<b>-</b>	<b>2,163</b>	<b>1,567</b>	<b>-</b>	<b>1,400</b>	<b>-</b>	<b>626</b>
<b>Cash generated (used in)/generated from investing activities, including:</b>	<b>(180)</b>	<b>103</b>	<b>(120)</b>	<b>97</b>	<b>262</b>	<b>(120)</b>	<b>(116)</b>	<b>-</b>	<b>(628)</b>
Capital expenditure (including pot rebuilds and intangible assets)	(851)	(575)	-	(691)	(522)	-	(864)	-	(385)
Proceeds from disposal of property, plant and equipment	35	33	-	20	8	-	38	-	1
Dividends from associates and joint ventures	336	336	-	755	755	-	926	-	-
Dividends from subsidiaries	-	-	(120)	-	-	(120)	-	-	-
Loans issued	(99)	-	-	-	-	-	-	-	-
Acquisition of available-for-sale investments	-	-	-	(66)	-	-	(343)	-	(343)
Proceeds from disposal of a subsidiary	298	298	-	-	-	-	-	-	-
Acquisition of joint ventures	-	-	-	(5)	-	-	-	-	-
Proceeds from disposal of available-for-sale investments	60	-	-	-	-	-	91	-	91
Interest received	27	17	-	31	21	-	33	28	5
Other receipts, net	14	(6)	-	53	-	-	3	-	3

**Year ended**

USD million	31 December 2016			31 December 2015			31 December 2014					
	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+	En+ Group Consolidated	UC RUSAL	Adjustments	EN+
<b>Cash flows used in financing activities, including:</b>												
Interest paid	(867)	(452)	-	(415)	(855)	(516)	-	(339)	(1,052)	(677)	-	(375)
Proceeds from/ (repayment of) borrowings, net	1,177	(143)	-	1,320	(662)	(741)	-	79	91	(640)	-	731
Acquisition of non-controlling interest	(827)	-	-	(827)	(16)	-	-	(16)	-	-	-	-
Payments from settlement of derivative instruments	(446)	(446)	-	-	(320)	(320)	-	-	(452)	(452)	-	-
Restructuring fees and other expenses	(14)	(14)	-	-	(2)	-	-	(2)	(149)	(130)	-	(19)
Proceeds from disposal of shares in subsidiaries	39	-	-	39	9	-	-	9	-	-	-	-
Distributions to shareholder	(318)	-	-	(318)	(1)	-	-	(1)	(64)	-	-	(64)
Dividends to shareholders	(318)	(250)	250	(318)	(262)	(250)	250	(262)	(203)	-	-	(203)
Dividends to non-controlling shareholders of subsidiaries	(130)	-	(130)	-	(149)	-	(130)	(19)	(23)	-	-	(23)
Other payments, net	-	-	-	-	-	-	-	-	(17)	(1)	-	(16)
<b>Net increase in cash and cash equivalents</b>	<b>66</b>	<b>43</b>	<b>-</b>	<b>23</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>12</b>	<b>-</b>	<b>29</b>
Cash and cash equivalents at beginning of the year, excluding restricted cash	577	494	-	83	697	557	-	140	811	701	-	110
Effect of exchange rate changes on cash and cash equivalents	13	(6)	-	19	(122)	(65)	-	(57)	(155)	(156)	-	1
<b>Cash and cash equivalents at end of the year, excluding restricted cash</b>	<b>656</b>	<b>531</b>	<b>-</b>	<b>125</b>	<b>577</b>	<b>494</b>	<b>-</b>	<b>83</b>	<b>697</b>	<b>557</b>	<b>-</b>	<b>140</b>

## 5. Assets and liabilities held for sale

As at 31 December 2016 management made a decision to dispose its ownership interest in some non-core operations and classified these assets and liabilities as held for sale.

The assets and liabilities of the disposal group classified as held for sale are represented as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Assets classified as held for sale</b>	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Property, plant and equipment	7	28	1
Inventories	-	1	-
Trade and other receivables	-	5	-
Other current assets	-	2	-
	<b>7</b>	<b>36</b>	<b>1</b>

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Liabilities classified as held for sale</b>	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Provisions	-	-	(13)
Trade and other payables	-	(4)	-
Other non-current liabilities	-	(7)	-
	-	<b>(11)</b>	<b>(13)</b>

## 6. Impairment of assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other asset groups. Impairment losses are recognised in the statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the



extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not recognised separately and, therefore, is not tested for impairment separately. Instead, the entire amount of the investment is tested for impairment as a single asset when there is objective evidence that the investment in an associate or a joint venture may be impaired.

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Reversal of impairment/(impairment) of property, plant and equipment (note 12)	107	(125)	(344)
Impairment of other assets	(89)	(18)	(24)
	<b>18</b>	<b>(143)</b>	<b>(368)</b>

## **7. Revenues**

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 (excluding sales of electricity and heat) 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.

Sales of electricity and heat are carried out on both regulated and unregulated power markets.

Revenue in the regulated power market in Russia is based on the application of authorised tariffs as approved by the Federal Tariff Service (for energy and capacity sales) and the Regional Energy Commission (for heat sales). Revenue is recognised on a monthly basis upon the delivery of the electricity and heat, excluding value-added tax.

Under competitive bilateral contracts electricity and capacity supply trading is based on unregulated prices negotiated between customers and suppliers. In order to sell necessary volume of electricity and capacity to the buyers the Group is required to purchase the equivalent volume from wholesale market. Management of the Group has exercised critical judgment in respect of transactions under free bilateral contracts to reflect their economic substance, thus the amounts of revenue and cost of sales are shown net for presentation purposes.

According to the Resolution of the Russian Government No. 1172 dated 27 December 2010 the seller is required to sell all electricity volume produced on wholesale market including the volume required for own production needs. In order to provide self-consumption the Group has to repurchase self-produced electricity back from whole

sale market. The amounts of revenue and expenses of self-produced and consumed electricity volume are shown net for presentation purposes based on selling prices on a day-ahead market.

Management believes that such presentation provides more relevant and meaningful information about the operation of the Group.

The Group's retail electricity and heating sales, other than to residential customers, are made on the basis of contracts signed with customers. Residential customers pay for their electricity usage on a monthly basis by means of a "self read" system. Residential customers pay for heating usage at a flat rate, based on a floor space of their apartments in square meters.

Revenue comprises the sales value of electricity and heating supplied to customers during the period, excluding value added tax ("VAT"). Electricity revenue is recognised on the date the metered information is read by or reported to the Group; heat sales are recognised as produced and delivered.

	Year ended 31 December		
	2016	2015	2014
	USD million	USD million	USD million
<b>Sales of primary aluminium and alloys</b>	<b>6,487</b>	<b>7,163</b>	<b>7,608</b>
<i>Third parties</i>	3,991	4,208	4,627
<i>Related parties – companies capable of exerting significant influence</i>	2,489	2,945	2,936
<i>Related parties – companies under common control</i>	7	9	11
<i>Related parties – associates and joint ventures</i>	-	1	34
<b>Sales of alumina and bauxite</b>	<b>655</b>	<b>617</b>	<b>612</b>
<i>Third parties</i>	377	382	377
<i>Related parties – companies capable of exerting significant influence</i>	186	207	235
<i>Related parties – associates and joint ventures</i>	92	28	-
<b>Sales of semi-finished products and foil</b>	<b>417</b>	<b>450</b>	<b>584</b>
<i>Third parties</i>	416	450	584
<i>Related parties – companies under common control</i>	1	-	-
<b>Sales of electricity</b>	<b>1,200</b>	<b>1,170</b>	<b>1,565</b>
<i>Third parties</i>	1,150	1,115	1,474
<i>Related parties – companies under common control</i>	36	39	77
<i>Related parties – associates and joint ventures</i>	14	16	14
<b>Sales of heat</b>	<b>345</b>	<b>344</b>	<b>541</b>
<i>Third parties</i>	322	317	505
<i>Related parties – companies under common control</i>	23	27	36
<b>Sales of ferromolybdenum</b>	<b>51</b>	<b>51</b>	<b>83</b>
<i>Third parties</i>	51	51	83
<b>Other revenues</b>	<b>621</b>	<b>734</b>	<b>924</b>
<i>Third parties</i>	515	639	817
<i>Related parties – companies capable of exerting significant influence</i>	11	17	53

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<i>Related parties – companies under common control</i>	31	27	16
<i>Related parties – associates and joint ventures</i>	64	51	38
	<b>9,776</b>	<b>10,529</b>	<b>11,917</b>

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 UC RUSAL Plc with a 8.75% share) 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 USD 2,322 million (2015: USD 2,710 million, 2014: USD 2,745 million).

## **8. Net other operating expenses**

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Impairment of accounts receivable	(3)	(27)	(67)
Charity	(14)	(11)	(13)
(Provision)/reversal of provision for legal claims	(4)	11	(30)
Loss on disposal of property, plant and equipment	(15)	(26)	(17)
Other operating expenses, net	(13)	(6)	(95)
	<b>(49)</b>	<b>(59)</b>	<b>(222)</b>

## **9. Personnel costs**

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 comprehensive income 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.

The Group also makes contributions for the benefit of employees to Russia's and the Ukrainian State's pension funds. The contributions are expensed as incurred.

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Contributions to defined contribution retirement plans	(227)	(212)	(303)
Contributions to defined benefit retirement plans	(3)	(4)	(7)
Total retirement costs	(230)	(216)	(310)
Wages and salaries	(964)	(976)	(1,323)
Share-based compensation (note 17(b))		-	(1)
	<b>(1,194)</b>	<b>(1,192)</b>	<b>(1,634)</b>

## 10. Finance income and costs

Finance income comprises interest income on funds invested, dividend income, 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.

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Finance income</b>			
Net foreign exchange gain	41	-	-
Interest income	39	30	41
Dividend income	2	1	2
Other finance income	6	5	3
	<b>88</b>	<b>36</b>	<b>46</b>

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Finance costs</b>			
Interest expense – <i>third parties</i>	(1,053)	(970)	(1,174)
Interest expenses on company loans from related parties – <i>companies capable of exerting significant influence</i>	(7)	(22)	(18)
Change in fair value of derivative financial instruments (refer to note 20)	(157)	(352)	(467)
Net foreign exchange loss	-	(285)	(487)
Other finance costs	(24)	-	(24)
	<b><u>(1,241)</u></b>	<b><u>(1,629)</u></b>	<b><u>(2,170)</u></b>

## **11. Income tax expense**

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.

**(a) Income tax expense**

	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b><i>Current tax expense</i></b>			
Current tax for the year (i)	(252)	(232)	(110)
<b><i>Deferred tax expense</i></b>			
Origination and reversal of temporary differences	(52)	(28)	(10)
	<b>(304)</b>	<b>(260)</b>	<b>(120)</b>

(i) Current tax in the amount of USD nil million (2015: USD 41 million, 2014: USD 182 million) was recognised in other comprehensive income/(loss).

Pursuant to the rules and regulations of Jersey, the Parent Company is not subject to any income tax in Jersey. The Parent Company's applicable tax rate is 0%. 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%; Cyprus of 12.5%; Guinea of 0%; China of 25%; Kazakhstan of 20%; Australia of 30%; Jamaica of 25%; Ireland of 12.5% and Sweden of 22%. For the Group's subsidiaries domiciled in Switzerland the applicable tax rate for the year is the corporate income tax rate in the Canton of Zug, Switzerland, which differs depending on the company's tax status. The rate consists of a federal income tax and a 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 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 years ended 31 December 2015 and 31 December 2014.

**Reconciliation of effective tax rate**

	<b>Year ended 31 December</b>					
	<b>2016</b>		<b>2015</b>		<b>2014</b>	
	<b>USD million</b>	<b>%</b>	<b>USD million</b>	<b>%</b>	<b>USD million</b>	<b>%</b>
<b>Profit/(loss) before taxation</b>	<b>1,665</b>	<b>(100)</b>	<b>840</b>	<b>(100)</b>	<b>(504)</b>	<b>100</b>
Income tax at tax rate applicable for Russian subsidiaries	(333)	20	(168)	20	101	(20)
Non-deductible expenses	(47)	3	(92)	11	(115)	23
Effect of impairment of non-current assets	(12)	1	-	-	-	-
Effect of changes in investment in Norilsk Nickel	64	(4)	1	-	19	(4)
Change in unrecognised deferred tax assets	(48)	3	(105)	12	(11)	2
Effect of different income tax rate	72	(4)	104	(12)	(114)	23
<b>Income tax</b>	<b>(304)</b>	<b>18</b>	<b>(260)</b>	<b>31</b>	<b>(120)</b>	<b>24</b>



(c) **Movement in temporary differences during the year**

USD million	1 January 2016	Recognised in profit or loss	Recognised directly in equity*	Currency translation	31 December 2016
Property, plant and equipment	(599)	(14)	(635)	(98)	(1,346)
Inventories	32	11	-	1	44
Trade and other receivables	19	(5)	-	2	16
Financial instruments	(22)	11	-	-	(11)
Tax loss carry-forwards	62	(18)	-	(1)	43
Others	12	(37)	(6)	(1)	(32)
	<b>(496)</b>	<b>(52)</b>	<b>(641)</b>	<b>(97)</b>	<b>(1,286)</b>

\* Temporary differences on property, plant and equipment relate to revaluation of hydro assets and were recognised in other comprehensive income. Others in amount of USD 6 million were recognised in the transactions with owners part of the Consolidated Statement of Changes in Equity.

USD million	1 January 2015	Recognised in profit or loss	Currency translation	31 December 2015
Property, plant and equipment	(625)	6	20	(599)
Inventories	48	(15)	(1)	32
Trade and other receivables	31	(8)	(4)	19
Financial instruments	24	(46)	-	(22)
Tax loss carry-forwards	39	29	(6)	62
Others	(2)	6	8	12
	<b>(485)</b>	<b>(28)</b>	<b>17</b>	<b>(496)</b>

USD million	1 January 2014	Recognised in profit or loss	Currency translation	31 December 2014
Property, plant and equipment	(679)	5	49	(625)
Inventories	37	12	(1)	48
Trade and other receivables	47	1	(17)	31
Financial instruments	-	24	-	24
Tax loss carry-forwards	141	(56)	(46)	39
Others	(2)	4	(4)	(2)
	<b>(456)</b>	<b>(10)</b>	<b>(19)</b>	<b>(485)</b>

(d) **Unrecognised deferred tax assets**

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

	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>
Deductible temporary differences	591	678	709
Tax loss carry-forwards	513	612	587
	<b>1,104</b>	<b>1,290</b>	<b>1,296</b>



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:

Year of expiry	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>
Without expiry	505	520	459
From 6 to 10 years	-	64	88
From 2 to 5 years	3	18	25
Up to 1 year	5	10	15
	<b><u>513</u></b>	<b><u>612</u></b>	<b><u>587</u></b>

(e) **Unrecognised deferred tax liabilities**

The Group's subsidiaries have retained earnings where dividend distributions are subject to taxation, 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.

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

	<u>31</u>	<u>31</u>	<u>31</u>
	<u>December</u>	<u>December</u>	<u>December</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>
	<u>million</u>	<u>million</u>	<u>million</u>
Net income tax payable/(receivable) at the beginning of the year	(75)	26	13
Income tax for the year	252	273	292
Income tax paid	(155)	(326)	(239)
Dividend withholding tax	(23)	(51)	(62)
Translation difference	(17)	3	22
	<b><u>(18)</u></b>	<b><u>(75)</u></b>	<b><u>26</u></b>
Represented by:			
Income tax payable	26	13	51
Prepaid income tax	(44)	(88)	(25)
Net income tax (receivable)/payable	<b><u>(18)</u></b>	<b><u>(75)</u></b>	<b><u>26</u></b>

## **12. Property, plant and equipment**

(a) **Accounting policy**

(i) **Recognition and measurement**

Until 1 January 2016 all items of property, plant and equipment were 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.

Most of the hydro assets have long useful lives (up to 100 years) and their performance does not deteriorate significantly. Considering recent changes in the regulation of Russian power sector (100% liberalisation) and the fact that hydropower is one of the most efficient sectors of the electric power industry, the management believes that hydropower assets were significantly undervalued prior to 1 January 2016.

On 1 January 2016 the Group identified a separate class of assets – hydro assets – and changed its accounting policy for this class from the cost to the revaluation model to provide users with more relevant information on the Group's financial position. The opening balance of equity was not adjusted and comparatives were not restated.

Hydro assets are a class of property, plant and equipment with unique nature and use in production of hydropower plants. Since 1 January 2016 hydro assets are measured at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made based on periodic valuation by external independent valuer.

Determined class of assets may be revalued on a rolling basis provided revaluation of the class of assets are completed within a short period and provided the revaluations are kept up to date.

After an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

A revaluation increase on hydro assets is recognised directly under the heading of revaluation surplus in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A revaluation decrease on hydro assets is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

**(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.



Assets held under other leases (operating leases) are not recognised in the statement of financial position. Payments made under the lease are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Long-term land leases may be recognised as finance leases even without the transfer of ownership of the land at the end of the lease if in the Group's judgment, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser.

(b) **Disclosure**

USD million	Land and buildings	Machinery and equipment	Electrolysers	Hydro-assets	Mining assets	Construction in progress	Other	Total
<i>Cost/Deemed cost</i>								
At 1 January 2014	5,300	7,616	2,121	507	1,091	1,988	467	19,090
Additions	6	1	143	-	12	765	2	929
Acquisition through business combination (note 17(a))	1	4	-	-	-	1	-	6
Disposals	(16)	(58)	(111)	(2)	(35)	(26)	(25)	(273)
Transfers	104	293	4	90	41	(559)	27	-
Change in estimate of site restoration provision	-	-	-	-	(26)	-	-	(26)
Translation difference	(986)	(1,014)	(77)	(242)	(397)	(357)	(137)	(3,210)
At 31 December 2014	<b>4,409</b>	<b>6,842</b>	<b>2,080</b>	<b>353</b>	<b>686</b>	<b>1,812</b>	<b>334</b>	<b>16,516</b>
Additions	1	11	106	-	40	581	10	749
Disposals	(20)	(54)	(17)	-	-	(37)	(12)	(140)
Transfers	77	282	13	20	80	(556)	84	-
Reclassification to assets held for sale (note 5)	-	-	-	-	-	(28)	-	(28)
Change in estimate of site restoration provision	-	-	-	-	3	-	-	3
Translation difference	(338)	(344)	(34)	(79)	(140)	(112)	(50)	(1,097)
At 31 December 2015	<b>4,129</b>	<b>6,737</b>	<b>2,148</b>	<b>294</b>	<b>669</b>	<b>1,660</b>	<b>366</b>	<b>16,003</b>
Revaluation of hydro assets as at 1 January 2016	-	-	-	1,941	-	-	-	1,941
Additions	-	22	89	-	33	738	8	890
Disposals	(102)	(441)	(15)	-	(128)	(15)	(5)	(706)
Transfers and reclassifications (note 12 (f))	153	353	14	157	15	(628)	(64)	-
Revaluation of hydro assets as at 31 December 2016	-	-	-	1,068	-	-	-	1,068
Change in estimate of site restoration provision	-	-	-	-	(1)	-	-	(1)
Translation difference	196	194	(19)	459	97	68	22	1,017
At 31 December 2016	<b>4,376</b>	<b>6,865</b>	<b>2,217</b>	<b>3,919</b>	<b>685</b>	<b>1,823</b>	<b>327</b>	<b>20,212</b>

USD million	Land and buildings	Machinery and equipment	Electrolysers	Hydroassets	Mining assets	Construction in progress	Other	Total
<b>Depreciation and impairment losses</b>								
At 1 January 2014	(2,537)	(5,034)	(1,719)	(157)	(798)	(1,345)	(292)	(11,882)
Depreciation charge	(147)	(317)	(160)	(20)	(20)	-	(27)	(691)
Impairment losses	(78)	(111)	(6)	-	(129)	(20)	-	(344)
Disposals	8	42	102	1	35	-	8	196
Translation difference	531	594	135	72	304	183	54	1,873
At 31 December 2014	<b>(2,223)</b>	<b>(4,826)</b>	<b>(1,648)</b>	<b>(104)</b>	<b>(608)</b>	<b>(1,182)</b>	<b>(257)</b>	<b>(10,848)</b>
Depreciation charge	(115)	(276)	(162)	(14)	(6)	(7)	(21)	(601)
(Impairment losses)/reversal of impairment	(20)	(63)	1	-	(97)	55	(1)	(125)
Disposals	9	49	14	-	-	11	6	89
Translation difference	201	218	32	25	114	50	28	669
At 31 December 2015	<b>(2,148)</b>	<b>(4,898)</b>	<b>(1,763)</b>	<b>(93)</b>	<b>(597)</b>	<b>(1,073)</b>	<b>(245)</b>	<b>(10,817)</b>
Revaluation of hydro assets as at 1 January 2016	-	-	-	92	-	-	-	92
Depreciation charge	(120)	(290)	(152)	(67)	(6)	-	(16)	(651)
(Impairment losses)/reversal of impairment	66	85	4	(6)	(22)	(20)	-	107
Disposals	94	432	12	-	114	-	3	655
Transfers and reclassifications (note 12(f))	(6)	(9)	-	-	-	2	11	(2)
Revaluation of hydro assets as at 31 December 2016	-	-	-	74	-	-	-	74
Translation difference	(101)	(116)	20	-	(82)	(30)	(6)	(315)
At 31 December 2016	<b>(2,215)</b>	<b>(4,796)</b>	<b>(1,879)</b>	<b>-</b>	<b>(593)</b>	<b>(1,121)</b>	<b>(253)</b>	<b>(10,857)</b>
<b>Net book value</b>								
At 1 January 2014	2,763	2,582	402	350	293	643	175	7,208
At 31 December 2014	<b>2,186</b>	<b>2,016</b>	<b>432</b>	<b>249</b>	<b>78</b>	<b>630</b>	<b>77</b>	<b>5,668</b>
At 31 December 2015	<b>1,981</b>	<b>1,839</b>	<b>385</b>	<b>201</b>	<b>72</b>	<b>587</b>	<b>121</b>	<b>5,186</b>
At 31 December 2016	<b>2,161</b>	<b>2,069</b>	<b>338</b>	<b>3,919</b>	<b>92</b>	<b>702</b>	<b>74</b>	<b>9,355</b>

Included in disposals of property, plant and equipment are disposals related to deconsolidation of Alpart (note 2(h)) of USD 564 million both at cost and accumulated depreciation.

Depreciation expense of USD 604 million (2015: USD 552 million, 2014: USD 637 million) has been charged to cost of goods sold, USD 4 million (2015: USD 6 million, 2014: USD 8 million) to distribution expenses and USD 21 million (2015: USD 18 million, 2014: USD 21 million) to administrative expenses.

Interest capitalised for the years ended 31 December 2016, 31 December 2015 and 2014 was USD 5 million, USD 9 million and USD 12 million, respectively. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation during the years ended 31 December 2016, 31 December 2015 and 2014 was 11.30%, 12.06% and 9.5%, respectively.

Included in construction in progress at 31 December 2016, 31 December 2015 and 31 December 2014 are advances to suppliers of property, plant and equipment of USD 99 million, USD 53 million and USD 37 million, respectively.

(c) **Leases**

At 31 December 2016, 31 December 2015 and 31 December 2014 the carrying value of plant and equipment held under finance leases was USD 32 million, USD 5 million and USD 13 million, respectively.

(d) **Impairment**

Management reviewed the carrying amount of the group's non-financial assets at the reporting date to determine whether there were any indicators of impairment or reversal of impairment.

Based on the analysis performed, management identified several indicators including 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, the postponement of the commissioning of certain considerable consumers of electricity and the respective reassessment of the forecasted volumes of coal supplies to the heat power-plants as well as the forecasted volumes of electricity transmission. 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 value in use of each cash generating unit was determined by discounting expected future net cash flows of the cash generating unit.

**UC RUSAL**

At 31 December 2016, 31 December 2015 and 31 December 2014 management identified several indicators that a number of the Group's cash-generating units may be impaired or see reversal of previously recognised impairment loss.

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., Armeal and Ural Foil cash generating units in the amounts of USD 58 million, USD 48 million and USD 13 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 USD 124 million, USD 52 million, USD 48 million, USD 38 million, USD 30 million and USD 7 million, respectively.



Based on results of impairment testing for the year 2015 and 2014, management has concluded that no 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	2014
Bauxite Company of Guyana Inc.	16.7%	20.5%	18.6%
Armenal	20.0%	20.0%	22.0%
Ural Foil	15.3%	-	-
Kubikemborg Aluminium	13.2%	13.2%	15.0%
Kremniy	19.0%	19.0%	-
Windalco	31.5%	-	-
Aughinish Alumina	13.5%	13.2%	15.6%
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 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 USD 67 million at 31 December 2016 (2015: USD 115 million, 2014: USD 96 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.

#### **EN+**

At 31 December 2016 management identified several indicators of impairment of property, plant and equipment of Coal, Irkutsk GridCo and KRAMZ cash-generating units and as a result of impairment testing performed no impairment was recognised.

At 31 December 2015 management identified several indicators of impairment of property, plant and equipment of Coal and Irkutsk GridCo cash-generating units. As a result of impairment testing performed no impairment was recognised.

At 31 December 2014 management identified several indicators of impairment of property, plant and equipment of Coal and Irkutsk GridCo cash-generating units. Based on the results of impairment testing performed management has concluded that impairment loss relating to property, plant and equipment should be recognised in these financial statements in respect of the Coal and Irkutsk GridCo cash-generating units in the amount of USD 95 million and USD 126, respectively. The results were particularly sensitive to the changes in forecast coal export price and volumes, tariffs and volumes of electricity transmission and applicable discount rates.

The following key assumptions were used to determine the recoverable amount of the Coal cash-generating unit at 31 December 2016:

- The sales volumes in 2017 were projected based on the approved budget for 2017. The sales volumes of coal in 2017 were planned at the level of 12,451 thousand tons. The expected growth till 2026 was estimated as 26.4% as compared to 2017;
- Average price for coal in 2017 was estimated at the level of RUB 789 per ton of coal and increased by 4%-8% per annum till 2026. The anticipated price growth included in the cash flow projections for the years from 2018 to 2026 has been based on the publicly available forecasts of Ministry of Economic Development of the Russian Federation;
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 14%;
- A terminal value was derived following the forecast period assuming a 4% annual growth rate.

The following key assumptions were used to determine the recoverable amount of the Coal cash-generating unit at 31 December 2015:

- The sales volumes in 2016 were projected based on the approved budget for 2016. The sales volumes of coal in 2016 were planned at the level of 12,255 thousand tons. The expected growth till 2025 was estimated as 18.2% as compared to 2016;
- Average price for coal in 2016 was estimated at the level of RUB 751 per ton of coal and increased by 4%-10% per annum till 2025. The anticipated price growth included in the cash flow projections for the years from 2017 to 2025 has been based on the publicly available forecasts of Ministry of Economic Development of the Russian Federation;
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 15%;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate.

The following key assumptions were used to determine the recoverable amount of the Coal cash-generating unit at 31 December 2014:

- The sales volumes in 2015 were projected based on the approved budget for 2015. The sales volumes of coal in 2015 were planned at the level of 13,228 thousand tons. The expected growth till 2024 was estimated as 11.13% as compared to 2015;
- Average price for coal in 2015 was estimated at the level of RUB 691 per ton of coal and increased by 3.1%-8.3% per annum till 2024. The anticipated price growth included in the cash flows projections for the years from 2016 to 2024 has been based on the publicly available forecasts of Ministry of Economic Development of the Russian Federation;
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 16%;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate.

The recoverable amount of the Coal cash-generating unit is particularly sensitive to changes in forecast of sales volumes, coal prices and applicable discount rates.

The following key assumptions were used to determine the recoverable amount of the Irkutsk GridCo cash-generating unit at 31 December 2016:

- The sales volume of electricity transmission in 2017 were planned at the level of 45 million MWh. The expected growth till 2026 was estimated as 17.3% as compared to 2017;
- Tariffs for electricity transmission were estimated at the levels of RUB 385-525 per MWh depending on market segment in 2017 and increased by 44% till 2026 as compared to 2017.

The anticipated growth of tariffs included in the cash flows projections for the years from 2018 to 2026 has been based on the publicly available forecasts of Ministry of Economic Development of the Russian Federation in relation to inflation;

- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and amounted to 15.2%;
- A terminal value was derived following the forecast period assuming a 4% annual growth rate.

The following key assumptions were used to determine the recoverable amount of the Irkutsk GridCo cash-generating unit at 31 December 2015:

- The sales volume of electricity transmission in 2016 were planned at the level of 45 million MWh. The expected growth till 2025 was estimated as 3.1% as compared to 2016;
- Tariffs for electricity transmission were estimated at the levels of RUB 332-538 per MWh depending on market segment in 2016 and increased by 55.9% till 2025 as compared to 2016. The anticipated growth of tariffs included in the cash flows projections for the years from 2017 to 2025 has been based on the publicly available forecasts of Ministry of Economic Development of the Russian Federation in relation to inflation;
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and vary from 13.4% in 2016 to 12.8% in 2025;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate.

The following key assumptions were used to determine the recoverable amount of the Irkutsk GridCo cash-generating unit at 31 December 2014:

- The sales volume of electricity transmission in 2015 were planned at the level of 46 million MWh. The expected growth till 2024 was estimated as 4.46% as compared to 2015;
- Tariffs for electricity transmission were estimated at the levels of RUB 297-469 per MWh depending on market segment in 2015 and increased by 53.5% till 2024 as compared to 2015. The anticipated growth of tariffs included in the cash flows projections for the years from 2016 to 2024 has been based on the publicly available forecasts of Ministry of Economic Development of the Russian Federation in relation to inflation;
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and vary from 16.2% in 2015 to 13% in 2024;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate.

The recoverable amount estimated at 31 December 2016 includes cash flows from sales of electricity transmission to Taishet aluminium smelter starting from 2021. In case Taishet aluminium smelter is not launched the significant impairment of property, plant and equipment may need to be recognised.

The recoverable amount of the Irkutsk GridCo cash-generating unit is also particularly sensitive to changes in forecast of electricity transmission volumes and tariffs, as well as applicable discount rates.

The following key assumptions were used to determine the recoverable amount of the KRAMZ cash-generating unit at 31 December 2016:

- The sales volumes from current operations, not extended to additional sales volumes from investment projects execution, in 2017 were projected based on the approved budget for 2017. The sales volumes of metal products in 2017 were planned at the level of 92 thousand tons. The expected growth till 2026 was estimated as 10% as compared to 2017;

- Average price for metal products depends on aluminium price on the London Metal Exchange (LME) and premium to the price. The anticipated average price growth for aluminium and premium included in the cash flows projections is 1.3%-5.5% for the years from 2017 to 2025.
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 15%;
- A terminal value was derived following the forecast period assuming a 2% annual growth rate.

The recoverable amount of the KRAMZ cash-generating unit is particularly sensitive to changes in forecast of sales volumes, prices for aluminium 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 USD 6 million (2015: USD 10 million, 2014: USD 27 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.

(e) **Security**

The carrying value of property, plant and equipment which subject to lien under loan agreements was USD 274 million at 31 December 2016 (31 December 2015: USD 639 million, 31 December 2014: USD 637 million) (note 18).

The carrying value of plant and equipment held under finance leases which is pledged under lessors' loan agreements amounted to USD nil million as at 31 December 2016 (31 December 2015: USD nil million, 31 December 2014: USD 7 million).

(f) **Reclassification**

During 2016 the management and technical specialists of the Group reviewed the classification of property, plant and equipment to categories. As a result, the Group reclassified some assets between the categories to reflect technical and economic basis respective to production cycle.

(g) **Hydro assets**

An independent valuation analysis of hydro assets has been carried out following the decision to change accounting policy to the revaluation model for this class of property, plant and equipment beginning from 1 January 2016 (note 12(a)(i)). The fair value of hydro assets is estimated to be USD 2,230 million with an equity effect of USD 2,033 million and revaluation loss of USD 4 million recognised in the statement of profit or loss and other comprehensive income.

In October 2016 the Group acquired previously leased dams from the lessor (note 22(d)) for a cash consideration of USD 138 million (RUB 9,280 million at average annual exchange rate), excluding VAT. As at 31 December 2016 the consideration was paid.

As at 31 December 2016 as a result of the independent valuation analysis the fair value of hydro assets was estimated in the amount of USD 3,919 million with an additional equity effect of USD 1,142 million and an additional revaluation loss of USD 2 million recognised in the statement of comprehensive income.

As at 31 December 2016 the increase in fair value mostly refers to the dams acquired in 2016 which are classified as hydro assets and were previously leased. These dams complement existing hydro assets of the Group. As a result, the ability to integrate these dams into the Group's existing generation and distribution facilities has led the management to perform a new revaluation at the end of 2016.

Net book value at the 1 January 2016 according to cost model amounted to USD 201 million and as at 31 December 2016 to USD 402 million.

The valuation analysis primarily was based on the cost approach to determine depreciated replacement cost as it is the most reliable method to estimate value for the assets that have not an active market and do not generate an identifiable revenue stream by asset. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical depreciation, functional and economical obsolescence.

Depreciated replacement cost was estimated based on internal sources and, where available, analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc.

In addition cash flow testing was conducted to identify if there is an economic obsolescence of the hydro assets. Forecasts of net cash flows were determined based on the actual results for the preceding years and approved budgets. Based on the analysis results, there is no economic obsolescence as at 1 January 2016 and 31 December 2016.

The fair value measurement for hydro assets have been categorised as Level 3 fair values based on the inputs to the valuation techniques used.

### **13. Goodwill and intangible assets**

(a) **Accounting policy**

(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.

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.

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.

(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 (refer to note 12(d)).

**(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 (refer to note 12(d)).

**(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;
- other intangible assets 2-8 years.

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

**(b) Disclosure**

USD million	Goodwill	Other intangible assets	Total
<i>Cost</i>			
<b>Balance at 1 January 2014</b>	<b>3,900</b>	<b>608</b>	<b>4,508</b>
Additions	-	22	22
Disposals	-	(13)	(13)
Foreign currency translation	(1,139)	(42)	(1,181)
<b>Balance at 31 December 2014</b>	<b>2,761</b>	<b>575</b>	<b>3,336</b>
Additions	-	18	18
Disposals	-	(2)	(2)
Foreign currency translation	(361)	(18)	(379)
<b>Balance at 31 December 2015</b>	<b>2,400</b>	<b>573</b>	<b>2,973</b>
Additions	-	20	20
Disposals	-	(14)	(14)
Foreign currency translation	248	6	254
<b>Balance at 31 December 2016</b>	<b>2,648</b>	<b>585</b>	<b>3,233</b>

USD million	Goodwill	Other intangible assets	Total
<i>Amortisation and impairment losses</i>			
<b>Balance at 1 January 2014</b>	<b>(450)</b>	<b>(463)</b>	<b>(913)</b>
Amortisation charge	-	(18)	(18)
Foreign currency translation	-	19	19
<b>Balance at 31 December 2014</b>	<b>(450)</b>	<b>(462)</b>	<b>(912)</b>
Amortisation charge	-	(17)	(17)
Foreign currency translation	-	9	9
<b>Balance at 31 December 2015</b>	<b>(450)</b>	<b>(470)</b>	<b>(920)</b>
Amortisation charge	-	(12)	(12)
Foreign currency translation	-	(1)	(1)
<b>Balance at 31 December 2016</b>	<b>(450)</b>	<b>(483)</b>	<b>(933)</b>
<i>Net book value</i>			
At 1 January 2014	3,450	145	3,595
At 31 December 2014	<b>2,311</b>	<b>113</b>	<b>2,424</b>
At 31 December 2015	<b>1,950</b>	<b>103</b>	<b>2,053</b>
<b>At 31 December 2016</b>	<b>2,198</b>	<b>102</b>	<b>2,300</b>

(c) **Amortisation charge**

The amortisation charge is included in cost of sales in profit or loss.

(d) **Impairment testing of goodwill and other intangible assets**

For the purposes of impairment testing, goodwill is allocated to the following cash-generating units. These units represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each business, and the related impairment losses recognised, are as follows:

USD million	Allocated goodwill 2016	Accumulated impairment loss 2016	Allocated goodwill 2015	Accumulated impairment loss 2015	Allocated goodwill 2014	Accumulated impairment loss 2014
UC RUSAL	2,388	(449)	2,201	(449)	2,492	(449)
Irkutskenergo	259	-	198	-	268	-
Strikeforce Mining and Resources PLC ("SMR")	1	(1)	1	(1)	1	(1)
	<b>2,648</b>	<b>(450)</b>	<b>2,400</b>	<b>(450)</b>	<b>2,761</b>	<b>(450)</b>

**UC RUSAL**

For the purposes of impairment testing, the entire amount of goodwill is allocated to the aluminium segment of the UC RUSAL's operations. The aluminium segment represents the lowest level within the UC RUSAL 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 UC RUSAL's aluminium segment.

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 USD 1,673 per tonne for primary aluminium in 2017, USD 1,703 in 2018, USD 1,726 in 2019, USD 1,789 in 2020, USD 1,911 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 RUB 62.4 for one USD in 2017, RUB 67.7 in 2018, RUB 69.7 in 2019, RUB 71.0 in 2020, RUB 69.0 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 UC RUSAL'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 USD 1,561 per tonne for primary aluminium in 2016, USD 1,710 in 2017, USD 1,787 in 2018, USD 1,853 in 2019, USD 1,984 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 UC RUSAL denominated in RUB into USD were RUB 63.3 for one USD in 2016, RUB 63.1 in 2017, RUB 62.5 in 2018, RUB 64.8 in 2019, RUB 67.5 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, management concluded that no impairment should be recorded in the consolidated financial statements as at 31 December 2015.

At 31 December 2014, management analysed changes in the economic environment and developments in the aluminium industry and the UC RUSAL's operations since 31 December 2013 and performed an impairment test for goodwill at 31 December 2014 using the following assumptions to determine the recoverable amount of the segment:

- Total production was estimated based on average sustainable production levels of 3.6 million metric tonnes of primary aluminium, of 7.4 million metric tonnes of alumina and of 12.4 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 USD 2,010 per tonne for primary aluminium in 2015, USD 2,127 in 2016, USD 2,203 in 2017, USD 2,270 in 2018, USD 2,313 in 2019. 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 RUB 59.6 for one USD in 2015, RUB 55.6 in 2016, RUB 53.2 in 2017, RUB 51.2 in 2018, RUB 49.3 in 2019. Inflation of 4.9% – 11.8% in RUB and 1.5% - 2.5% 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 16.2%;

- A terminal value was derived following the forecast period assuming a 2.1% 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 17% 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 5% decrease in the recoverable amount and would not lead to an impairment;
- A 1% increase in the discount rate would have resulted in a 6% decrease in the recoverable amount and would not lead to an impairment.

Based on results of impairment testing, management concluded that no impairment should be recorded in the consolidated financial statements as at 31 December 2014.

#### **EN+**

Goodwill primarily resulted from the acquisition of Irkutskenergo. For the purposes of impairment testing, goodwill is allocated to Irkutskenergo segment. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

Management performs impairment testing of goodwill annually at 31 December of the respective calendar year.

The recoverable amount of Irkutskenergo in 2016, 2015 and 2014 was determined by reference to its value in use derived by discounting of the future cash flows generated from continuing use of production facilities within Irkutskenergo segment of the Group.

The following key assumptions were used to determine the recoverable amount of the segment at 31 December 2016:

- The sales volumes in 2017 were projected based on the approved budgets for 2017. In particular, the sales volumes of electricity in 2017 were planned at the level of 64 million MWh and 66 million MWh in 2018. The expected growth till 2026 was estimated as 12.1% as compared to 2017. The sales volumes of heat in 2017 were planned at the level of 20 million Gcal and no growth till 2026 is expected.
- Sales prices were based on the long-term price outlook derived from the available industry and market sources. The prices for electricity were estimated at the levels of USD 1.1 – 26.7 (RUB 64-1,617) per MWh depending on market segment in 2017 and increased by 28-53% respectively till 2026. The tariffs for heat were estimated as USD 15.7 (RUB 954) per Gcal in 2017 and grew by 45% till 2026. Operating costs were projected based on the historical performance of Irkutskenergo and the anticipated increase during the projected period was in line with inflation.
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital amounted to 14.8% ;
- A terminal value was derived following the forecast period assuming a 4% annual growth rate.

The following key assumptions were used to determine the recoverable amount of the segment at 31 December 2015:

- The sales volumes in 2016 were projected based on the approved budgets for 2016. In particular, the sales volumes of electricity in 2016 were planned at the level of 73 million MWh and 76 million MWh in 2017. The expected growth till 2025 was estimated as 13.8% as compared to 2016. The sales volumes of heat in 2016 were planned at the level of 20 million Gcal and no growth till 2025 is expected.
- Sales prices were based on the long-term price outlook derived from the available industry and market sources. The prices for electricity were estimated at the levels of USD 1.3 – 25 (RUB 80-1,525) per MWh depending on market segment in 2016 and increased by 53-107% respectively till 2025. The tariffs for heat were estimated as USD 15 (RUB 884) per Gcal in 2016 and grew by 82% till 2025. Operating costs were projected based on the historical performance of Irkutskenergo and the anticipated increase during the projected period was in line with inflation.
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and vary from 15.7% in 2016 to 15.1% in 2025;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate.

The following key assumptions were used to determine the recoverable amount of the segment at 31 December 2014:

- The sales volumes in 2015 were projected based on the approved budgets for 2015. In particular, the sales volumes of electricity in 2015 were planned at the level of 70 million megawatt-hours and 71 million megawatt-hours in 2016. No growth till 2024 is expected. The sales volumes of heat in 2015 were planned at the level of 21 million Gcal and no growth till 2024 is expected.
- Sales prices were based on the long-term price outlook derived from the available industry and market sources. The prices for electricity were estimated at the levels of USD 1 – 20 (RUB 35-7540 per megawatt-hour depending on market segment in 2015 and increased by 50-115% respectively till 2024. The tariffs for heat were estimated as USD 21 (RUB 823) per Gcal in 2015 and grew by 84% till 2024. Operating costs were projected based on the historical performance of Irkutskenergo and the anticipated increase during the projected period was in line with inflation.
- The post-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and vary from 18.4% in 2015 to 15.2% in 2024;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate.

Based on results of impairment testing, management concluded that no impairment for Irkutskenergo CGU should be recorded in the consolidated financial statements at 31 December 2016, 31 December 2015 and 31 December 2014.

Reasonable possible change in key assumption will not lead to an impairment.

## 14. Interests in associates and joint ventures

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) (note 5). 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 16).

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

An impairment loss in respect of an investment in an associate or joint venture is calculated as the difference between its carrying amount after application of the equity method of accounting and its recoverable amount. The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Group estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised.

	31 December		
	2016	2015	2014
	USD million	USD million	USD million
Balance at the beginning of the year	3,222	4,885	8,789
Acquisition	-	5	-
Group's share of profits and other gains attributable to associates	847	368	521
Reversal of provision for a guarantee included in the share of profits	(100)	-	-
Dividends	(490)	(1,063)	(975)
Group's share of other comprehensive income	-	4	10
Foreign currency translation	677	(977)	(3,460)
<b>Balance at the end of the year</b>	<b>4,156</b>	<b>3,222</b>	<b>4,885</b>
Goodwill included in interests in associates	2,477	2,062	2,863

The following list contains only the particulars of associates, 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	Proportion of ownership interest		Principal activity
			Group's effective interest	Group's nominal interest	
PJSC MMC Norilsk Nickel	Russian Federation	158,245,476 shares, RUB 1 par value	13.39%*	27.82%	Nickel and other metals production
Queensland Alumina Limited	Australia	2,212,000 shares, AUD 2 par value	9.63%	20%	Production of alumina under a tolling agreement
BEMO project	Cyprus, Russian Federation	BOGES Limited and BALP Limited – 10,000 shares EUR 1.71 each	24.07%	50%	Energy / Aluminium production – construction in progress

\*13.50% at 31 December 2015 and 13.39% at 31 December 2014

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	165	339
Current assets	1,577	5,668	22	115	77	153	153	498
Non-current liabilities	(2,281)	(8,115)	(89)	(242)	(880)	(1,817)	(35)	(73)
Current liabilities	(698)	(2,508)	(69)	(345)	(36)	(73)	(155)	(541)
<b>Net assets</b>	<b>3,592</b>	<b>3,926</b>	<b>-</b>	<b>115</b>	<b>436</b>	<b>1,081</b>	<b>128</b>	<b>223</b>

	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	899	3,063
Profit/(loss) from continuing operations	688	2,198	-	(24)	40	16	21	(3)
Other comprehensive income	602	381	-	(1)	67	139	6	4
<b>Total comprehensive income</b>	<b>1,290</b>	<b>2,579</b>	<b>-</b>	<b>(25)</b>	<b>107</b>	<b>155</b>	<b>27</b>	<b>1</b>

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

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures and associates	
	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	169	342
Current assets	1,858	6,625	29	151	67	135	180	568
Non-current liabilities	(2,192)	(7,734)	(97)	(245)	(810)	(1,620)	(39)	(77)
Current liabilities	(948)	(3,382)	(71)	(361)	(36)	(72)	(193)	(567)
<b>Net assets</b>	<b>2,776</b>	<b>2,255</b>	<b>-</b>	<b>140</b>	<b>329</b>	<b>983</b>	<b>117</b>	<b>266</b>

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures and associates	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Revenue	2,396	8,542	142	712	204	407	1,107	2,705
Profit/(loss) from continuing operations	486	1,734	(293)	13	176	64	(1)	39
Other comprehensive income	(817)	(567)	(35)	(15)	(45)	(184)	(73)	(161)
<b>Total comprehensive income</b>	<b>(331)</b>	<b>(1,167)</b>	<b>(328)</b>	<b>(2)</b>	<b>131</b>	<b>(120)</b>	<b>(74)</b>	<b>(122)</b>

The summary of the consolidated financial statements of associates and joint ventures for the year ended 31 December 2014 is presented below:

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures and associates	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Non-current assets	4,987	7,464	493	676	997	2,700	294	583
Current assets	1,582	5,685	37	190	36	71	243	695
Non-current liabilities	(1,820)	(6,174)	(111)	(269)	(270)	(540)	(71)	(155)
Current liabilities	(608)	(2,182)	(92)	(455)	(565)	(1,130)	(247)	(714)
<b>Net assets</b>	<b>4,141</b>	<b>4,793</b>	<b>327</b>	<b>142</b>	<b>198</b>	<b>1,101</b>	<b>219</b>	<b>409</b>

	PJSC MMC Norilsk Nickel		Queensland Alumina Limited		BEMO project		Other joint ventures and associates	
	Group share	100%	Group share	100%	Group share	100%	Group share	100%
Revenue	3,302	11,869	153	766	88	176	1,250	3,606
Profit/(loss) from continuing operations	515	2,003	(14)	4	4	8	16	(14)
Other comprehensive income	(3,243)	(3,519)	(30)	(13)	(137)	(569)	(40)	(65)
<b>Total comprehensive income</b>	<b>(2,728)</b>	<b>(1,516)</b>	<b>(44)</b>	<b>(9)</b>	<b>(133)</b>	<b>(561)</b>	<b>(24)</b>	<b>(79)</b>

*(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, 31 December 2015 and 31 December 2014 amounted to USD 3,592 million, USD 2,776 million and USD 4,141 million, respectively. The market value amounted to USD 7,348 million, USD 5,542 million and USD 6,388 million as at 31 December 2016, 31 December 2015 and 31 December 2014, 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*

The carrying value and market value of the Group's investment in Queensland Alumina Limited as at 31 December 2016, 31 December 2015 and 31 December 2014 amounted to USD nil million, USD nil million and USD 327 million, respectively.

The Group's share of profits/(losses) in associate for the year ended 31 December 2015 includes impairment losses relating to investment in Queensland Alumina Limited of which USD 283 million was recognised by the Group.

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 is 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 to the extent of its investment in the entity in the amount of USD 283 million and made the necessary adjustment to the carrying value of the investment which was written down to nil.

*(c) BEMO project*

The carrying value and market value of the Group's investment in BEMO project as at 31 December 2016, 31 December 2015 and 31 December 2014 amounted to USD 436 million, USD 329 million and USD 198 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 USD 550 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 and at 31 December 2014, 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% for 2015 and 17.2% and 21.5 for 2014, 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.

As the result of impairment testing as at 31 December 2015 the Group recognised its share of reversal of impairment losses in BoGES and made the necessary adjustment to the carrying value of investment. The Group's share of gains related to BoGES was recognised in the amount of USD 143 million.

At 31 December 2015, losses of USD 357 million related to impairment charges at BoAZ have not been recognised because the Group's investment has already been fully written down to nil.

At 31 December 2014, losses of USD 375 million related to impairment charges at BoAZ have not been recognised because the Group's investment has already been fully written down to nil.



Summary of the additional financial information of the Group's effective interest in BEMO project for the year ended 31 December 2015 and 31 December 2014 is presented below (all in USD million):

	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Cash and cash equivalents	18	16	14
Current financial liabilities	(7)	(778)	(534)
Non-current financial liabilities	(844)	(3)	(241)
Depreciation and amortisation	(16)	(18)	(21)
Interest income	1	2	1
Interest expense	(28)	(23)	(6)
Income tax expense or income	(11)	(10)	(3)

*(d) Other joint ventures and associates*

In 2014 the Group impaired investment in JSC Krasnoyarskenergosbyt to nil and recognised in profit and loss an impairment loss in the amount of USD 15 million.

## 15. Inventories

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.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

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

	<u>31 December</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>USD million</u>	<u>USD million</u>	<u>USD million</u>
Raw materials and consumables	910	956	1,097
Work in progress	586	555	632
Finished goods and goods for resale	741	672	712
	<u>2,237</u>	<u>2,183</u>	<u>2,441</u>
Provision for inventory obsolescence	(203)	(261)	(306)
	<u><b>2,034</b></u>	<u><b>1,922</b></u>	<u><b>2,135</b></u>

Inventories at 31 December 2016, 31 December 2015 and 2014 are stated at cost.

Inventories with a carrying value of USD 402 million, USD 122 million and USD 17 million were pledged as collateral for secured bank loans at 31 December 2016, 31 December 2015 and 31 December 2014, respectively (note 18).

Inventory with a carrying value of USD 78 million is pledged under existing trading contracts at 31 December 2016 (31 December 2015: USD 81 million, 31 December 2014: USD 123 million).

## **16. Non-derivative financial instruments**

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 described below:

- 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. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are measured at cost less impairment losses.

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 profit or loss.

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 profit or loss.

For disclosure of loans and borrowings refer to note 18.

(a) **Long-term and short-term investments**

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Available-for-sale investments			
Wolfensohn Capital Partners, L.P. (i)	23	27	41
Other available-for-sale investments	2	1	1
<b>Long-term investments</b>	<b>25</b>	<b>28</b>	<b>42</b>
Short-term deposits, 10.5% per annum	-	-	51
Promissory notes	9	11	9
Other	29	23	14
<b>Short-term investments</b>	<b>38</b>	<b>34</b>	<b>74</b>

(i) In November 2010 the Group acquired 100% shares of Catona Commercial Limited, which is a limited partner in Wolfensohn Capital Partners, L.P. with 40% share of total partners' commitments (USD 250 million), for USD 23 million paid by cash. The investment was acquired from a related party under common control with the Group. The fair value of the investment as at 31 December 2016 was determined in the amount of USD 23 million (31 December 2015: USD 27 million, 31 December 2014: USD 41 million). During 2016 the Group contributed USD nil million to Wolfensohn Capital Partners, L.P. and received USD 11 million (during 2015 USD nil million and USD 10 million, during 2014 USD 1 million and USD 13 million, respectively). The remaining change between the recognised cost of investments as at 31 December 2016 and movements during 2016 was recognised in other comprehensive income as unrealised gain on available-for-sale investments in the amount of USD 7 million (31 December 2015: loss of USD 4 million, 31 December 2014: USD nil million).

(b) **Trade and other receivables**

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Long-term trade receivables from third parties</b>	<b>98</b>	<b>49</b>	<b>80</b>
<b>Advances paid to third parties</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Other receivables from third parties</b>	<b>157</b>	<b>11</b>	<b>27</b>
	<b>257</b>	<b>60</b>	<b>107</b>
Provision for doubtful debts	(108)	(56)	(76)
<b>Total long-term receivables</b>	<b>149</b>	<b>4</b>	<b>31</b>
<b>Trade receivables from third parties</b>	<b>467</b>	<b>362</b>	<b>414</b>
<b>Trade receivables from related parties, including</b>	<b>82</b>	<b>88</b>	<b>68</b>
<i>Related parties – companies capable of exerting significant influence</i>	56	69	43
<i>Related parties – companies under common control</i>	15	12	20
<i>Related parties – associates and joint ventures</i>	11	7	5
<b>VAT recoverable</b>	<b>293</b>	<b>258</b>	<b>262</b>
<b>Advances paid to third parties</b>	<b>96</b>	<b>148</b>	<b>114</b>
<b>Advances paid to related parties, including</b>	<b>54</b>	<b>44</b>	<b>68</b>
<i>Related parties – companies capable of exerting significant influence</i>	-	-	6
<i>Related parties – companies under common control</i>	10	2	1
<i>Related parties – associates and joint ventures</i>	44	42	61
<b>Other receivables from third parties</b>	<b>173</b>	<b>117</b>	<b>101</b>
<b>Other receivables from related parties, including</b>	<b>7</b>	<b>60</b>	<b>12</b>
<i>Related parties – companies under common control</i>	5	60	12
<i>Related parties – associates and joint ventures</i>	2	-	-
<b>Dividends receivables from related parties</b>	<b>311</b>	<b>189</b>	<b>14</b>
<i>Related parties – associates and joint ventures</i>	311	189	14
	1,483	1,266	1,053
Provision for doubtful debt	(82)	(109)	(139)
<b>Total short-term receivables</b>	<b>1,401</b>	<b>1,157</b>	<b>914</b>
<b>Total trade and other receivables</b>	<b>1,550</b>	<b>1,161</b>	<b>945</b>

In June 2015 the Group acquired available-for-sale investment for a consideration of RUB 4,050 million (USD 66 million) from a third party. In December 2015 the Group transferred the ownership for a consideration of USD 66 million payable until December 2016 and bearing 21.3%. As at 31 December 2016 the consideration, including accrued interest was received.

There are no pledged trade receivables under existing secure loans from related parties at 31 December 2016 (31 December 2015: USD 68 million, 31 December 2014: USD 67 million) (note 18).

(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 statement of financial position dates:

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
Current	402	259	332
Past due 0-90 days	83	86	55
Past due 91-365 days	13	28	11
Past due over 365 days	14	10	1
Amounts past due	110	124	67
	<b>512</b>	<b>383</b>	<b>399</b>

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 21(e).

(c) **Trade and other payables**

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>restated USD million</b>
<b>Accounts payable to third parties</b>	<b>578</b>	<b>438</b>	<b>644</b>
<b>Accounts payable to related parties, including</b>	<b>47</b>	<b>54</b>	<b>39</b>
<i>Related parties – companies capable of exerting significant influence</i>	18	20	24
<i>Related parties – companies under common control</i>	4	1	13
<i>Related parties – associates and joint ventures</i>	25	33	2
<b>Advances received from third parties</b>	<b>180</b>	<b>201</b>	<b>223</b>
<b>Advances received from related parties, including</b>	<b>165</b>	<b>165</b>	<b>406</b>
<i>Related parties – companies capable of exerting significant influence</i>	165	165	405
<i>Related parties – associates and joint ventures</i>	-	-	1
<b>Other payables and accrued liabilities</b>	<b>615</b>	<b>351</b>	<b>364</b>
<b>Other payable and accrued liabilities to related parties, including</b>	<b>8</b>	<b>7</b>	<b>3</b>
<i>Related parties – companies capable of exerting significant influence</i>	-	-	3
<i>Related parties – associates and joint ventures</i>	8	7	-
<b>Dividends payable</b>	<b>23</b>	<b>60</b>	<b>35</b>
<b>Current tax payable</b>	<b>26</b>	<b>13</b>	<b>51</b>
<b>Other current liabilities</b>	<b>10</b>	<b>4</b>	<b>13</b>
	<b>1,652</b>	<b>1,293</b>	<b>1,778</b>

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

As at 31 December 2016 USD 89 million and USD 206 million for the acquisition of Irkutskenergo were included in other non-current liabilities and short-term other payables and accrued liabilities, respectively (note 17(a)).

(d) **Cash and cash equivalents**

	31 December		
	2016	2015	2014
	USD million	USD million	USD million
Bank balances, USD	389	383	211
Bank balances, RUB	130	130	93
Bank balances, other currencies	97	53	42
Cash in transit	7	2	3
Short-term bank deposits	28	9	347
Other cash equivalents	5	-	1
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>656</b>	<b>577</b>	<b>697</b>
Restricted cash	13	14	13
<b>Cash and cash equivalents in the statement of financial position</b>	<b>669</b>	<b>591</b>	<b>710</b>

As at 31 December 2016, 31 December 2015 and 31 December 2014 included in cash and cash equivalents was restricted cash of USD 13 million, USD 14 million and USD 13 million, respectively, pledged under a Swiss Law Pledged Agreement with BNP Paribas (Suisse) SA and Banca Nazionale Del Lavoro S.p.A.

## 17. Equity

(a) **Share capital, additional paid-in capital and transactions with shareholders**

The Parent Company's authorised share capital comprises 50,000 ordinary shares, out of which 2,000 shares are issued with a par value of USD 1 dollar each.

In June 2016 the Group acquired 40.3% shares in PJSC Irkutskenergo from InterRAO Group for cash consideration of USD 1,047 million (RUB 70 billion) with the following payment terms:

- first instalment on the date of transaction in the amount of USD 676 million (RUB 45 billion)
- following 8 equal quarterly instalments of USD 46.75 million (RUB 3,125 million) per quarter within 2 years.

The fair value of consideration was determined by discounting the long-term part of payable at 11.9% and amounted to USD 1,020 million.

The acquisition is financed by syndicate loan from PJSC VTB BANK(VTB) and PJSC Sberbank (Sberbank) (see note 18(a)(iii)).

Also during the year ended 31 December 2016 the Group sold 4.8% shares in Irkutskenergo to a third party for cash consideration of USD 46 million receivable in several instalments according to the agreed payment schedule and acquired additional 0.2% for cash consideration of USD 2 million.

These transactions resulted in an increase of effective interest in Irkutskenergo held by the Group up to 90.8%.

During the year ended 31 December 2016 the Group sold 5.1% shares in Krasnoyarsk HPP for cash consideration of USD 23 million. Also Krasnoyarsk HPP acquired its own 0.4% shares for cash consideration of USD 2 million.

In June 2016 JSC EuroSibenergo submitted the mandatory offer to non-controlling shareholders of Krasnoyarsk HPP for purchase of non-controlling interest. The offer price was based on weighted six-months trading average price prior to the offer and amounted to RUB 81.1 per share (USD 1.2). The mandatory offer resulted in buy out of 10.0% of shares for USD 50 million.

In October 2016 subsequent to the mandatory offer and following consolidation of more than 95% of shares Krasnoyarsk HPP the Group submitted a buyout notice, under the price of RUB 97 per share (USD 1.5). As at 31 December 2016 due to the buyout notice procedures 1.4% of shares were bought out from non-controlling interest for USD 8 million.

These transactions resulted in an increase of the effective interest in Krasnoyarsk HPP held by the Group to 100.00% despite existence of nominal non-controlling interest in Krasnoyarsk HPP of 1.4% which are subject to mandatory redemption under buyout notice.

The transactions above during 2016 resulted in respective decrease in non-controlling interests in Irkutskenergo and Krasnoyarsk HPP in the amount of USD 690 million.

In June and December 2016 the Group companies entered into loan agreements to settle indebtedness of companies under common control in the amount of USD 312 million. These loans were considered non-recoverable and were recorded as other distribution in this consolidated financial statements.

In 2015 the Group acquired 3.0% of Krasnoyarsk HPP shares from non-controlling interest for cash consideration of USD 16 million. That resulted in an increase of the effective interest in Krasnoyarsk HPP to 92.6% and respective decrease in non-controlling interest in Krasnoyarsk HPP and its subsidiaries by USD 16 million.

Additionally, during 2015 certain subsidiaries of the Group write off intergroup loans issued, resulting in a decrease in non-controlling interest of USD 67 million.

In August 2015 the Company entered into the loan agreement with Basic Element Limited to grant USD 1 million, approved by VTB. This loan was considered non-recoverable and was recorded as other distribution in these consolidated financial statements.

Also during 2015 the Group wrote off the receivables from the entity under common control in the amount of USD 15 million and recognised this amount directly in equity.

During 2014 the Group entered into agreements with third parties and acquired shares of JSC "RusHydro" which were exchanged to Krasnoyarsk HPP shares in July 2014. As a result of transaction the Group acquired 25% of Krasnoyarsk HPP and recognised a distribution in the amount of USD 231 million directly in equity.

In November 2014 the Group sold 4.8% of Krasnoyarsk HPP shares to a third party for USD 36 million payable in June 2015-December 2016. The consideration was recorded in equity in 2014 with respective increase in non-controlling interest of USD 12 million.

During 2014 one of the Group's subsidiaries acquired 100 % shares of LLC Stroyresourse Holding from a company under common control for cash consideration of USD 16 million. In accordance

with the accounting policy of the Group with respect to acquisitions under common control, the amount of consideration was recorded directly in equity.

During 2014 the Company entered into loan agreements with Basic Element Limited to grant two loans in total amount of USD 64 million. These loans were considered non-recoverable and were recorded as other distribution in these consolidated financial statements.

Additionally during 2014 certain subsidiaries of the Group were transferred within the Group, resulting in a decrease of effective interest in these subsidiaries and respective decrease in non-controlling interest of USD 231 million.

**(b) Share-based compensation**

As at 31 December 2016, 31 December 2015 and 31 December 2014 UC RUSAL held none, 4,773 and 2,700,950 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 (2014: 1,750,886 shares) and vested to eligible employees 2,055,740 shares in July and 1,338,734 shares in November (in July and November 2014 2,006,218 shares and 1,343,514 shares vested, respectively). For the years ended 31 December 2015 and 31 December 2014, the Group recognised an additional employee expense of nil and USD 1 million in relation to the share based plans, respectively, with a corresponding change in equity.

**(c) Currency translation reserve**

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

**(d) Other reserves**

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, the Group's share of other comprehensive income of associates and cumulative unrealised gains and losses on Group's available-for-sale investments which have been recognised directly in other comprehensive income.

**(e) Dividends**

In accordance with the Companies (Jersey) Law 1991 (the “Law”), the Parent Company may make distributions at any time in such amounts as are determined by the Parent Company out of the assets of the Parent Company other than the capital redemption reserves and nominal capital accounts, provided that the directors of the Parent 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 facility agreements, and require certain waivers from creditors which were received in due course as disclosed below.



During 2016, the Group declared interim dividends in the amount of USD 280 million, approved by VTB. Dividends in the total amount of USD 318 were distributed in cash including USD 60 million relating to 2015, which were accrued as a liability as at 31 December 2015. The amount of USD 22 million remained payable as at 31 December 2016.

During 2015, the Group declared interim dividends in the amount of USD 287 million, approved by VTB. Dividends in the total amount of USD 262 were distributed in cash including USD 35 million relating to 2014, which were accrued as a liability as at 31 December 2014. The amount of USD 60 million remained payable as at 31 December 2015.

During 2014, the Group declared interim dividends in the amount of USD 201 million, approved by VTB in September 2014. Dividends in the total amount of USD 203 were distributed in cash including USD 36 million relating to 2013, which were accrued as a liability as at 31 December 2013.

During 2016, 2015 and 2014 Group's subsidiaries paid dividends in the amount of USD 130 million, USD 149 million and USD 23 million to the non-controlling shareholders of subsidiaries, respectively.

(f) **Accrual of provision for guarantees**

During 2015 the Group paid USD 6 million to the bank under guarantee agreement in respect of loan obligations of entity under common control. The remaining amount of issued guarantees as at 31 December 2015 was USD 89 million (note 22(f)). Management of the Group assessed the probability to make a payment under these guarantees and recognised a provision for the whole amount directly in equity. During 2016 the Group paid additional USD 6 million under these guarantee and recorded this transaction as other distribution.

(g) **Revaluation reserve**

The revaluation reserve comprises the cumulative net change in the fair value of hydro assets at the reporting date and is dealt with in accordance with the accounting policies set out in note 12(a)(i).

An independent valuation analysis of hydro assets has been carried out as at 1 January 2016 and 31 December 2016, the fair value of hydro assets was estimated at USD 2,230 million and USD 3,919 million, respectively (note 12(g)).

As a result of fair value valuation as at 1 January 2016 the Group recognised a revaluation reserve in the amount of USD 1,626 net of tax (including USD 1,183 million attributable to shareholders of the Parent company). During 2016, as a result of changes in effective interest in subsidiaries (note 12(g)), revaluation reserve attributable to the Parent company increased by USD 368 million, net of tax.

As at 31 December 2016 the Group revalued hydro assets (note 12(g)), as a result the additional revaluation reserve in the amount of USD 914 million (including USD 905 million attributable to shareholders of the Parent company), was recognised. As at 31 December 2016 the revaluation reserve amounted to USD 2,540 million (including 2,456 million attributable to shareholders of the Parent company).

(h) **Non-controlling interest**

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest:

**31 December 2016**

	<b>UC RUSAL</b>	<b>Irkutskenergo Group*</b>	<b>LLC Baikal Yacht Club</b>	<b>PJSC Krasnoyarsk Hydro-Power Plant***</b>	<b>OJSC Irkutsk Electric Grid Company</b>	<b>Total</b>
<b>NCI percentage</b>	<b>51.9%</b>	<b>9.2%</b>	<b>49.0%</b>	<b>0.0%***</b>	<b>48.1%</b>	
Assets	13,968	3,829	1	1,995	533	
Liabilities	(11,153)	(2,123)	(29)	(324)	(159)	
<b>Net assets</b>	<b>2,815</b>	<b>1,706</b>	<b>(28)</b>	<b>1,671</b>	<b>374</b>	
Carrying amount of NCI	1,460	158	(14)	-	181	<b>1,785</b>
Revenue	7,983	2,006	-	72	280	
Profit/(loss)	1,179	199	(3)	48	20	
Other comprehensive income	979	898	-	907	-	
<b>Total comprehensive income</b>	<b>2,158</b>	<b>1,097</b>	<b>(3)</b>	<b>955</b>	<b>20</b>	
Profit attributable to NCI	612	50	(3)	4	9	<b>672</b>
Other comprehensive income attributable to NCI	508	471	(5)	72	35	<b>1,081</b>
						<b>1,753</b>
Cash flows generated from operating activities	1,244	381	-	12	77	
Cash flows (used in)/generated from investing activities	104	(376)	(1)	45	(49)	
Cash flows (used in)/generated from financing activities	(1,305)	(21)	1	(33)	(28)	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>43</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Dividends paid to NCI</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130</b>

\* Net assets of Irkutskenergo Group were adjusted for the effect of Irkutskenergo investments in Irkutsk GridCo, Krasnoyarsk HPP and LLC KRAMZ.

\*\* Net assets of Krasnoyarsk HPP segment were adjusted for investment in LLC KRAMZ.

\*\*\* Buyout notice resulted in the derecognition of the non-controlling interest of PJSC Krasnoyarskaya HPP (note 17(a)).

**31 December 2015**

	<b>UC RUSAL</b>	<b>Irkutskenergo Group*</b>	<b>LLC Baikal Yacht Club</b>	<b>PJSC Krasnoyarsk Hydro-Power Plant</b>	<b>OJSC Irkutsk Electric Grid Company</b>	<b>Total</b>
<b>NCI percentage</b>	<b>51.9%</b>	<b>47.2%</b>	<b>49.0%</b>	<b>7.4%</b>	<b>55.6%</b>	
Assets	12,325	1,696	-	508	432	
Liabilities	(11,418)	(1,236)	(21)	(80)	(139)	
<b>Net assets</b>	<b>907</b>	<b>460</b>	<b>(21)</b>	<b>428</b>	<b>293</b>	
Carrying amount of NCI	471	217	(10)	32	163	<b>873</b>
Revenue	8,680	2,063	-	222	284	
Profit/(loss)	558	206	(4)	169	24	
Other comprehensive income	(1,154)	(6)	-	-	-	
<b>Total comprehensive income</b>	<b>(596)</b>	<b>200</b>	<b>(4)</b>	<b>169</b>	<b>24</b>	
Profit attributable to NCI	290	97	(2)	16	13	<b>414</b>
Other comprehensive income attributable to NCI	(599)	(78)	3	(10)	(47)	<b>(731)</b>
						<b>(317)</b>
Cash flows generated from operating activities	1,568	382	-	123	79	
Cash flows (used in)/generated from investing activities	261	(365)	(2)	(169)	(61)	
Cash flows (used in)/generated from financing activities	(1,827)	(11)	-	25	(35)	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2</b>	<b>6</b>	<b>(2)</b>	<b>(21)</b>	<b>(17)</b>	
<b>Dividends paid to NCI</b>	<b>130</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>149</b>

\* Net assets of Irkutskenergo Group were adjusted for the effect of Irkutskenergo investments in Irkutsk GridCo, Krasnoyarsk HPP and LLC KRAMZ.

**31 December 2014**

	<b>UC RUSAL</b>	<b>Irkutskenergo Group*</b>	<b>LLC Baikal Yacht Club</b>	<b>PJSC Krasnoyarsk Hydro-Power Plant</b>	<b>OJSC Irkutsk Electric Grid Company</b>	<b>Total</b>
<b>NCI percentage</b>	<b>51.9%</b>	<b>47.2%</b>	<b>49.0%</b>	<b>10.4%</b>	<b>55.6%</b>	
Assets	14,373	2,010	4	477	566	
Liabilities	(12,620)	(1,396)	(26)	(67)	(212)	
<b>Net assets</b>	<b>1,753</b>	<b>614</b>	<b>(22)</b>	<b>410</b>	<b>354</b>	
Carrying amount of NCI	910	290	(11)	43	197	<b>1,429</b>
Revenue	9,357	2,802	-	263	416	
Profit/(loss)	(71)	116	(4)	156	(64)	
Other comprehensive income	(4,222)	10	-	-	1	
<b>Total comprehensive income</b>	<b>(4,293)</b>	<b>126</b>	<b>(4)</b>	<b>156</b>	<b>(63)</b>	
Profit attributable to NCI	(37)	57	(2)	16	(36)	<b>(2)</b>
Other comprehensive income attributable to NCI	(2,190)	(234)	8	(45)	(147)	<b>(2,608)</b>
						<b>(2,610)</b>
Cash flows generated from operating activities	1,398	525	1	152	128	
Cash flows (used in)/generated from investing activities	514	(772)	(5)	(195)	(127)	
Cash flows (used in)/generated from financing activities	(1,900)	306	-	33	-	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12</b>	<b>59</b>	<b>(4)</b>	<b>(10)</b>	<b>1</b>	
<b>Dividends paid to NCI</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23</b>

\* Net assets of Irkutskenergo Group were adjusted for the effect of Irkutskenergo investments in Irkutsk GridCo, Krasnoyarsk HPP and LLC KRAMZ.

## 18. 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 21(c)(ii) and 21(c)(iii), respectively.

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<i>Non-current liabilities</i>			
Secured bank loans	9,812	8,012	8,734
Secured company loans	1,000	943	196
Unsecured bank loans	1,088	640	571
Unsecured company loans	-	9	12
Bonds	195	-	113
	<b>12,095</b>	<b>9,604</b>	<b>9,626</b>

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<i>Current liabilities</i>			
Current portion of secured bank loans	853	831	20
Current portion of secured company loans	50	100	-
Current portion of secured related company loans	-	-	154
	<b>903</b>	<b>931</b>	<b>174</b>
Secured bank loans	578	1,135	2,725
Unsecured bank loans	492	350	385
Secured related company loans	-	186	-
Unsecured related company loans	-	36	-
Accrued interest	136	65	56
Bonds	1	21	144
	<b>1,207</b>	<b>1,793</b>	<b>3,310</b>
	<b>2,110</b>	<b>2,724</b>	<b>3,484</b>

(a) **Loans and borrowings**

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Non-current liabilities</b>			
<i>Secured bank loans</i>			
<b>Variable</b>			
USD – 1Y Libor + 5.45%	-	4,068	4,167
USD – 3M Libor + 2.80%	-	1,424	-
USD – 3M Libor + 3.15% - 3.75%	1,196	19	-
USD – 3M Libor + 4.15% - 4.50%	312	-	60
USD – 3M Libor + 5.65% - 5.75%	4,923	884	2,178
USD – 3M Libor + 6.50% - 6.90%	-	298	1,428
USD – 3M Libor + 5.05%	95	188	-
USD – 1M Libor + 5.50%	37	-	59
EUR – 3M Euribor + 2.80%	-	104	-
EUR – 3M Euribor + 3.60%	55	-	-
EUR – 3M Euribor + 5.75% - 6.50%	-	-	306
EUR – 3M Libor + 4.50% - 6.50%	43	73	-
EUR – 6M Euribor + 0.75% - 1.90%	6	2	3
EUR – Euribor + 1.80%	-	-	2
RUB – Mosprime + 4.00%	-	-	165
RUB – CBR + 1.50% - 2.00%	2,211	324	-
<b>Fixed</b>			
USD – fixed at 4.75%	-	100	-
USD – fixed at 6.00% - 8.5%	486	260	347
EUR – fixed at 3.55%	38	-	-
RUB - fixed at 5% - 18.00%	410	268	19
	<b>9,812</b>	<b>8,012</b>	<b>8,734</b>
<i>Secured company loans</i>			
<b>Variable</b>			
USD – 3M Libor + 4.95%	-	-	196
RUB - CBR + 2.31%	108	-	-
<b>Fixed</b>			
USD – fixed at 6.15%	892	-	-
USD – fixed at 9.33%	-	943	-
	<b>1,000</b>	<b>943</b>	<b>196</b>
<i>Unsecured bank loans</i>			
<b>Variable</b>			
USD – 3M Libor + 4.15% - 4.80%	300	-	-
USD – 3M Libor + 5.50%	-	100	-
RUB – CBR + 2.00%	241	-	-
<b>Fixed</b>			
RUB – fixed at 5.00%	5	7	-
RUB – fixed at 8.00%-20.00%	542	533	571
	<b>1,088</b>	<b>640</b>	<b>571</b>

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Unsecured company loans</b>			
<b>Fixed</b>			
Other fixed	-	9	12
	<b>-</b>	<b>9</b>	<b>12</b>
Bonds	195	-	113
	<b>12,095</b>	<b>9,604</b>	<b>9,626</b>
<b>Current liabilities</b>			
<b>Current portion of secured bank loans</b>			
<b>Variable</b>			
USD – 3M Libor + 2.80%	-	468	-
USD – 3M Libor + 3.60%	395	-	-
USD – 3M Libor + 4.50%	163	-	-
USD – 3M Libor + 5.05% - 5.65%	155	95	-
USD – 3M Libor + 6.50%	-	174	-
EUR – 3M Libor + 6.50%	-	37	-
EUR – 3M Euribor + 2.80%	-	34	-
EUR – 3M Euribor + 3.60%	28	-	-
EUR – 3M Euribor + 4.50%	28	-	-
EUR – 6M Euribor + 0.75% - 1.85%	1	-	-
USD – 1M Libor + 5.50%	22	-	7
RUB – Mosprime + 4.00%	-	-	13
RUB – CBR + 1.5% - 2.00%	21	3	-
<b>Fixed</b>			
USD – fixed at 6.00% - 8.50%	-	20	-
EUR – fixed at 3.55%	26	-	-
RUB – fixed at 10.50%	14	-	-
	<b>853</b>	<b>831</b>	<b>20</b>
<b>Current portion of secured company loans</b>			
<b>Fixed</b>			
USD – fixed at 6.15%	50	-	-
USD – fixed at 9.33%	-	100	-
	<b>50</b>	<b>100</b>	<b>-</b>
<b>Current portion of secured related company loans</b>			
<b>Variable</b>			
USD – 3M Libor + 4.95%	-	-	154
	<b>-</b>	<b>-</b>	<b>154</b>
<b>Secured bank loans</b>			
<b>Variable</b>			
USD – 1M Libor + 2.00% - 2.50%	123	-	-
USD – 1M Libor + 5.50%	-	63	-
USD – 3M Libor + 2.50% - 4.15%	64	-	86
RUB – LIBOR + 1.75%	-	-	1
USD - 2.50%+ cost of funds	95	19	-
USD - 3.35%+ cost of funds	-	-	3
EUR - 2.50%+ cost of funds	15	-	-
<b>Fixed</b>			
USD - fixed at 2.50% - 5.00%	273	195	-
USD - fixed at 6.90%	-	850	2,635
RUB - fixed at 12.00% - 16.70%	8	8	-
	<b>578</b>	<b>1,135</b>	<b>2,725</b>

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>
<b>Unsecured bank loans</b>			
<b>Variable</b>			
EUR – EURIBOR 6M+1.75%-1.90%	-	2	-
RUB – Mosprime 3M +2.50%/ Mosprime (overnight) +0.40%	-	-	5
<b>Fixed</b>			
RUB - fixed at 8.00%-26.27%	492	248	380
USD - fixed at 4.30%	-	100	-
	<b>492</b>	<b>350</b>	<b>385</b>
<b>Secured related company loans</b>			
<b>Variable</b>			
USD – 3M Libor + 4.95%	-	186	-
	<b>-</b>	<b>186</b>	<b>-</b>
<b>Unsecured related company loans</b>			
<b>Fixed</b>			
USD - fixed at 14.00% - 14.20%	-	36	-
		<b>36</b>	<b>-</b>
Accrued interest	136	65	56
Bonds	1	21	144
	<b>1,207</b>	<b>1,793</b>	<b>3,310</b>
	<b>2,110</b>	<b>2,724</b>	<b>3,484</b>

The secured bank and company loans (including guarantee agreement) are secured by pledges of shares of the following Group companies and associate:

	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>% of shares</b>	<b>% of shares</b>	<b>% of shares</b>
United Company RUSAL Plc	29.99	29.99	29.99
PJSC Norilsk Nickel	27.8	27.8	27.8
JSC RUSAL Novokuznetsk	40+1 share	40+1 share	40+1 share
JSC SUAL	36+1 share	36+1 share	36+1 share
JSC RUSAL Sayanogorsk	50-1 share	50+2 shares	50+2 shares
OJSC RUSAL Bratsk	50-1 share	50+2 shares	50+2 shares
JSC RUSAL Krasnoyarsk	50-1 share	50+2 shares	65+2 shares
CJSC Khakas Aluminium Smelter	-	-	25+1 share
Gershvin Investments Corp. Limited	100	100	100
Seledar Holding Corp Limited	100	100	100
Aktivium B.V.	100	100	100
JSC Eurosibenergo	50+2 shares	25+1 share	-
PJCS Krasnoyarsk Hydro-Power Plant	72.52	66.32	64.34
OJSC Irkutsk Electric Grid Company	33.27	33.27	33.27
PJCS Irkutskenergo	90.47	27.41	27.41
Skydrop	100	100	100
Thornstreet	100	100	100
LLC Sorsk Mining and Metallurgical Complex	100	100	100
LLC Sorsk Ferromolybdenum Plant	100	100	100



	<b>31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>% of shares</b>	<b>% of shares</b>	<b>% of shares</b>
LLC Zhireken Ferromolybdenum Plant	100	100	100
OJSC Zhireken Mining and Metallurgical Complex	100	100	100
Strikeforce Mining and Resources (Geneva)	100	100	100
LLC Tyvinskaya Gornorudnaya Company*	100	100	100

\*The pledge of LLC Tyvinskaya Gornorudnaya Company was released in February 2017.

The bank loans are also secured as at 31 December 2016, 31 December 2015, 31 December 2014 by the following:

- 47.84% shares of JSIC Ingosstrakh (the pledge was released in March 2017)
- rights, including all monies and claims, arising out of certain sales contracts between UC RUSAL's trading subsidiaries and ultimate customers, were assigned to secure the Combined PXF Facility dated 18 August 2014;
- export revenues of ferromolybdenum;
- properties, plant and equipment – refer to note 12(e);
- inventories – refer to note 15.

The Parent Company loan was also secured by pledge of 4.83% shares of Krasnoyarsk HPP owned by minority shareholder as at 31 December 2015 and 2014.

The agreement with Glencore AG was secured as at 31 December 2015 and 2014 by pledges of share of the following Group companies:

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

### ***UC RUSAL***

On 26 February 2014, UC RUSAL and Sberbank entered into an amendment agreement to the non-revolving credit facility agreement dated 1 December 2011 in order to increase the credit limit by RUB 2.4 billion from RUB 18.3 billion to RUB 20.7 billion to allow the Group to fulfil its obligations under the put option of Rouble bonds issued by OJSC RUSAL Bratsk (series 07), which was due for repayment on 3 March 2014.

In February 2014 UC RUSAL entered into a facility agreement with Glencore AG for a prepayment facility of up to USD 400 million for the supply of alumina from one of the Group's subsidiaries to Glencore AG for the period 2014-2016. Interest of 3M Libor + 4.95% and principal payable under the facility agreement will, to the extent such amounts are due, be offset against amounts due by Glencore AG under its alumina supply contract at USD40 per metric tonne for the first six months and USD 286 per metric tonne thereafter. The facility is to be repaid on or before 31 December 2016 in accordance with an agreed amortisation schedule which commenced on 30 September 2014.

In February 2014 UC RUSAL entered into a new credit facility of RUB 2 billion (USD 56 million) with Moscow Credit Bank with a maturity of 1 year and an interest rate of 10.4% p.a.

In March 2014 UC RUSAL refinanced its credit facilities with Gazprombank in the amount of USD 242.7 million and EUR 74.7 million. The facilities bear interest at 3M LIBOR + 6.5% and with a maturity date of 5 years from drawdown.

In August 2014 the PXF Amendments relating to the refinancing of USD 4.75 billion syndicated facility and USD 400 million multicurrency credit facility were signed and became effective. Pursuant to the PXF Amendments, the two PXF facilities are now combined into a single facility agreement such facility agreement comprising:

- Tranche A amounting to USD 2.56 billion is to be repaid in equal quarterly instalments starting from the 12 January 2016 with a final maturity date in December 2018.

Loans under tranche A bear interest at the rate of 3-month LIBOR plus margin (cash + PIK) based on Total Net Debt/EBIDTA ratio which is revised quarterly. Interest is to be paid quarterly.

#### **Leverage Ratio Cash Margin**

Greater than 4.5:1	4.50 percent per annum
Greater than 4:1 but less than or equal to 4.5:1	4.25 percent per annum
Greater than 3.5:1 but less than or equal to 4:1	4.00 percent per annum
Greater than 3:1 but less than or equal to 3.5:1	3.60 percent per annum
Less than or equal to 3:1	2.80 percent per annum

#### **Leverage Ratio PIK Margin**

Greater than 5:1	1.25 percent per annum
Greater than 4.5:1 but less than or equal to 5:1	0.80 percent per annum
Greater than 4:1 but less than or equal to 4.5:1	0.50 percent per annum
Greater than 3.5:1 but less than or equal to 4:1	0.25 percent per annum
Less than or equal to 3.5:1	0 percent per annum

- A second tranche which is comprised of the refinanced tranche B under the 2011 PXF Facility Agreement amounting to USD 1 billion is to be repaid in quarterly instalments commencing from 30 January 2017 with a final maturity date in December 2020. The first eight instalments will be in the amount of USD 31.25 million and the remaining eight instalments will be in the amount of USD 93.75 million. Loans under this second tranche will bear interest at a rate of 3-month LIBOR plus 5.65% per annum plus a PIK Margin determined in line with Tranche A and such amounts will be paid quarterly.

The relevant amendments to credit facilities with Sberbank) in line with the PXF Amendments were executed on 25 August 2014 (the "Sberbank Amendment Agreements"). According to Sberbank Amendment Agreements entered into between the Company as borrower and Sberbank, the maturity of the bilateral facility agreements with Sberbank (including: (a) a credit facility agreement dated 30 September 2010 for the amount of USD 4,583 million, (b) credit facility agreement dated 30 September 2011 for the amount of USD 453 million; (c) a non-revolving credit facility agreement dated 1 December 2011 for the amount of RUB 20.7 billion) was extended by no more than 84 months from the date of execution of Sberbank Amendment Agreements. The repayments to be made thereunder will be made quarterly in equal instalments during the sixth and seventh years from the date of the execution of the relevant Sberbank Amendment Agreement.

During 2014 the Group made a scheduled repayment of principal under the USD 4.75 billion syndicated facility in the amount of USD 203 million. Additional principal repayments in total amount USD 332 million, RUB 815 million (USD 15 million) and EUR 23 million (USD 28 million) were made under the USD 4.75 billion syndicated facility and USD 400 million multicurrency credit facility, credit facilities with Sberbank and Gazprombank as prepayments.

In October 2015 UC RUSAL entered into a new credit facility of USD 100 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 UC RUSAL entered into a new credit facility of USD 100 million with PJSC SovcomBank with a maturity of 3 year and an interest rate of 3MLibor + 5.5% p.a.

In December 2015 UC RUSAL 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 UC RUSAL raised funding in the amount of USD 100 million with fifteen months maturity at a rate of 4.75% p.a.

During 2015 UC RUSAL made a principal repayment in total amounts of USD 590 million, RUB 777 million (USD 14 million) and EUR 25 million (USD 29 million) under the USD 4.75 billion syndicated facility and USD 400 million multicurrency credit facility, credit facilities with Sberbank, Gazprombank and VTB Capital, including prepayments via cash sweep in total amount of USD 309 million, RUB 777 million (USD 14 million) and EUR 10 million (USD 12 million).

On 26 April 2016 UC RUSAL 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 USD 524 million, utilising USD 415 million of available commitments under the new refinancing tranches as well as USD 109 million of the UC RUSAL's own funds.

In September 2016 UC RUSAL 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 UC RUSAL entered into new credit facilities with Gazprombank for the total amount of USD 178 million with maturity 4 years and interest rate 3M Libor + 4.5%.

During 2016 UC RUSAL made a principal repayment in total amounts of USD 1,139 million and EUR84 million (USD 93 million) under the Combined PXF Facility, credit facilities with Gazprombank, VTB Capital and Credit Bank of Moscow.

On 23 January 2017 UC RUSAL made a principal prepayment in total amounts of USD 292 million and EUR 17 million (USD 18 million) under the Combined PXF Facility of amounts due in 2017.

The nominal value of UC RUSAL's loans and borrowings was USD 8,852 million at 31 December 2016 (31 December 2015: USD 9,011 million, 31 December 2014: USD 9,346 million).

## **EN+**

### **(i) Parent company**

As at 31 December 2013 the Parent Company had a loan from VTB Capital plc (the "Facility Agreement") in the amount of USD 1,043 million secured by the pledge of 29.99% shares of UC RUSAL and maturing on 31 January 2015.

In December 2014 19.17% shares of PJSC Krasnoyarsk HPP were pledged as an additional security under the Facility Agreement.

During January - June 2015 the Parent Company entered into several amendments to the loan extending maturity date to 30 August 2015 from 31 January 2015.

In August 2015 the Parent Company entered into the USD 1,043 million loan agreement ("Loan") with GrandStroy LLC (Lender) bearing fixed interest of 9.33% which replaced the Facility Agreement. Simultaneously, the Parent Company provided corporate guarantee ("Guarantee") in

favour of PJSC VTB BANK (VTB) securing the obligations of the Lender under USD 1,043 million facility agreement (“VTB Facility”). The Guarantee was secured by the pledges of 29.99% shares of UC RUSAL, 25.00% +1 shares of JSC Eurosibenergo and 16.32% shares of Krasnoyarsk HPP. The pledges of shares of JSC Eurosibenergo and Krasnoyarsk HPP, which represent the security under the Guarantee, are also used to secure the VTB Facility. The Guarantee contains certain covenants that put restrictions on the Group’s investing and financing activities.

The Loan and the VTB Facility were to be repaid in December 2019 in accordance with an agreed repayment schedule which commenced in December 2015.

<b>Repayment date</b>	<b>Repayment instalments</b>
	<b>USD million</b>
20 December 2015	50
20 December 2016	50
20 December 2017	50
20 December 2019	893
	<b>1,043</b>

The maturity date can be extended to December 2021 by mutual agreement of the parties.

In December 2015 the Parent Company entered into an amendment to the Loan extending repayment date of the first instalment to 20 March 2016, then in March 2016 to 20 June 2016 and reduction of the fixed interest to 7.66% p. a. from 20 March 2016.

In June 2016 the Parent Company entered into amendment to the Loan converting USD 55 million into RUB 3,500 million payable on 20 December 2019. The interest rate on the converted amount is at the Bank of Russia Key Rate plus 2.31% p.a.

In September 2016 the Parent Company entered into amendment to the Loan implementing new interest rate of 6.65% p.a. on the US dollar part of the Loan.

In December 2016 the Parent Company entered into amendment to the Loan implementing new interest rate of 6.15% p.a. on the US dollar part of the Loan and converting USD 46 million into RUB 2,818 million payable on 20 December 2019. The interest rate on the converted amount is at the Bank of Russia Key Rate plus 2.31% p.a.

During 2016 the pledge of Krasnoyarsk HPP under the VTB Facility and the Guarantee was increased to 24%. In December 2016 pledge of 1.48% of Krasnoyarsk HPP was released and then pledged again in January 2017.

As at 31 December 2016 USD-denominated part of Loan was USD 942 million bearing 6.15% interest rate and RUB-denominated part of Loan was USD 108 million (RUB 6,540 million) bearing Bank of Russia Key Rate plus 2.31% p.a.

As at 31 December 2016 the outstanding amount under the Guarantee was USD 942 million bearing interest 6% p.a.

In January 2017 the Lender was acquired by the Parent Company’s wholly owned subsidiary (see note 25(c)).

**(ii) Sberbank facilities of Eurosibenergo**

The Eurosibenergo has secured USD-denominated and RUB-denominated loans with Sberbank.

In August 2014 Eurosibenergo entered into a new RUB-denominated credit facility of USD 178 million (RUB 10 billion) payable until August 2015 and bearing interest not more than 12% p.a.

As at 31 December 2014 Eurosibenergo had a USD-denominated loan of USD 1,410 million (“USD Loan 1”) million bearing 7.14% effective interest.

In March 2015 Eurosibenergo received a loan from Sberbank in the amount of USD 141 million to refinance the USD Loan 1.

In June 2015 Sberbank opened two credit lines: RUB-denominated credit line with the limit of RUB 87,550 million bearing interest rate of Central Bank of Russia key rate+1.5% per annum and USD-denominated credit line with the limit in the amount of USD 1,410 million (“USD Loan 2”) bearing interest rate of 8.5% per annum. Both credit lines are payable until June 2020 according to the agreed schedule.

During 2015 Eurosibenergo received from Sberbank the amount of RUB 25,055 million under the RUB-denominated credit line of RUB 87,550 million and USD 282 million under the USD Loan 2 which was used to settle the loan of RUB 10,000 million, the loan of USD 141 million and part of the USD Loan 1.

As the result at 31 December 2015 Eurosibenergo outstanding amount under the Loan 1 was USD 850 million bearing 7.14% effective interest and under the Loan 2 was USD 282 million bearing 9.6% effective interest and RUB-denominated loan was amounted to USD 328 million (RUB 23,885 million) bearing 13.8% effective interest.

In March 2016 Eurosibenergo totally refinanced the USD Loan 1 using the USD Loan 2.

During 2016 Eurosibenergo partly refinanced USD Loan 2 using opened RUB-denominated credit line which resulted in the increase of RUB-denominated loan by USD 618 million (RUB 41,418 million at average 2016 annual rate).

As at 31 December 2016 Eurosibenergo had RUB-denominated loan in the amount of USD 1,077 million (RUB 65,303 million) bearing 12.5% effective interest and USD Loan 2 in the amount of USD 488 million bearing 7.4% effective interest.

The terms of the above loans require Eurosibenergo to maintain a certain Net Debt/EBITDA ratio, calculated quarterly based on the Russian statutory accounting records of the certain Group’s subsidiaries. The covenants were breached as at 31 December 2014 and in April 2015 the bank waived the covenant testing on 31 December 2014 and 31 March 2015. As a result, a loan in the amount of USD 764 million was reclassified as short-term as at 31 December 2014.

### **(iii) Syndicate facilities**

In June 2016 Telmamskaya HPP LLC entered into the syndicate loan agreement with Sberbank and VTB to finance the acquisition of non-controlling interest in Irkutskenergo (note 17(a)). Total amount of opened credit line is USD 1,257 million (RUB 84,000 million). The loan is payable until June 2023 and bears Central Bank of Russia rate+2%. As at 31 December 2016 the outstanding amount of this loan was USD 1,065 million (RUB 64,618 million). The remaining tranches will be received according to the payment schedule for acquisition of non-controlling interest in Irkutskenergo (note 17(a)).

In November 2016 this credit line was extended by USD 171 million (RUB 10,950 million at exchange rate on drawdown date) to finance an acquisition of dams from the third party (note 12). The extended credit line is payable by two tranches until November 2021, bearing Central Bank of Russia rate+2% and 10.5%, respectively.

As at 31 December 2016 the loan is secured by the following pledges of shares:

- 63.06% shares of PJSC Irkutskenergo;
- 100% shares of Telmamskaya HPP LLC;
- 25%+1 shares of JSC Eurosibenergo;

Subsequent to the reporting date the above pledges were revised (note 25(b)).

The nominal value of En+ loans and borrowings was USD 5,204 million at 31 December 2016 (31 December 2015: USD 3,420 million and 31 December 2014: USD 3,698 million).

**(b) Bonds**

On 3 March and 18 April 2011, the Company's subsidiary RUSAL Bratsk issued two tranches of rouble denominated bonds, each including 15 million bonds, with a par value of 1,000 roubles each, trading on MICEX. Maturity of the first tranche is seven years subject to a put option exercisable in March 2014. Maturity of the second tranche is ten years subject to a put option exercisable in April 2015.

Simultaneously, UC RUSAL entered into cross-currency swaps with an unrelated financial institution in relation to each tranche whereby the first tranche with semi-annual coupon payments of 8.3% p.a. was transformed into a USD obligation with a matching maturity of USD 530 million bearing interest at 5.13% p.a. and the second tranche with semi-annual coupon payments of 8.5% p.a. was transformed into a USD obligation with a matching maturity of USD 533 million bearing interest at 5.09% p. a. The proceeds of the bond issues were used for repayment of part of the Group's outstanding debts.

On 25 February 2014 RUSAL Bratsk entered into a bond sale agreement for the purpose of selling up to 5,000,000 (five million) series 07 bonds which were expected to be bought back on a bondholders' put-option realisation date scheduled for 3 March 2014. The selling price under the terms of bonds sale agreement was RUB 998.356, or 99.8356% of the par value of each bond. Simultaneously United Company RUSAL Aluminium Limited entered into a put-option transaction which may be exercised for up to 5,000,000 (five million) series 07 bonds at a strike price which will be a function of the announced coupon rate, purchase price, tenor and the expected yield of the transaction, and is exercisable on 22 February 2016. At the Company's request this transaction was early terminated in full and settled on 30 June 2015.

On 26 February 2014 cross-currency swap in relation to the first tranche expired.

On 21 February 2014 RUSAL Bratsk announced a coupon rate in respect to the series 07 bond issue at the level of 12% per annum for the 7-10 semi-annual coupon periods after which the series 07 bonds will be subject to a put option and coupon rate revision.

On 3 March 2014 RUSAL Bratsk successfully performed its obligations under the terms of bondholders' put-option. As a result of the put-option being exercised 10,947,149 series 07 bonds (about 73% of the issue) were purchased back by the issuer.

On 6 April 2015 RUSAL Bratsk announced a coupon rate in respect to the series 08 bonds at the level of 12% per annum for the 9-12 semi-annual coupon periods after which the series 08 bonds will be subject to a put option and coupon rate revision.

On 13 April 2015 cross-currency swap in relation to the second tranche expired.

On 15 April 2015 RUSAL Bratsk fulfilled its obligations under a bondholders' put option in regard to the series 08 bonds. 8,067,213 bonds were repurchased from bondholders at the bondholders' request.

As at 31 December 2015 1,482,559 series 07 bonds and 53,680 series 08 bonds were outstanding (traded in the market). The closing market price at 31 December 2015 was RUB 999.80 and RUB 1,000 per bond for the first and second tranches, respectively.

On 19 April 2016, placement of the exchange-traded rouble bonds of OJSC RUSAL Bratsk series BO-01 (in the amount of RUB 10 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 RUB 1,022, RUB 1,007, RUB 1,027 per bond for the first, second and the third tranches, respectively.

## 19. Provisions

### (a) Accounting policy

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.

### (i) 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.

Provisions for the cost of each restoration and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. 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.

**(ii) Restructuring**

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(iii) Legal claim**

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.

**(iv) Guarantee**

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.



(b) **Disclosure**

<b>USD million</b>	<b>Pension liabilities</b>	<b>Site restoration</b>	<b>Provisions for legal claims</b>	<b>Tax provisions</b>	<b>Provision for guarantee</b>	<b>Total</b>
Balance at 1 January 2014	<b>185</b>	<b>623</b>	<b>12</b>	<b>68</b>	<b>100</b>	<b>988</b>
Provisions made during the year	18	20	33	-	-	71
Provisions reversed during the year	-	(1)	(3)	-	-	(4)
Actuarial gains and losses	(24)	-	-	-	-	(24)
Provisions used during the year	(15)	(7)	-	(3)	-	(25)
Change in estimates	-	(26)	-	-	-	(26)
Translation difference	(69)	(172)	(9)	-	-	(250)
<b>Balance at 31 December 2014</b>	<b>95</b>	<b>437</b>	<b>33</b>	<b>65</b>	<b>100</b>	<b>730</b>
<i>Non-current</i>	86	411	-	35	61	593
<i>Current</i>	9	26	33	30	39	137
Provisions made during the year	(2)	42	15	-	89	144
Provisions reversed during the year	-	-	(26)	-	-	(26)
Actuarial gains and losses	3	-	-	-	-	3
Provisions used during the year	(9)	(1)	(8)	(11)	-	(29)
Change in estimates	-	3	-	-	-	3
Translation difference	(3)	(62)	(1)	(12)	-	(78)
<b>Balance at 31 December 2015</b>	<b>84</b>	<b>419</b>	<b>13</b>	<b>42</b>	<b>189</b>	<b>747</b>
<i>Non-current</i>	77	400	-	35	138	650
<i>Current</i>	7	19	13	7	51	97
Provisions made during the year	11	30	5	-	-	46
Provisions reversed during the year	-	-	(1)	-	(100)	(101)
Actuarial gains and losses	2	-	-	-	-	2
Provisions used during the year	(7)	(2)	(12)	(17)	-	(38)
Disposal of subsidiary	-	(22)	-	-	-	(22)
Change in estimates	-	(1)	-	-	-	(1)
Translation difference	10	19	1	-	19	49
<b>Balance at 31 December 2016</b>	<b>100</b>	<b>443</b>	<b>6</b>	<b>25</b>	<b>108</b>	<b>682</b>
<i>Non-current</i>	92	422	-	6	98	618
<i>Current</i>	8	21	6	19	10	64
	<b>100</b>	<b>443</b>	<b>6</b>	<b>25</b>	<b>108</b>	<b>682</b>

**(c) Pension liabilities**

As at 31 December 2016 the pension liability is represented by UC RUSAL USD 57 million (31 December 2015: USD 52 million, 31 December 2014: USD 63 million) and EN+ USD 43 million (31 December 2015: USD 32 million, 31 December 2014: USD 32 million).

The provision for pensions mainly comprises lump sum payments at retirement by aluminium plants located in Russia and Ukraine, and by electricity generating company Irkutskenergo and Krasnoyarsk HPP. The Group also provides pension benefits to eligible participants at facilities located outside of the Russian Federation and Ukraine.

**UC RUSAL***Subsidiaries in the Russian Federation*

UC RUSAL 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. UC RUSAL finances these programs on a pay-as-you-go basis, so plan assets are equal to nil.

*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 nil.

*Subsidiaries outside the Russian Federation and Ukraine*

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

At its Guyana subsidiary, UC RUSAL 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), UC RUSAL 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.

All pension plans of UC RUSAL are unfunded.

The number of employees eligible for the plans as at 31 December 2016, 31 December 2015 and 2014 was 56,611, 57,501 and 56,750, respectively. The number of pensioners as at 31 December 2016, 31 December 2015 and 2014 was 45,915, 46,626 and 48,414, respectively.

The UC RUSAL expects to pay under the defined benefit retirement plans an amount of USD 5 million during the 12 month period beginning on 1 January 2017.

*Actuarial valuation of pension liabilities*

The actuarial valuation of UC RUSAL and the portion of UC RUSAL funds specifically designated for the UC RUSAL'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 defined benefit obligations) are as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	% per annum	% per annum	% per annum
Discount rate	8.0	8.9	11.7
Future salary increases	7.7	7.9	8.8
Future pension increases	4.3	3.3	7.0

As at 31 December 2016, 31 December 2015 and 31 December 2014 the Group's obligations were fully uncovered.

**EN+**

The principal assumptions used in determining pension obligations for the pension plans are shown below:

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
	USD million	USD million	USD million
Discount rate	8.3%	9.6%	13.0%
Future salary increase	6.5%	7.2%	9.5%
Pension and inflation rate increase	5%	5.7%	7.0%

(d) **Site restoration and environmental provisions**

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.

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 ash dumps removal at coal burning electricity and heat generation stations.

The principal assumptions used in determining site restoration provision are:

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Timing of cash outflows	2017: USD 20 million	2016: USD 15 million	2015: USD 27 million
	2018-2022: USD 263 million	2017-2021: USD 228 million	2016-2020: USD 244 million
	2023-2033: USD 113 million	2022-2032: USD 147 million	2021-2031: USD 197 million
	after 2033: USD 158 million	after 2032: USD 131 million	after 2031: USD 123 million
Years required to fill the ash dumps	17.4	17.5	15.4
Discount rate for Irkutskenergo	4.9%	5.12%	8.69%
Discount rate for Coal segment assets	4.9%	5.12%	8.69%
Risk free discount rate for UC RUSAL after adjusting for inflation	2.01%	1.75%	2.63%

The risk free rate for the year 2016-2014 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 concluded that the provisions and disclosures are adequate.

**(e) Provisions for legal claims**

The Group's subsidiaries are subject to a variety of lawsuits and claims in the ordinary course of its business. 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 USD 6 million of probable outflow related to these claims (31 December 2015: USD 13 million, 31 December 2014: USD 33 million, including provision for operating dam lease (note 22(d)). The amount of claims, where management assesses outflow as possible approximates USD 60 million (31 December 2015: USD 38 million, 31 December 2014: USD 111 million).

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

**(f) Tax provisions**

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

**(g) Provision for guarantees**

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 RUB 16.8 billion (31 December 2016, 2015 and 2014 USD 277 million, USD 231 million and

USD 299 million, respectively) and is split between the Group and OJSC RusHydro in equal proportion.

During 2016 USD 100 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.

In 2015 the Group recognised a provision in the amount of RUB 6.5 billion (31 December 2016 and 2015 USD 108 million and USD 89 million, respectively) for a guarantee issued in favour of the bank in respect of certain loan obligations of several borrowers directly in equity (notes 22(f), 17(f)).

## 20. Derivative financial assets and liabilities

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 consolidated 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 consolidated 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 consolidated statement of comprehensive income.

	31 December 2016		31 December 2015		31 December 2014	
	USD million		USD million		USD million	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Cross-currency swaps	-	-	-	370	-	446
Petroleum coke supply contracts and other raw materials	62	5	109	-	45	-
Interest rate swaps	-	-	-	40	-	30
Cross-currency option on loan	-	-	-	-	-	166
Forward contracts for aluminium and other instruments	5	30	12	11	17	26
<b>Total</b>	<b>67</b>	<b>35</b>	<b>121</b>	<b>421</b>	<b>62</b>	<b>668</b>
<i>Non-current</i>	51	3	71	-	30	350
<i>Current</i>	16	32	50	421	32	318
	<b>67</b>	<b>35</b>	<b>121</b>	<b>421</b>	<b>62</b>	<b>668</b>

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

	31 December		
	2016	2015	2014
	USD million	USD million	USD million
Balance at the beginning of the period	(300)	(606)	(308)
Unrealised changes in fair value recognised in other comprehensive income (cash flow hedge) during the period	36	144	(327)
Unrealised changes in fair value recognised in profit or loss (finance costs) during the period	(157)	(352)	(467)
Realised portion during the period	453	514	496
Balance at the end of the period	<b>32</b>	<b>(300)</b>	<b>(606)</b>

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 option*

On 16 December 2013 the Group entered into a credit facility up to RUB 15 billion with VTB Capital Plc with a maturity of 5 years and an interest rate of 3M Mosprime + 4.0% and drew down RUB 10.1 billion (USD 309 million) on 17 December 2013. The credit facility includes an option which may be exercised by the bank two years from the date of entering into the credit facility to convert the credit facility to USD with a 3M LIBOR + 5.05% interest rate. On 17 December 2015 the option was exercised by VTB Capital.

*Cross-currency swaps*

During the year ended 31 December 2011, the Group entered into cross-currency swaps to transform the two tranches of its rouble bonds into USD obligations of USD 530 million and USD 533 million, respectively (refer to note 18(b)). The terms of the swaps were 3 and 4 years, respectively. In February 2012 – August 2013 the Group entered into cross-currency swaps to convert RUB 18.3 billion of 5 year rouble denominated credit facility into a USD denominated liability of USD 598 million.

At 31 December 2014 the Group recognised a loss on part of the instruments as they were considered ineffective. The reasons for this were partial buy-back of bonds in relation to the second tranche, and change of maturity date for RUB 18.3 billion facility as a result of refinancing.

Cross-currency swaps matured in November 2016 and were settled in full.

*Petroleum coke supply contracts and other raw materials*

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 USD 1,508 per tonne.

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 USD 1,809.65 per tonne while the strike aluminium quotations for US, Europe and Japan are set at USD 403.956 per tonne, USD 313.3 per tonne and USD 366.0 per tonne, respectively.

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 USD 2,403.45 per tonne and USD 2,497.72 per tonne, respectively, while the strike price for oil is set at USD 61.10 per barrel and USD 111.89 per barrel, respectively.

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	-	-	-	-	-	-

## 21. Financial risk management and fair values

### (a) Fair values

Management believes that the fair values of 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.



**As at 31 December 2016**

Note	Designated at fair value USD million	Carrying amount				Fair value			
		Fair value - hedging instrument USD million	Loans and receivables USD million	Other financial liabilities USD million	Total USD million	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million
<b>Financial assets measured at fair value</b>									
20	62	-	-	-	62	-	-	62	62
20	5	-	-	-	5	-	-	5	5
	<b>67</b>	-	-	-	<b>67</b>	-	-	<b>67</b>	<b>67</b>
<b>Financial assets not measured at fair value*</b>									
16(b)	-	-	1,398	-	1,398	-	1,398	-	1,398
16(d)	-	-	669	-	669	-	669	-	669
	-	-	<b>2,067</b>	-	<b>2,067</b>	-	<b>2,067</b>	-	<b>2,067</b>
<b>Financial liabilities measured at fair value</b>									
20	(5)	-	-	-	(5)	-	-	(5)	(5)
20	(30)	-	-	-	(30)	-	-	(30)	(30)
	<b>(35)</b>	-	-	-	<b>(35)</b>	-	-	<b>(35)</b>	<b>(35)</b>
<b>Financial liabilities not measured at fair value*</b>									
18(a)	-	-	-	(14,009)	(14,009)	-	(14,311)	-	(14,311)
18(b)	-	-	-	(196)	(196)	(208)	-	-	(208)
16(c)	-	-	-	(1,307)	(1,307)	-	(1,307)	-	(1,307)
	-	-	-	<b>(15,512)</b>	<b>(15,512)</b>	<b>(208)</b>	<b>(15,618)</b>	-	<b>(15,826)</b>

\* 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.

**As at 31 December 2015**

Note	Designated at fair value USD million	Fair value -				Carrying amount			Fair value		
		hedging instrument USD million	Loans and receivables USD million	Other financial liabilities USD million	Total USD million	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million		
<b>Financial assets measured at fair value</b>											
20	109	-	-	-	109	-	-	109	-	109	
20	12	-	-	-	12	-	-	12	-	12	
	<b>121</b>				<b>121</b>			<b>121</b>		<b>121</b>	
<b>Financial assets not measured at fair value*</b>											
16(b)	-	-	969	-	969	-	969	-	-	969	
16(d)	-	-	591	-	591	-	591	-	-	591	
	-	-	<b>1,560</b>	-	<b>1,560</b>	-	<b>1,560</b>	-	-	<b>1,560</b>	
<b>Financial liabilities measured at fair value</b>											
20	(370)	-	-	-	(370)	-	-	(370)	-	(370)	
20	(40)	-	-	-	(40)	-	-	(40)	-	(40)	
20	(11)	-	-	-	(11)	-	-	(11)	-	(11)	
20	<b>(421)</b>				<b>(421)</b>			<b>(421)</b>		<b>(421)</b>	
18(a)	-	-	-	(12,307)	(12,307)	-	(12,356)	-	-	(12,356)	
18(b)	-	-	(21)	(21)	(21)	(21)	-	-	-	(21)	
16(c)	-	-	(927)	(927)	(927)	-	(927)	-	-	(927)	
	-	-	<b>(13,255)</b>	<b>(13,255)</b>	<b>(13,255)</b>	<b>(21)</b>	<b>(13,283)</b>	<b>-</b>	<b>-</b>	<b>(13,304)</b>	

\* 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.

**As at 31 December 2014**

Note	Designated at fair value USD million	Carrying amount				Fair value				
		Fair value - hedging instrument USD million	Loans and receivables USD million	Other financial liabilities USD million	Total USD million	Level 1 USD million	Level 2 USD million	Level 3 USD million	Total USD million	
<b>Financial assets measured at fair value</b>										
20	45	-	-	-	45	-	-	45	45	
20	17	-	-	-	17	-	-	17	17	
	<b>62</b>				<b>62</b>			<b>62</b>	<b>62</b>	
<b>Financial assets not measured at fair value*</b>										
16(b)	-	-	763	-	763	-	763	-	763	
16(d)	-	-	710	-	710	-	710	-	710	
			<b>1,473</b>		<b>1,473</b>		<b>1,473</b>		<b>1,473</b>	
<b>Financial liabilities measured at fair value</b>										
20	-	(446)	-	-	(446)	-	-	(446)	(446)	
20	-	(30)	-	-	(30)	-	-	(30)	(30)	
20	-	(166)	-	-	(166)	-	-	(166)	(166)	
20	(26)	-	-	-	(26)	-	-	(26)	(26)	
	<b>(26)</b>				<b>(642)</b>			<b>(668)</b>	<b>(668)</b>	
<b>Financial liabilities not measured at fair value*</b>										
18(a)	-	-	-	(12,853)	(12,853)	-	(12,307)	-	(12,307)	
18(b)	-	-	-	(257)	(257)	(258)	-	-	(258)	
16(c)	-	-	-	(1,149)	(1,149)	-	(1,149)	-	(1,149)	
				<b>(14,259)</b>	<b>(14,259)</b>	<b>(258)</b>	<b>(13,456)</b>		<b>(13,714)</b>	

\* 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 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.

(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) **Tariffs and commodity price risk**

During the years ended 31 December 2016, 2015 and 2014, the Group has entered into certain commodity derivatives contracts in order to manage its exposure of commodity price risks. Details of the contracts are disclosed in note 20.

The tariffs for electricity, heat and transmission services applied by the Group's significant subsidiaries are currently partially restraint by the government bodies. The Group cannot directly influence or mitigate the risks in relation to the change in tariffs.

A significant portion of the Group's generation activities is based on coal burning stations. A change in coal prices may have a significant impact on the Group's operations. To mitigate the risk of fluctuations in coal prices, the Group has increased its internal coal production through acquisition of coal mines and licences in the Eastern Siberia region. The Group aims at self-sufficiency in coal in the next several years.

(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 (note 18). 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 and the Company's borrowings at the reporting date.

	31 December 2016		31 December 2015		31 December 2014	
	Effective interest rate %	USD million	Effective interest rate %	USD million	Effective interest rate %	USD million
<b>Fixed rate loans and borrowings</b>						
Loans and borrowings	2.5% - 15.1%	3,236	2.5% - 26.27%	3,677	6.90% - 26.27%	3,964
		<b>3,236</b>		<b>3,677</b>		<b>3,964</b>
<b>Variable rate loans and borrowings</b>						
Loans and borrowings	0.53% - 12.31%	10,639	1.70% - 7.63%	8,565	1.70% - 6.90%	8,833
		<b>10,639</b>		<b>8,565</b>		<b>8,833</b>
		<b>13,873</b>		<b>12,242</b>		<b>12,797</b>

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
<b>As at 31 December 2016</b>			
Basis percentage points	+100	(106)	(85)
Basis percentage points	-100	106	85
<b>As at 31 December 2015</b>			
Basis percentage points	+100	(86)	(69)
Basis percentage points	-100	86	69
<b>As at 31 December 2014</b>			
Basis percentage points	+100	(88)	(71)
Basis percentage points	-100	88	71

**(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.

At 31 December USD million	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		
	31 December			31 December			31 December			31 December		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Non-current assets	-	-	-	3	4	4	3	-	-	1	1	31
Derivative financial assets	-	-	-	59	73	45	-	-	-	-	-	-
Trade and other receivables	-	-	-	324	297	202	44	30	37	18	15	16
Cash and cash equivalents	1	-	-	49	64	306	86	37	17	18	16	22
Loans and borrowings	(682)	(1,381)	(1,657)	(329)	(267)	(525)	(232)	(254)	(306)	-	-	-
Provisions	-	-	-	(71)	(70)	(75)	(33)	(33)	(30)	(15)	(19)	(16)
Derivative financial liabilities	-	-	-	(5)	-	(1)	-	-	-	-	-	-
Income taxation	-	-	-	(60)	(1)	(12)	-	(1)	(1)	-	(7)	(7)
Non-current liabilities	-	-	-	(9)	-	-	(8)	-	-	-	-	-
Trade and other payables	(2)	(5)	(2)	(440)	(254)	(314)	(41)	(23)	(42)	(57)	(63)	(69)
Net exposure arising from recognised assets and liabilities	<b>(683)</b>	<b>(1,386)</b>	<b>(1,659)</b>	<b>(479)</b>	<b>(154)</b>	<b>(370)</b>	<b>(181)</b>	<b>(244)</b>	<b>(325)</b>	<b>(35)</b>	<b>(57)</b>	<b>(23)</b>

*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.

	<b>Year ended 31 December 2016</b>		
	<b>Change in exchange rates</b>	<b>USD million</b>	<b>USD million</b>
		<b>Effect on profit before taxation for the year</b>	<b>Effect on equity for the year</b>
Depreciation of USD vs. RUB	5%	10	5
Depreciation of USD vs. EUR	5%	(9)	(9)
Depreciation of USD vs. other currencies	5%	(2)	(2)

	<b>Year ended 31 December 2015</b>		
	<b>Change in exchange rates</b>	<b>USD million</b>	<b>USD million</b>
		<b>Effect on profit before taxation for the year</b>	<b>Effect on equity for the year</b>
Depreciation of USD vs. RUB	5%	62	50
Depreciation of USD vs. EUR	5%	(12)	(12)
Depreciation of USD vs. other currencies	5%	(3)	(3)

	<b>Year ended 31 December 2014</b>		
	<b>Change in exchange rates</b>	<b>USD million</b>	<b>USD million</b>
		<b>Effect on profit before taxation for the year</b>	<b>Effect on equity for the year</b>
Depreciation of USD vs. RUB	5%	65	52
Depreciation of USD vs. EUR	5%	(16)	(16)
Depreciation of USD vs. other currencies	5%	(1)	(1)

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, except loans presented as payable on demand due to breach of covenant:

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	1,226	-	-	-	1,226	1,226
Trade and other payables to related parties	55	-	-	-	55	55
Bonds, including interest payable	26	225	-	-	251	196
Loans and borrowings, including interest payable	2,936	3,215	10,885	842	17,877	14,009
	<b>4,243</b>	<b>3,440</b>	<b>10,885</b>	<b>842</b>	<b>19,409</b>	<b>15,486</b>
Financial guarantees issued: Maximum amount guaranteed	106	113	77	-	296	108

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	793	-	-	-	793	793
Trade and other payables to related parties	121	-	-	-	121	121
Bonds, including interest payable	21	-	-	-	21	21
Loans and borrowings, including interest payable	3,331	2,083	7,702	2,147	15,263	12,307
	<b>4,266</b>	<b>2,083</b>	<b>7,702</b>	<b>2,147</b>	<b>16,198</b>	<b>13,242</b>
Financial guarantees issued: Maximum amount guaranteed	81	111	145	-	337	189

	<b>31 December 2014</b>					<b>Carrying amount</b>
	<b>Contractual undiscounted cash outflow</b>					
	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but less than 5 years</b>	<b>More than 5 years</b>	<b>TOTAL</b>	
	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>	<b>USD million</b>	
Trade and other payables to third parties	1,021	-	-	-	1,021	1,021
Trade and other payables to related parties	77	-	-	-	77	77
Bonds, including interest payable	164	119	-	-	283	257
Loans and borrowings, including interest payable	3,929	2,005	5,017	5,040	15,991	12,853
	<b>5,191</b>	<b>2,124</b>	<b>5,017</b>	<b>5,040</b>	<b>17,372</b>	<b>14,208</b>
Financial guarantees issued: Maximum amount guaranteed	79	143	35	-	257	100

(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 16. Cash balances are held with high credit quality financial institutions. 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, 31 December 2015 and 31 December 2014, the Group has certain concentrations of credit risk as 3.4%, 1.4% and 2.3 % of the total trade receivables were due from the Group's largest customer and 8.8%, 1.7% and 3.0% of the total trade receivables were due from the Group's five largest customers.

With respect to credit risk arising from guarantees, management have recognised a provision of USD 108 million against the Group's exposure to guarantees (31 December 2015: USD 189 million, 31 December 2014: USD 100 million) (note 19(g)).

(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.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	<b>Year ended 31 December 2016</b>	
	<b>USD million</b>	<b>USD million</b>
	<b>Trade receivables</b>	<b>Trade payables</b>
Gross amounts	52	(45)
Net amounts presented in the statement of financial position	<b>52</b>	<b>(45)</b>
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(32)	32
<b>Net amount</b>	<b>20</b>	<b>(13)</b>
	<b>Year ended 31 December 2015</b>	
	<b>USD million</b>	<b>USD million</b>
	<b>Trade receivables</b>	<b>Trade payables</b>
Gross amounts	61	(44)
Net amounts presented in the statement of financial position	61	(44)
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(39)	39
<b>Net amount</b>	<b>22</b>	<b>(5)</b>
	<b>Year ended 31 December 2014</b>	
	<b>USD million</b>	<b>USD million</b>
	<b>Trade receivables</b>	<b>Trade payables</b>
Gross amounts	96	(83)
Net amounts presented in the statement of financial position	96	(83)
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(78)	78
<b>Net amount</b>	<b>18</b>	<b>(5)</b>

## **22. Commitments**

### **(a) Capital commitments**

#### ***UC RUSAL***

UC RUSAL has entered into contracts that result in contractual obligations primarily relating to various construction and capital repair works. The commitments at 31 December 2016, 31 December 2015 and 31 December 2014 approximated USD 157 million, USD 169 million and USD 319 million, respectively. These commitments are due over a number of years.

#### ***EN+***

The Group had outstanding capital commitments which had been contracted for at 31 December 2016, 31 December 2015 and 31 December 2014 in the amount of USD 55 million, USD 61 million and USD 78 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 USD 3,156 million to USD 4,089 million at 31 December 2016 (31 December 2015: USD 3,793 million to USD 4,912 million, 31 December 2014: USD 3,400 million to USD 3,962 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: USD 110 million, 31 December 2014: USD 262 million). Commitments with a related party - joint venture for purchases of primary aluminium and alloys in 2017-2030 under supply agreements are estimated from USD 5,748 million to USD 7,127 million (31 December 2015: USD 5,512 million to USD 6,838 million, 31 December 2014: nil) 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 USD 806 million to USD 1,445 million at 31 December 2016 (31 December 2015: USD 793 million to USD 1,349 million, 31 December 2014: USD 958 million to USD 1,946 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 USD 546 million to USD 680 million at 31 December 2016 (31 December 2015: USD 504 million to USD 1,046 million, 31 December 2014: USD 852 million to USD 1,324 million).

Commitments with related parties for sales of primary aluminium and alloys in 2017-2030 are estimated to range from USD 4,295 million to USD 4,463 million at 31 December 2016 (31 December 2015: USD 3,728 million to USD 4,173 million, 31 December 2014: USD 3,994 million to USD 4,543 million). Commitments with third parties for sales of primary aluminium and alloys at 31 December 2016 are estimated to range from USD 941 million to USD 1,252 million (31 December 2015: USD 307 million to USD 654 million, 31 December 2014: USD 923 million to USD 1,144 million).

### **(d) Operating lease commitments**

Non-cancellable operating lease rentals are payable as follows:

	<u>31 December</u> <u>2016</u> <u>USD million</u>	<u>31 December</u> <u>2015</u> <u>USD million</u>	<u>31 December</u> <u>2014</u> <u>USD million</u>
Less than one year	30	35	22
Between one and five years	88	109	71
More than five years	126	134	183
	<u>244</u>	<u>278</u>	<u>276</u>

During 2013-2014 the Group was involved in a legal proceeding as a defendant in connection with the change of dams lease contract terms. As a result as at 31 December 2014 the Group accrued the legal provision of USD 27 million (RUB 1,023 million).

On 8 June 2015 the Group signed the amicable agreement with the owner of the dams which led to the lease expenses increase from USD 1 million (RUB 74 million) to USD 14 million (RUB 821 million) per annum and penalty for delayed payment in the amount of USD 4 million and derecognised previously accrued provision in the amount of USD 17 million (RUB 1,023 million) based on this agreement.

In February 2016 the Group received a court ruling that the annual lease payments for dams should be decreased from USD 13 million (RUB 821 million) to USD 6 million (RUB 365 million).

In October 2016 the Group signed an agreement to purchase dams from PJSC RusHydro (see note 12(g)).

As at 31 December 2016 and 31 December 2015 USD 12 million and USD 19 million of lease liabilities under the agreement remained unpaid, respectively.

A number of lease contracts for land, heat network, property and equipment are for one year with the possibility of contract renewal in the future. Management of the Group believes that such contracts will be effective in 2017-2022 therefore expected lease expenses for the respective period were included in the table above.

(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.

(f) **Guarantees**

*EN+*

In September 2015 the Parent Company issued a guarantee in respect of certain loan obligations of several borrowers which are not Group companies in favour of Sberbank. The obligations of the Parent Company are limited to (i) aggregate amount up to USD 89 million (RUB 6,500 million) for repayment of principal amounts of all guaranteed loans (including loans in the amount of USD 102 million (RUB 6,202 million) and USD 61 million (RUB 4,428 million) provided by Sberbank to the parties under common control and USD 72 million (RUB 5,263 million) loan provided by Sberbank to the third party), and (ii) interest payments under one of the guaranteed loans of the related company under common control. The guarantee matures simultaneously with the loans with final maturity dated December 2020.

As at 31 December 2015 the Group recognised a provision in the amount of RUB 6.5 billion (31 December 2016: USD 108 million, 31 December 2015: USD 89 million) for a guarantee issued in

favour of the bank in respect of loan obligations described above directly in equity (notes 19(g), 17(f)).

Previously issued in 2010 guarantee in respect of loan obligations of a related party under common control with the Group in favour of Sberbank was terminated on 11 September 2015. At 31 December 2014 the guarantee amount was USD 111 million.

## **23. 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.

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. The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon). The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

Effective 1 January 2015 the concept of "beneficial ownership" which is broadly in line with the concept developed by the OECD were introduced into Russian tax legislation. In particular, based on this concept the double tax treaty relief should be available to foreign legal entities provided they have the actual right to receive income (i.e., they qualify as a "beneficial owner of income"). When determining the beneficial owner, the functions of a foreign person that is claiming the application of reduced tax rates under a double tax treaty and the risks that such person takes should be analyzed. Effective 1 January 2017, a non-resident income recipient should be obliged to provide a tax agent with confirmation that it is the beneficial owner of the income. However, at the moment there is no clear guidance in the tax legislation in what form such confirmation should be obtained.

No assurance can currently be given as to how the above concepts will be applied in practice, their potential interpretation by the Russian tax authorities and the possible impact on the Group.

#### ***UC RUSAL***

In addition to the amounts of income tax UC RUSAL already has provided, there are certain tax positions 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. UC RUSAL'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 USD 225 million (31 December 2015: USD 237 million, 31 December 2014: USD 357 million).

#### **EN+**

During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to an increased number of material tax assessments issued by them as a result of tax audits. In practice, the Russian tax authorities generally interpret the tax laws in ways that do not favor taxpayers.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for three calendar years of review (one year in the case of customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances, new tax regulations effectively have been given retroactive effect. Moreover, in October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, formulating a concept of "unjustified tax benefit", which is defined in the Ruling by reference to specific examples of such tax benefits (e.g., tax benefits obtained as a result of a transaction that has no reasonable business purpose). There is a growing practice on the interpretation of this concept by the Russian tax authorities and the Russian courts and it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. The tax authorities have actively sought to apply this concept when challenging tax positions taken by taxpayers in court, and this trend is anticipated to continue in the future. It is possible that additional taxes may be payable in respect of some operations of the Group upon examination by the tax authorities or in connection with ongoing disputes with tax authorities. It could potentially have a significant impact on the consolidated financial statements of the Group.

Russian tax legislation includes "thin capitalisation" rules which limit the amount of interest that could be deducted by the Russian subsidiaries of the Company for corporate income tax purposes on "controlled" debts. The deductibility of interest is restricted to the extent that the controlled debt of a Russian company exceeds its net assets by more than three times. Interest on excess debt is non-deductible and treated as a dividend subject to Russian withholding tax. Prior to 2017 loans provided between Russian affiliated companies were subject to thin capitalisation rules in case they have direct or indirect foreign shareholder owning more than 20%. There is contemplated tax practice with respect to such kind of transactions and tax authorities interpreted these rules differently. It is currently unclear how the Russian tax authorities will interpret and apply the amended thin capitalisation rules.

The Russian subsidiaries of the Company may be affected by the Russian Federation's thin capitalisation rules which may result in assessment of additional taxes. 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 18 million (31 December 2015: USD 7 million; 31 December 2014: USD 28 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 (note 19(e)). As at 31 December 2016 the amount of claims, where management assesses outflow as possible approximates USD 60 million (31 December 2015: USD 38 million, 31 December 2014: USD 111 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 USD 2.8 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 22 May 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 21(c)(iii) "Foreign currency risk". The price at which the Group can sell its products is one of the primary drivers of the Group's revenue. The UC RUSAL'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.

## 24. Related party transactions

(a) **Accounting policy**

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:



- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### (b) Transactions with related parties

The Group transacts with related parties, the majority of which are entities under common control with the Group or under the control of minority shareholders of main subsidiaries or entities under its control.

Sales to related parties for the year are disclosed in note 7, trade receivables from related parties are disclosed in note 16(b), cash and cash equivalents are disclosed in note 16(d), accounts payable to related parties are disclosed in note 16(c) and other transactions with shareholders are disclosed in note 17. Related parties are mostly presented as parties under common control.

Purchases of raw materials and services from related parties for the period were as follows:

	Year ended 31 December		
	2016	2015	2014
	USD million	USD million	USD million
<b>Purchase of raw materials</b>	<b>(399)</b>	<b>(229)</b>	<b>(278)</b>
<i>Related parties – companies capable of exerting significant influence</i>	(146)	(129)	(196)
<i>Related parties – companies under common control</i>	(24)	(38)	(55)
<i>Related parties – associates and joint ventures</i>	(229)	(62)	(27)
<b>Energy costs</b>	<b>(127)</b>	<b>(178)</b>	<b>(142)</b>
<i>Related parties – companies capable of exerting significant influence</i>	(5)	(23)	(42)
<i>Related parties – companies under common control</i>	(11)	(12)	(100)
<i>Related parties – associates and joint ventures</i>	(111)	(143)	-
<b>Other services</b>	<b>(129)</b>	<b>(145)</b>	<b>(162)</b>
<i>Related parties – companies under common control</i>	(3)	(4)	(10)
<i>Related parties – associates and joint ventures</i>	(126)	(141)	(152)
	<b>(655)</b>	<b>(552)</b>	<b>(582)</b>

As at 31 December 2016 the Group pledged 15% shares of JSC Eurosibenergo with the bank for the corporate guarantee provided by the related party under common control till 20 December 2019.

As at 31 December 2015 and 31 December 2014, 25% plus one of the shares of Krasnoyarsk HPP were pledged as a collateral to secure loans extended by unrelated banks to related parties under common control.

(c) **Remuneration to key management**

For the year ended 31 December 2016 remuneration to key management personnel during the year was represented by short-term employee benefits and amounted to USD 14 million (31 December 2015: USD 20 million, 31 December 2014: USD 19 million).

(d) **Pricing policies**

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

## 25. Events subsequent to the reporting date

(a) **UC RUSAL Eurobonds and Panda bonds issues**

In February 2017 UC RUSAL completed the debut offering of Eurobonds with the following key terms: principal amount of USD 600 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.

On 17 March 2017 UC RUSAL completed the debut offering of Panda bonds with the following key terms: principal amount of CNY 1 billion (USD 145 million), maturity of three years with a put option in two years time. Net proceeds received by the Group totaled CNY 970 million (USD 141 million) at 5.5% per annum.

(b) **Pledges**

In February 2017 pledges of 22.78% shares of Irkutskenergo and 25%+1 share of JSC Eurosbenergo were released and the acquired dams were pledged to secure the extended syndicate facilities in the amount of USD 181 million (RUB 10,950 million at exchange rate as at 31 December 2016) (note 18(a)(iii)).

In February 2017 pledge of 100% share of LLC Tyvinskaya Gornorudnaya Company was released (note 18(a)(i)).

(c) **Acquisition of subsidiary**

In January 2017 the Parent Company's wholly owned subsidiary acquired GrandStroy LLC – the Lender under Loan (see note 18(a)(i)) for cash consideration of USD 3 million.

(d) **Dividends distribution**

Subsequently to the reporting date, the Parent Company declared interim dividends for 2016 in the amount of USD 45.6 million. As at the date of these consolidated financial statements, the Group distributed USD 46 million in cash.

**(e) Amendments to loan agreements**

In March 2017 UC RUSAL signed addendums to several of its credit facilities with Sberbank that resulted in:

- Decrease of interest rate for USD loans by 1% to the level of 3M LIBOR +4.75% (but not less than 1%, PIK part of interest was removed).
- Conversion of RUB credit facility of RUB 19,746 million to USD credit facility of USD 340 million at RUB 58 per USD exchange rate. 3M LIBOR + 4.75% interest rate was assigned to the loan while the PIK part of interest was also removed.

**26. Accounting estimates and judgements**

The Group has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results of the financial position reported in future periods.

*Property, plant and equipment – recoverable amount*

In accordance with the Group's accounting policy, 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 is recognised to the extent that carrying amount exceeds 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), reserves (refer "Reserve estimates" below), operating costs, restoration and rehabilitation costs and future capital expenditure. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the statement of income.

*Property, plant and equipment – hydro assets – fair value*

In accordance with the Group's accounting policy, hydro assets are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The valuation analysis is primarily based on the cost approach to determine depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical depreciation, functional and economical obsolescence.

This policy requires management to make estimates and assumptions regarding both costs, as there is no active market for used assets of that type, and macroeconomic indicators to assess economical obsolescence which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these estimates, which may impact the fair value of hydro assets. In such circumstances, fair value of hydro assets may be lower with respective decrease in revaluation reserve recognised through the statement of comprehensive income.

#### *Inventories – net realisable value*

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.

#### *Goodwill – recoverable amount*

In accordance with the Group's accounting policy, goodwill is allocated to the Group's reportable business segments as they represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and is tested for impairment annually at 31 December by preparing a formal estimate of recoverable amount. Recoverable amount is estimated as the value in use of the business segment.

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

#### *Investments in associates and joint ventures – recoverable amount*

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 ventures. 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.

#### *Legal proceedings*

In the normal course of business the Group may be involved in legal proceedings. Where management considers that it 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.

#### *Provision for restoration and rehabilitation*

The Group's accounting policy requires the recognition of provisions for the restoration and rehabilitation of each site when a legal or constructive obligation exists to dismantle the assets and restore the site. The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of restoration and rehabilitation provisions. Those estimates and assumptions deal with uncertainties such as: changes to the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the restoration and rehabilitation asset and provision. Such changes give rise to a change in future depreciation and interest charges. For closed sites, changes to estimated costs are recognised immediately in the statement of income.

#### *Taxation*

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on 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.

#### *Reserve estimates*

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.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Since economic assumptions used to estimate reserves change from period to period, and since additional geological data is generated during the course of operations, estimates of reserves may change from period to period.

Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depletion charged in profit or loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

#### *Exploration and evaluation expenditure*

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the statement of income.

*Development expenditure*

Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist such that development may be sanctioned. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to statement of income.

*Defined benefit retirement and other post retirement schemes*

For defined benefit pension schemes, the cost of benefits charged to the statement of income includes current and past service costs, interest costs on defined benefit obligations and the effect of any curtailments or settlements, net of expected returns on plan assets. An asset or liability is consequently recognised in the statement of financial position based on the present value of defined obligations, less any unrecognised past service costs and the fair value of plan assets.

The accounting policy requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit pension schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in the statement of comprehensive income.

## 27. Significant subsidiaries

The significant entities of the Group, included in these consolidated financial statements, are as follows:

Name	Place of incorporation and operation	Principal activities	Ownership and equity interest 31 December		
			2016	2015	2014
<b>UC RUSAL</b>					
United Company RUSAL Plc	Jersey	Holding company	48.1%	48.1%	48.1%
Compagnie Des Bauxites De Kindia S.A.	Guinea	Bauxite mining	100.0%	100.0%	100.0%
Friguia	Guinea	Alumina	100.0%	100.0%	100.0%
JSC RUSAL Achinsk	Russian Federation	Alumina	100.0%	100.0%	100.0%
RUSAL Mykolaev Ltd	Ukraine	Alumina	100.0%	100.0%	100.0%
JSC RUSAL Boxitogorsk Alumina	Russian Federation	Alumina	100.0%	100.0%	100.0%
Eurallumina SpA	Italy	Alumina	100.0%	100.0%	100.0%
OJSC RUSAL Bratsk	Russian Federation	Smelting	100.0%	100.0%	100.0%
JSC RUSAL Krasnoyarsk	Russian Federation	Smelting	100.0%	100.0%	100.0%
JSC RUSAL Novokuznetsk	Russian Federation	Smelting	100.0%	100.0%	100.0%
JSC RUSAL Sayanogorsk	Russian Federation	Smelting	100.0%	100.0%	100.0%
CJSC Khakas Aluminium Smelter	Russian Federation	Smelting	-	-	100.0%
RUSAL Resal LLC	Russian Federation	Processing	100.0%	100.0%	100.0%
JSC RUSAL SAYANAL	Russian Federation	Foil	100.0%	100.0%	100.0%
CJSC RUSAL ARMENAL	Armenia	Foil	100.0%	100.0%	100.0%
RUS-Engineering LLC	Russian Federation	Repairs and maintenance	100.0%	100.0%	100.0%
JSC Russian Aluminium	Russian Federation	Holding company	100.0%	100.0%	100.0%
Rusal Global Management B.V.	Netherlands	Management company	100.0%	100.0%	100.0%
JSC United Company RUSAL Trading House	Russian Federation	Trading	100.0%	100.0%	100.0%
Rusal America Corp.	USA	Trading	100.0%	100.0%	100.0%
RS International GmbH	Switzerland	Trading	100.0%	100.0%	100.0%
Rusal Marketing GmbH	Switzerland	Trading	100.0%	100.0%	100.0%
RTI Limited	Jersey	Trading	100.0%	100.0%	100.0%
Alumina & Bauxite Company Limited	British Virgin Islands	Trading	100.0%	100.0%	100.0%
JSC Komi Alumini	Russian Federation	Alumina	100.0%	100.0%	100.0%
JSC Bauxite-Timana	Russian Federation	Bauxite mining	100.0%	100.0%	80.0%
JSC Severo-Uralsky Bauxite Mine	Russian Federation	Bauxite mining	100.0%	100.0%	100.0%
JSC SUAL	Russian Federation	Primary aluminium and alumina production	100.0%	100.0%	100.0%
OJSC Zaporozhye Aluminium Combine	Ukraine	Primary aluminium and alumina production	-	-	98.0%
SUAL-PM LLC	Russian Federation	Aluminium powders production	100.0%	100.0%	100.0%
CJSC Kremniy	Russian Federation	Silicon production	100.0%	100.0%	100.0%
SUAL-Kremniy-Ural LLC	Russian Federation	Silicon production	100.0%	100.0%	100.0%
UC RUSAL Alumina Jamaica Limited (a)	Jamaica	Alumina	-	100.0%	100.0%
UC RUSAL Alumina Jamaica II Limited	Jamaica	Alumina	100.0%	100.0%	100.0%
Kubikenborg Aluminium AB	Sweden	Smelting	100.0%	100.0%	100.0%
RFCL Sarl	Luxembourg	Finance services	100.0%	100.0%	100.0%



Name	Place of incorporation and operation	Principal activities	Ownership and equity interest 31 December		
			2016	2015	2014
Aktivium B.V.	Netherlands	Holding and investment company	100.0%	100.0%	100.0%
Aughinish Alumina Ltd	Ireland	Alumina	100.0%	100.0%	100.0%
<b>EN+</b>					
Eurosibenergo Plc	Cyprus	Holding company Management company	100.0%	100.0%	100.0%
JSC Eurosibenergo	Russian Federation	Energy generation	100.0%	100.0%	100.0%
PJSC Krasnoyarsk Hydro-Power Plant (b)	Russian Federation	Energy trading	100.0%	92.6%	89.6%
CJSC MAREM +	Russian Federation	Energy generation	99.9%	99.9%	99.9%
PJSC Irkutskenergo	Russian Federation	Power transmission and distribution	90.8%	52.8%	52.8%
OJSC Irkutsk Electric Grid Company	Russian Federation	Investing company	51.9%	44.4%	44.4%
LLC Telmamskaya HPP	Russian Federation	Energy trading	100.0%	100.0%	100.0%
CJSC Volgaenergosbyt	Russian Federation	Energy generation	96.2%	80.5%	80.5%
LLC Avtozavodskaya TEC	Russian Federation	Energy transmission services	95.3%	75.9%	75.9%
LLC Zavodskie seti	Russian Federation	Engineering services	100.0%	100.0%	100.0%
LLC Eurosibenergo-engineering	Russian Federation	Coal production	100.0%	100.0%	100.0%
LLC Kompaniya VostSibUgol	Russian Federation	Coal production	90.8%	52.8%	52.8%
OJSC Razrez Tulunsky	Russian Federation	Manufacturing of semi-finished products from primary aluminium	87.8%	52.6%	52.8%
LLC KRAMZ	Russian Federation	Coal production	91.7%	57.6%	57.3%
LLC Tyvinskaya Gornorudnaya Company	Russian Federation	Ore mining	93.0%	39.5%	39.5%
LLC Sorsk Mining and Metallurgical Complex	Russian Federation	Ore processing, ferromolybdenum production	100.0%	100.0%	100.0%
LLC Sorsk Ferromolybdenum Plant	Russian Federation		100.0%	100.0%	100.0%

(a) Entity was disposed of in 2016 for a consideration of USD 299 million, please see note 2(h) for details.

(b) As at 31 December 2016 excluding squeeze out procedures Krasnoyarsk HPP nominal ownership is 98.6% (note 17(a)).

The nominal ownerships indicated in the table above are the effective holdings, except for UC RUSAL shareholdings where 48.1% is held by the Parent Company.

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

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