CONSOLIDATED INCOME STATEMENT
for the year ended 31 december 2018

US Dollars million

ONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 december 2018

US Dollars million

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 december 2018

US Dollars million

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 december 2018

US Dollars million

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 december 2018

US Dollars million

The accompanying notes form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 december 2018

US Dollars million

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1. GENERAL INFORMATION

Organisation and principal business activities

Public Joint-Stock Company “Mining and Metallurgical Company Norilsk Nickel” (the “Company” or “MMC Norilsk Nickel”) was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the “Group”) are exploration, extraction, refining of ore and nonmetallic minerals and sale of base and precious metals produced from ore. Further details regarding the nature of the business and structure of the Group are presented in note 33.

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

BASIS OF PREPARATION

Statement of compliance

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

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

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

Basis of measurement

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

mark-to-market valuation of by-products upon initial recognition, in accordance with IAS 2 Inventories;
mark-to-market valuation of certain classes of financial instruments, in accordance with IFRS 9 Financial Instruments (IAS 39 Financial Instruments: Recognition

and Measurement for comparative information).

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in the preparation of these consolidated financial statements are generally consistent with those applied in the preparation of the Group’s consolidated financial statements as at and for the year ended 31 December 2017 except for the changes related to the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

Adoption of new and revised standards and interpretations

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018.

The Group has adopted IFRS 15 Revenue from Contracts with Customers at the date of initial application using the cumulative effect method with no material effect on the Group’s consolidated financial statements as at 31 December 2018 and for the year then ended. Comparative information for the year 31 December 2017 has not been restated.

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification requirements of IFRS 9 Financial Instruments. Therefore, the information presented as at 31 December 2017 does not generally reflect the requirements of classification of IFRS 9 Financial Instruments but rather those of IAS 39 Financial Instruments: Recognition and Measurement.

Trade receivables on provisionally priced contracts where price is not settled until a predetermined future date that were classified as loans and receivables under IAS 39 Financial Instruments: Recognition and Measurement are classified as at 31 December 2018 at fair value through profit or loss and remeasured at each reporting date using the forward price for the period equivalent to that outlined in the contract (mark-to-market adjustment).

There were no material differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 Financial Instruments as at 31 December 2018.

The significant accounting policies in respect of revenue from contracts with customers and financial instruments in effect from 1 January 2018 are set out in note 3.

Adoption of other new and revised standards and interpretations

Adoption of amendments to the following Standards for annual periods from 1 January 2018 did not have material impact on the accounting policies, financial position or results of the Group:

IFRS 1 First-time Adoption of International Financial Reporting Standards (amended);
IFRS 2 Share-based Payment (amended);
IFRS 4 Insurance Contracts (amended);
IAS 28 Investments in Associates and Joint Ventures (amended);
IAS 40 Investment Property (amended);
IFRIC 22 Foreign Currency Transactions and Advance Consideration.

Standards and interpretations in issue but not yet effective

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

Management of the Group plans to adopt all of the above standards and interpretations in the Group's consolidated financial statements for the respective periods.

IFRS 16 Leases replaces existing leases guidance, including 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. IFRS 16 Leases will be adopted by the Group starting 1 January 2019.

IFRS 16 Leases requires the lessee to adopt a unified approach to the presentation of lease agreements. Under the new standard, an asset (the right to use the leased item) and a financial liability of the lessee to pay rentals are recognised for most lease agreements. The Group plans to use the exemption on lease contracts for which the lease term is less than 12 months. The Group plans to adopt IFRS 16 Leases in accordance with the modified retrospective approach as follows:

at the date of initial application in respect of leases previously classified as operating leases under IAS 17 Leases, lease liabilities will be measured at the present value of the remaining future lease payments discounted at the incremental borrowing rate;
a right-of-use asset is generally recognised in the amount equal to the corresponding lease liability;
comparative information for the year ended 31 December 2018 will not be restated.

The Group preliminarily estimated impact of the initial application of IFRS 16 Leases on its consolidated financial position: recognition of approximately USD 200 million of lease liabilities and respective right-of-use assets with no effect on retained earnings as at 1 January 2019.

With respect to the subsequent impact on the consolidated income statement (as opposed to the current presentation of operating lease expenses), the Group will present depreciation charges for right-of-use assets, as well as interest expense on lease liabilities (unwinding of discount).

Reclassification

For the year ended 31 December 2018, revenue from sales of semi-products is allocated to revenue from each metal sales as per respective metal content in a semi-product rather than being presented under a separate "semi-products" caption (refer to note 6). Information for the year ended 31 December 2017 has been reclassified to conform with the current period presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

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

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

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

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

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

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

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly. The Group accounts for its investments in joint ventures using the equity method.

Business combinations

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

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

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

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

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

Functional and presentation currency

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

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

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

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

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

exchange rates at the dates of the transactions; resulting exchange differences are presented in the consolidated statement of cash flows as effects of foreign exchange differences on balances of cash and cash equivalents.

Foreign currency transactions

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

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

Revenue recognition

Metal sales revenue

Revenue from metal sales is recognised at a point of time when control over the asset is transferred to a customer and represents the invoiced value of all metal products shipped to customers, net of value added tax.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception and are expected to be settled by physical delivery, is recognised in the consolidated financial statements as and when they are delivered. A gain or loss on forward contracts that are expected to be settled by physical delivery or on net basis is measured at fair value recognised in revenue and disclosed separately from revenue from contracts with customers.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component of the contracts where the period between when the Group transfers a promised good or service to a customer and the customer pays for that good or service will be one year or less.

Certain contracts are provisionally priced so that price is not settled until a predetermined future date based on the market price at that time.

Revenue from these transactions is initially recognised at the current market price. Mark-to-market adjustment on provisionally priced contracts is recorded in revenue.

Other revenue

Revenue from contracts with customers on sale of goods, other than metals, is recognised at a point of time when control over the asset is transferred to the customer in accordance with the shipping terms specified in the sales agreements.

Revenue from service contracts is recognised over-time when the services are rendered.

Dividends and interest income

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

Leases

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

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

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

Finance costs

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

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

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

Government grants

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

Employee benefits

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

Defined contribution plans

The Group contributes to the following major defined contribution plans:

Pension Fund of the Russian Federation;
Mutual accumulated pension plan.

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

Income tax expense

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

Income tax is recognised as an expense or income in the consolidated income statement, except when it relates to other items recognised directly in other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

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

Deferred tax

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

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

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

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

Property, plant and equipment and mine development costs

Mining assets

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

acquiring mining and exploration licences;
developing new mining operations;
estimating revised content of minerals in the existing ore bodies; and
expanding capacity of a mine.
Mine development costs include directly attributable borrowings costs.

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

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

Depreciation of mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production. Carrying value of mining assets is depreciated on a straight-line basis over the lesser of their remaining economic useful lives or remaining life of mine that they relate to, calculated on the basis of the amount of commercial ore reserves. When determining the life of mine, assumptions valid at the time of estimation may change in case new information becomes available. Useful lives are in average varying from 1 to 50 years.

Non-mining assets

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

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

Depreciation is calculated over the following economic useful lives:

buildings, structures and utilities 2 – 50 years
machinery, equipment and transport 1 – 25 years
other non-mining assets 1 – 20 years

Capital construction-in-progress

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

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

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

Research and exploration expenditure

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

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

Intangible assets, excluding goodwill

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

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

Impairment of tangible and intangible assets, excluding goodwill

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

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

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

Inventories

Refined metals

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

Work-in-process

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

Materials and supplies

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

Financial assets

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

Financial assets are classified into the following specified categories:

financial assets at amortised cost;
financial assets at fair value through other comprehensive income; and
financial assets at fair value through profit or loss.

The classification of financial assets depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value though profit or loss:

it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
The Group generally classifies cash and cash equivalents, trade and other receivables (excluding trade receivables on provisionally priced contracts), loans issued and bank deposits as financial assets at amortised cost.

Financial assets at fair value through other comprehensive income

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated at fair value though profit or loss:

it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition the Group may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis.

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amorised cost or fair value through other comprehensive income are classified as financial assets at fair value through profit or loss.

Trade receivables on provisionally priced contracts and derivative financial assets are measured at fair value through profit or loss. Trade receivables on provisionally priced contracts are remeasured at each reporting date using the forward price for the period equivalent to that outlined in the contract.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on a financial asset measured at amortised cost using one of the two methods:

When determining whether the credit risk of the financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available, including both quantitative and qualitative information and analysis based on Group’s historical experience and forward-looking information.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group assumes that expected credit loss for all trade and other receivables, which are overdue in excess of 365 days is equal to their carrying amount. To measure the expected credit losses, trade and other receivables that are past due for less than 365 days are grouped based on the length of the overdue period to which respective expected loss rates are applied. The expected loss rates are based on the historical credit loss experience, adjusted to reflect current and forward-looking information on the ability of the customers to settle the receivables.

When trade and other receivables are considered uncollectible, they are written off against the loss allowance. Changes in the loss allowance are recognised in the consolidated income statement.

Derecognition of financial assets

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

Financial liabilities

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

Effective interest method

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

Derecognition of financial liabilities

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

Cash and cash equivalents

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

Provisions

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

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

Decommissioning obligations

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The most significant areas requiring the use of management estimates and assumptions relate to:

useful economic lives of property, plant and equipment;
impairment of non-financial assets;
provisions and allowances;
decommissioning obligations;
income taxes and
contingencies.

Useful economic lives of property, plant and equipment

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

The factors that could affect the estimation of the life of mine include the following:

changes in proved and probable ore reserves;
the grade of mineral reserves varying significantly from

time to time;
differences between actual commodity prices and commodity price assumptions used in the estimation and classification of ore reserves;
unforeseen operational issues at mine sites; and
changes in capital, operating, mining, processing and decommissioning costs, discount rates and foreign exchange rates could possibly adversely affect the economic viability of ore reserves.

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

Impairment of non-financial assets

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

Provisions and allowances

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

The Group creates provisions for social commitments, tax and other provisions. Provisions represent present value of the best estimate of the future outflow of economic benefits to settle these obligations.

Decommissioning obligations

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

Income taxes

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

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

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

Contingencies

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

5. SEGMENT INFORMATION

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

The Group has updated its management accounting system to account for business changes. As a result, GRK Bystrinskoye segment is now presented separately from Other mining segment, trading operations presentation was amended as set out below.

Management has determined the following operating segments:

GMK Group segment includes mining and metallurgy operations, transport services, energy, repair and maintenance services located in Taimyr Peninsula. GMK Group metal sales to external customers include metal volumes processed at KGMK Group metallurgy facilities. GMK Group other sales to external customers primarily include revenue for energy and utilities services provided in Taimyr Peninsula; intersegment revenue from metal sales includes sale of semi-products to NN Harjavalta segment for further processing.

KGMK Group segment includes mining and metallurgy operations, energy, exploration activities located in Kola Peninsula. KGMK Group revenue from other sales includes intersegment metal processing services under tolling arrangements provided to other segments and energy and utilities services provided to external customers in Kola Peninsula. Intersegment revenue from metal sales include sale of semi-products to NN Harjavalta for further processing.

NN Harjavalta segment includes refinery operations located in Finland. NN Harjavalta sales primarily include metal produced from semi-products purchased from GMK Group and KGMK Group segments.

GRK Bystrinskoye segment includes ore mining and processing operations located in the Zabaikalsky region of the Russian Federation.

Other mining segment primarily includes 50% Group interest in metal mining and processing joint operations of Nkomati Nickel Mine ("Nkomati"), as well as certain other mining and exploration activities located in Russia and abroad. Other mining segment sales primarily include Group share at sales of metal semi-products produced by Nkomati.

Other non-metallurgical segment includes resale of third party metal products, other trading operations, supply chain management, transport services, energy and utility, research and other activities located in Russia and abroad. Other non-metallurgical segment also includes resale of 50% metal semi-products produced by Nkomati. Other sales of Other non-metallurgical segment primarily include revenue from passenger air transportation, freight transportation services and fuel sales.

Corporate activities of the Group do not represent an operating segment, include primarily headquarters' general and administrative expenses and treasury operations of the Group and are presented as Unallocated.

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

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

Amounts are measured on the same basis as those in the consolidated financial statements.
Information for the year ended 31 December 2017 and as at 31 December 2017 has been presented to conform with the current period presentation. Previously, all the Group's metal trading operations (including own metal) were included in Other non-metallurgical.

The following tables present revenue, measure of segment profit or loss (EBITDA) and other segment information from continuing operations regarding the Group's reportable segments for the year ended 31 December 2018 and 31 December 2017, respectively.

The following table presents segment metal sales to external customers breakdown by metal for the year ended 31 December 2018 and 31 December 2017, respectively.

The following tables present assets and liabilities of the Group’s reportable segments at 31 December 2018 and 31 December 2017, respectively.

6. METAL SALES

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

Metal revenue for the year ended 31 December 2018 included net gain of USD 12 million in respect of forward contracts measured at fair value that are expected to be settled by metal physical delivery or on a net basis (for the year ended 31 December 2017: net loss in the amount of USD (26) million).

7. COST OF METAL SALES

8. GENERAL AND ADMINISTRATIVE EXPENSES

9. SELLING AND DISTRIBUTION EXPENSES

10. OTHER OPERATING INCOME AND EXPENSES

11. FINANCE COSTS

12. INCOME FROM INVESTMENTS

13. INCOME TAX EXPENSE

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

The corporate income tax rates in other countries where the Group has a taxable presence vary from 0% to 30%.

Deferred tax balances

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

Unrecognised deferred tax assets

Deferred tax assets have not been recognised as follows:

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

At 31 December 2018 deferred tax asset in the amount of USD 145 million related to tax loss arising on disposal of OJSC "Third Generation Company of the Wholesale Electricity Market" ("OGK-3") (at 31 December 2017: USD 175 million) was not recognised as it was incurred by the Company prior to setting up of the tax consolidation group. This deferred tax asset can be utilised without expiry only if the Company exits the tax consolidation group.

Deferred tax assets in the amount of USD 46 million related to other non-expiring tax losses were not recognised due to specific rules stated by art. 283 of the Tax code of the Russian Federation (31 December 2017: USD 44 million).

At 31 December 2018, the Group did not recognise a deferred tax liability in respect of taxable temporary differences of USD 1,558 million (31 December 2017: USD 1,459 million) associated with investments in subsidiaries, because management believes that it is in a position to control the timing of reversal of such differences and does not expect its reversal in foreseeable future.

14. PROPERTY, PLANT AND EQUIPMENT

At 31 December 2018 capital construction-in-progress included USD 197 million of irrevocable letters of credit opened for fixed assets purchases (31 December 2017: USD 225 million), representing security deposits placed in banks. For the year ended 31 December 2018 purchases of property, plant and equipment in the consolidated statement of cash flows include USD 192 million related to these irrevocable letters of credit (for the year ended 31 December 2017: USD 210 million).

Capitalised borrowing costs for the year ended 31 December 2018 amounted to USD 172 million (for the year ended 31 December 2017: USD 263 million). Capitalisation rate used to determine the amount of borrowing costs equals to 5.15% per annum (31 December 2017: 6.28%). At 31

December 2018 mining assets and mine development cost included USD 2,868 million of mining assets under development (31 December 2017: USD 3,728 million).

At 31 December 2018 non-mining assets included USD 44 million of investment property (31 December 2017: USD 55 million).

Impairment

At 31 December 2017 the Group reclassified Nkomati Nickel Mine (Nkomati) from assets classified as held for sale and tested the assets for impairment. As a result, impairment loss in the amount of USD 129 million was recognised in impairment of non-financial assets in the consolidated income statement for the year ended 31 December 2017.

At 31 December 2018 the Group assessed indicators of further impairment based on Nkomati performance results against budget and management expectations as well as exchange rate and price forecasts.

As a result, the Group performed the impairment test and determined the value-in-use of the Group's share in Nkomati property, plant and equipment in the amount of USD 12 million using a discounted cash flow model approach. Impairment loss in the amount of USD 39 million was recognised in impairment of non-financial assets in the consolidated income statement for the year ended 31 December 2018.

The most significant assumptions on the basis of which the value-in-use was determined are as follows:

Future cash flows were projected based on budgeted amounts, taking into account actual results for the previous years. Forecasts were assessed up to 2028. Measurements were performed based on discounted cash flows expected to be generated by production assets.
Management estimates market prices for metal concentrates based on adjusted commodity price forecast for metals. Commodities price forecast was based on consensus forecast.
Production forecasts were primarily based on internal production reports available at the date of impairment test and management’s assumptions regarding future production levels.
Inflation forecasts were sourced from Economist Intelligence Unit report. Forecast for exchange rates was made based on expected ZAR and USD inflation indices, 5.6% and 2.5% respectively.
A pre-tax nominal ZAR discount rate of 21.3% (31 December 2017: 21.6%) was estimated by reference to the weighted average cost of capital for the Group and reflects management’s estimates of the risks specific to the production unit.

During the year ended 31 December 2015, the Group revised its intention on the further use of the gas extraction assets. As a result, these assets are assessed as a separate cash-generating unit with its value-in-use being determined using a discounted cash flow model approach at each subsequent reporting date.

The most significant assumptions used in the discounted cash flow model at 31 December 2018 are as follows:

Future cash flows were projected based on budgeted amounts, taking into account actual results for the previous years. Forecasts were assessed up to 2030.
Measurements were performed based on discounted cash flows expected to be generated by gas upstream assets.
Management estimates prices for natural gas and gas condensate based on commodities price forecasts and government set prices. Commodities price forecast was based on consensus forecast.
Production forecasts were primarily based on internal production reports available at the date of impairment test and management’s assumptions regarding future production levels.
The amounts and timing of capital investments were based on management’s forecast.
Inflation used was projected within 2-5%. Forecast for exchange rates was based on Oxford Economics forecast.
A pre-tax nominal RUB discount rate of 15.8% (31 December 2017: 15.8%) was estimated by reference to the weighted average cost of capital and reflects

management’s estimates of the risks specific to the production units.

As a result, impairment loss in the amount of USD 8 million was recognised in impairment of non-financial assets in the consolidated income statement for the year ended 31 December 2018 (for the year ended 31 December 2017: USD 48 million). Accumulated impairment loss, net of respective accumulated depreciation had no impairment been recognised, amounted to USD 243 million at 31 December 2018.

During the year ended 31 December 2018 the Group recognised additional impairment losses in the amount of USD 3 million in respect of specific individual assets (for the year ended 31 December 2017: USD 50 million).

15. OTHER FINANCIAL ASSETS

16. OTHER TAXES

17. INVENTORIES

At 31 December 2018 part of metal semi-products stock in the amount of USD 88 million (31 December 2017: USD 453 million) was presented in other non-current assets according to Group’s production plans.

18. TRADE AND OTHER RECEIVABLES

In 2018 and 2017, the average credit period on metal sales varied from 0 to 30 days. Trade receivables are generally non-interest bearing.

At 31 December 2018 trade and other short-term accounts receivable include USD 120 million of short-term trade accounts receivable measured at fair value through profit or loss upon recognition, Level 2 of fair value hierarchy (31 December 2017: USD 214 million).

At 31 December 2018 and 2017, there were no material trade accounts receivable which were overdue or individually determined to be impaired.

The average credit period on sales of other products and services for the year ended 31 December 2018 was 23 days (2017: 23 days). No interest was charged on these receivables.

Included in the Group's other receivables as at 31 December 2018 were debtors with a carrying value of USD 29 million (31 December 2017: USD 34 million) that were past due but not impaired. Management of the Group believes that these amounts are recoverable in full.

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

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

Movement in the allowance for expected credit losses was as follows:

19. CASH AND CASH EQUIVALENTS

Bank deposits

Interest rate on USD-denominated deposits held in banks was in the range from 1.70% to 3.95% (31 December 2017: from 1.07% to 2.29%) per annum. Interest rate on EUR-denominated deposits held in banks at 31 December 2017 was 0.30% per annum. Interest rate on deposits held in banks denominated in other currencies was in the range from 0.75% to 2.29% (31 December 2017: from 0.97% to 1.10%) per annum.

20. DISPOSAL OF SUBSIDIARIES

On 6 April 2017, the Group sold its interest in a subsidiary which owns real estate for a consideration of USD 113 million. Proceeds from disposal of the subsidiary in the amount of USD 95 million were recognised in the consolidated statement of cash flows, net of disposed cash and cash equivalents of USD 16 million and transaction costs of USD 2 million. Gain on disposal in the amount of USD 16 million was recognised in the consolidated income statement.

21. SHARE CAPITAL

Authorised and issued ordinary shares

As at 31 December 2018 and 31 December 2017 the Group’s number of authorised and issued ordinary shares was 158,245,476.

Earnings per share

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

Weighted average number of shares used in the calculation of basic and diluted earnings per share for the year ended 31 December 2018 and for the year ended 31 December 2017 was 158,245,476 shares.

As at 31 December 2018 and 31 December 2017, the Group had no securities, which would have a dilutive effect on earnings per share of ordinary stock.

22. NON-CONTROLLING INTEREST

In May 2017 the Group sold a 2.66% share in Bystrinskoye project for USD 21 million to Highland Fund. In October 2017 the Group sold a 36.66% share in Bystrinskoye project for USD 275 million to a related party.

At 31 December 2018 and 31 December 2017 aggregate financial information relating to the subsidiary, LLC “GRK “Bystrinskoye”, that has material non-controlling interest, before any intra-group eliminations, is presented below:

23. LOANS AND BORROWINGS

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

Changes in loans and borrowings, including interest, for the year ended 31 December 2018 consist of changes from financing cash flows in the amount of USD (934) million, effect of changes in foreign exchange rates of USD (230) million and other non-cash changes of USD 542 million (for the year ended 31 December 2017: changes from financing cash flows in the amount of USD 441 million, effect of changes in foreign exchange rates of USD 103 million and other non-cash changes of USD 667 million).

At 31 December 2018 loans were secured by property, plant and equipment with a carrying amount of USD 8 million (31 December 2017: USD 15 million). At 31 December 2017 100% shares of the Group's subsidiary LLC "GRK "Bystrinskoye" were under pledge.

24. EMPLOYEE BENEFIT OBLIGATIONS

Defined contribution plans

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

25. PROVISIONS

Decommissioning obligations

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

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

Social commitments

In 2010 the Group entered into multilateral agreements with the Government of the Russian Federation and the Krasnoyarsk Regional Government for construction of pre-schools and other items of social infrastructure in Norilsk and Dudinka till 2020, and for resettlement of families currently residing in Norilsk and Dudinka to other Russian regions with more favorable living conditions till 2020. In 2017 the Group entered into agreements with the Zabaikalsky Regional Government for construction and development of industrial, social and other infrastructure till 2026. The provisions represent present value of the best estimate of the future outflow of economic benefits to settle these obligations.

26. TRADE AND OTHER PAYABLES

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

27. DIVIDENDS

On 19 September 2018, the Extraordinary General shareholders' meeting declared interim dividends in respect of the 6 months ended 30 June 2018 in the amount of RUB 776.02 (USD 11.45) per share with the total amount of USD 1,813 million. The dividends were paid to the shareholders in October 2018 in the amount of USD 1,841 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payment dates.

On 28 June 2018, the Annual General shareholders' meeting declared dividends for the year ended 31 December 2017 in the amount of RUB 607.98 (USD 9.63) per share with the total amount of USD 1,524 million. The dividends were paid to the shareholders in July 2018 in the amount of USD 1,527 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payment dates.

On 29 September 2017, the Extraordinary General shareholders' meeting declared interim dividends in respect of the 6 months ended 30 June 2017 in the amount of RUB 224.20 (USD 3.84) per share with the total amount of USD 607 million. The dividends were paid to the shareholders in October 2017 in the amount of USD 610 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payment dates.

On 9 June 2017, the Annual General shareholders' meeting declared dividends for the year ended 31 December 2016 in the amount of RUB 446.10 (USD 7.83) per share with the total amount of USD 1,239 million. The dividends were paid to the shareholders in July 2017 in the amount of USD 1,188 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payment dates.

On 16 December 2016, the Extraordinary General shareholders' meeting declared interim dividends in respect of the 9 months ended 30 September 2016 in the amount of RUB 444.25 (USD 7.21) per share with the total amount of USD 1,141 million. The dividends were paid to the shareholders in January 2017 in the amount of USD 1,172 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payment dates.

28. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

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

Terms and conditions of transactions with related parties

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

Compensation of key management personnel

Key management personnel of the Group consists of members of the Management Board and the Board of Directors. For the year ended 31 December 2018 remuneration of key management personnel of the Group included salary and performance bonuses amounted to USD 109 million (for the year ended 31 December 2017: USD 103 million).

29. COMMITMENTS

Capital commitments

At 31 December 2018, contractual capital commitments amounted to USD 544 million (31 December 2017: USD 801 million).

Operating leases

The land plots in the Russian Federation where the Group's production facilities are located are owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2099. According to the terms of lease agreements the rent rate is revised periodically subject to the decision of the relevant local authorities.

At 31 December 2018, thirteen aircraft lease agreements (31 December 2017: ten) were in effect. The lease agreements have an average life of twelve (31 December 2017: seven) years with a renewal option at the end of the term and place no restrictions upon lessees by entering into these agreements.

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

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

Social commitments

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

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

30. CONTINGENCIES

Litigation

At 31 December 2018 the Group is involved in other legal disputes in the ordinary course of its operations, with the probability of their unfavorable resolution being assessed as possible. At 31 December 2018, total claims under unresolved litigation amounted to approximately USD 13 million (31 December 2017: USD 25 million).

Taxation contingencies in the Russian Federation

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

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

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

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

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

In 2017 the Russian tax authorities completed a transfer pricing audit of the Group’s metal export sales for the year ended 31 December 2013, which did not result in significant additional tax charges.

Environmental matters

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

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

Russian Federation risk

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

Starting 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and certain restrictions for operations with individuals and legal entities under sanctions, including financing and investment activities.

Management assesses the changes in the Russian business environment did not significantly affect the operations, financial results and the financial position of the Group as of the date of issue of these consolidated financial statements. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

31. FINANCIAL RISK MANAGEMENT

Capital risk management

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

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

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

The Company maintains BBB- investment grade ratings, assigned by rating agencies Fitch and S&P's. On 29 January 2018 Moody's rating agency upgraded the Company's rating from Ba1 to the investment grade level Baa3 and changed the outlook from stable to positive.

Financial risk factors and risk management structure

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

Interest rate risk

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

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

Changes in interest rates impact the value of cross-currency interest swap as follows: 1% increase in RUB interest rate results in a loss of USD 20 million, 1% decrease in USD interest rate results in a loss of USD 23 million. Management believes that the Group's exposure to interest rate risk fluctuations does not require additional hedging activities.

Currency risk

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

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

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2018 and 31 December 2017 were as follows:

Currency risk is monitored on a monthly basis utilising sensitivity analysis to assess if the risk of a potential loss is at an acceptable level. The Group estimates the financial impact of exchange rate fluctuations on USD-denominated monetary assets and liabilities in respect of the Group entities where functional currency is the Russian Rouble, as follows:

Given that the Group's exposure to currency risk for the monetary assets and liabilities is offset by the revenue denominated in USD, management believes that the Group's exposure to currency risk is acceptable. The Group does not apply hedge instruments. The Group applies derivative financial instruments including cross-currency interest swaps in order to manage currency risk by matching cash flows from revenue denominated in USD and financial liabilities denominated in RUB.

Credit risk

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

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

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

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

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

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

Liquidity risk

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

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

The following table contains the maturity profile of the Group’s borrowings and derivatives (maturity profiles for trade and other payables are presented in note 26) based on contractual undiscounted payments, including interest:

At 31 December 2018 the Group had available committed financing facilities for the management of its day to day liquidity requirements of USD 4,290 million (31 December 2017: USD 3,554 million).

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that the carrying value of financial instruments such as cash and cash equivalents (refer to note 19), other financial assets (refer to note 15), trade and other short-term accounts receivable (refer to note 18) and current accounts payable (refer to note 26) approximates to their fair value or may not significantly differ from it. Derivative financial instruments measured at fair value through profit or loss include cross-currency interest rate swap, Level 2 of fair value hierarchy. Other long-term liabilities classified as measured at fair value through profit or loss include a liability on the execution of a put option related to transactions with non-controlling interest owners, Level 3 of fair value hierarchy.

Certain financial instruments, such as finance leases obligations, were excluded from fair value analysis due to their insignificance
and management believes that their carrying value either approximates or is not significantly different from their fair value.

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either

directly or indirectly; and
Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The information below presents financial instruments not measured at fair value, including loans and borrowings, trade and other long-term payables.

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

the fair value of corporate bonds was determined based on market quotations existing at the reporting dates;
the fair value of floating rate and fixed rate loans and borrowings at 31 December 2018 was calculated based on the present value of future cash flows (principal and interest), discounted at the best management estimation of market rates, taking into consideration currency of the loan, expected maturity and risks attributable to the Group existing at the reporting date;
the fair value of trade and other long-term payables at 31 December 2018 was calculated based on the present value of future cash flows, discounted at the best management estimation of market rates.

The fair value of cross-currency interest rate swap is calculated as the present value of future cash flows discounted at the interest rates applicable to the currencies of the corresponding cash flows and available at the reporting date. The fair value is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty, which is calculated based on credit spreads derived from current tradeable financial instruments.

33. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

34. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 12 February 2019 Moody’s rating agency upgraded the Company’s credit rating to the Baa2 level with stable outlook.