# CONSOLIDATED FINANCIAL STATEMENTS

## for the year ended 31 December 2018

## Content

# Statement of management's responsibilities for the preparation and approval of the consolidated financial statements

## for the year ended 31 december 2018

The following statement, which should be read in conjunction with the auditors' responsibility stated in the auditors' report set out on pages 224–227, is made with a view to distinguishing the respective responsibilities of management and those of the auditors in relation to the consolidated financial statements of Public Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management of the Group is responsible for the preparation of the consolidated financial statements that present fairly in all material aspects the consolidated financial position of the Group as at 31 December 2018 and consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management, within its competencies, is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2018 were approved by:

President
**V.O. Potanin**

Senior Vice President –
Chief Financial Officer
**S.G. Malyshev**

*Moscow, Russia*
*26 February 2019*

KPMG

# Independent Auditors' Report

## TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PJSC "MINING AND METALLURGICAL COMPANY NORILSK NICKEL"

### Opinion

We have audited the consolidated financial statements of PJSC "Mining and Metallurgical Company Norilsk Nickel" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 2018, and its consolidated financial performance and its consolidated cash flows for the year 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Audited entity: PJSC "Mining and Metallurgical Company Norilsk Nickel"*

*Registration No. in the Unified State Register of Legal Entities 1028400000298*

*Dudinka, Krasnoyarsk region, Russian Federation*

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

*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. 1603053203.*

KPMG

## Impairment of property, plant and equipment of Nkomati Nickel Mine

Please refer to the Note 14 in the consolidated financial statements.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| As at 31 December 2018 the Group identified impairment indicators for property, plant and equipment of its joint operation Nkomati Nickel Mine (hereinafter "Nkomati") and performed an impairment test.<br>As a result the Group recognized an impairment loss for the excess of the carrying value over value in use.<br>Given significant judgement involved in preparation of discounted cash flow model of Nkomati, we consider the determination of recoverable amount to be a key audit matter. | Our audit procedures included testing significant assumptions (metal prices and forecasts of exchange rate of South African rand to US dollar, as well as discount rate) and evaluating methodology used by the Group. We involved KPMG valuation specialists to assist us in evaluating the methodology used by the Group and analysis of key assumptions in terms of their reasonableness and relevance, taking into consideration current macroeconomic conditions, historic performance results and future plans. We compared:<br>• forecast metal prices, inflation rates in South Africa and the USA with publicly available market information;<br>• discount rate calculation to our own assessment of key components of discount rate calculation.<br>In addition, we analyzed forecast cash flows, by comparing production volumes to reserves estimates and historical operating performance of Nkomati.<br>We also assessed appropriateness and completeness of the disclosures in the financial statements in relation to significant assumptions used in determination of recoverable amount. |

## Other Information

Management is responsible for the other information. The other information comprises the Financial Overview (MD&A) (but does not include the consolidated financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the information included in other sections of Annual Report for 2018, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## 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.

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 scepticism 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

**Natalia Velichko**
JSC "KPMG"

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
* МОСКВА *

*Moscow, Russia*
*26 February 2019*

# Consolidated financial statements
## for the year ended 31 December 2018

## CONSOLIDATED INCOME STATEMENT
## for the year ended 31 december 2018

*US Dollars million*

| | Notes | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|---|
| **REVENUE** | | | |
| Metal sales | 6 | 10,962 | 8,415 |
| Other sales | | 708 | 731 |
| **Total revenue** | | **11,670** | **9,146** |
| Cost of metal sales | 7 | (4,536) | (3,968) |
| Cost of other sales | | (622) | (632) |
| **Gross profit** | | **6,512** | **4,546** |
| General and administrative expenses | 8 | (859) | (759) |
| Selling and distribution expenses | 9 | (92) | (75) |
| Impairment of non-financial assets | 14 | (50) | (227) |
| Other operating income and expenses | 10 | (95) | (362) |
| **Operating profit** | | **5,416** | **3,123** |
| Foreign exchange (loss)/gain, net | | (1,029) | 159 |
| Finance costs | 11 | (580) | (535) |
| Gain from disposal of subsidiaries | 20 | – | 20 |
| Income from investments | 12 | 95 | 77 |
| **Profit before tax** | | **3,902** | **2,844** |
| Income tax expense | 13 | (843) | (721) |
| **Profit for the year** | | **3,059** | **2,123** |
| Attributable to: | | | |
| Shareholders of the parent company | | 3,085 | 2,129 |
| Non-controlling interests | | (26) | (6) |
| | | **3,059** | **2,123** |
| **EARNINGS PER SHARE** | | | |
| Basic and diluted earnings per share attributable to shareholders of the parent company (US Dollars per share) | 21 | 19.5 | 13.5 |

*The accompanying notes on pages 235–269 form an integral part of the consolidated financial statements*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 december 2018

*US Dollars million*

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **Profit for the year** | **3,059** | **2,123** |
| **Other comprehensive (loss)/income** | | |
| **Items to be reclassified to profit or loss in subsequent periods:** | | |
| Effect of translation of foreign operations | (2) | 15 |
| **Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net** | **(2)** | **15** |
| **Items not to be reclassified to profit or loss in subsequent periods:** | | |
| Effect of translation to presentation currency | (905) | 277 |
| **Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods, net** | **(905)** | **277** |
| **Other comprehensive (loss)/income for the year, net of tax** | **(907)** | **292** |
| **Total comprehensive income for the year, net of tax** | **2,152** | **2,415** |
| Attributable to: | | |
| Shareholders of the parent company | 2,232 | 2,417 |
| Non-controlling interests | (80) | (2) |
| | **2,152** | **2,415** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION at 31 december 2018

*US Dollars million*

| | Notes | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 9,934 | 10,960 |
| Intangible assets | | 163 | 148 |
| Other financial assets | 15 | 141 | 192 |
| Deferred tax assets | 13 | 73 | 77 |
| Other non-current assets | 17 | 386 | 732 |
| | | **10,697** | **12,109** |
| **Current assets** | | | |
| Inventories | 17 | 2,280 | 2,689 |
| Trade and other receivables | 18 | 204 | 327 |
| Advances paid and prepaid expenses | | 75 | 71 |
| Other financial assets | 15 | 147 | 99 |
| Income tax receivable | | 92 | 82 |
| Other taxes receivable | 16 | 271 | 296 |
| Cash and cash equivalents | 19 | 1,388 | 852 |
| Other current assets | | 97 | 110 |
| | | **4,554** | **4,526** |
| **TOTAL ASSETS** | | **15,251** | **16,635** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | 6 | 6 |
| Share premium | | 1,254 | 1,254 |
| Translation reserve | | (5,343) | (4,490) |
| Retained earnings | 27 | 7,306 | 7,557 |

| | Notes | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|
| **Equity attributable to shareholders of the parent company** | | **3,223** | **4,327** |
| Non-controlling interests | 22 | 250 | 331 |
| | | **3,473** | **4,658** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 23 | 8,224 | 8,236 |
| Provisions | 25 | 365 | 464 |
| Trade and other long-term payables | | 200 | 402 |
| Derivative financial instruments | | 61 | – |
| Deferred tax liabilities | 13 | 385 | 407 |
| Other long-term liabilities | | 185 | 116 |
| | | **9,420** | **9,625** |
| **Current liabilities** | | | |
| Loans and borrowings | 23 | 215 | 817 |
| Trade and other payables | 26 | 1,551 | 783 |
| Dividends payable | 27 | 6 | 6 |
| Employee benefit obligations | 24 | 307 | 377 |
| Provisions | 25 | 77 | 189 |
| Derivative financial instruments | | 5 | 24 |
| Income tax payable | | 35 | 9 |
| Other taxes payable | 16 | 162 | 147 |
| | | **2,358** | **2,352** |
| **TOTAL LIABILITIES** | | **11,778** | **11,977** |
| **TOTAL EQUITY AND LIABILITIES** | | **15,251** | **16,635** |

*The accompanying notes on pages 235–269 form an integral part of the consolidated financial statements*

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

*US Dollars million*

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Profit before tax** | **3,902** | **2,844** |
| Adjustments for: | | |
| Depreciation and amortisation | 765 | 645 |
| Impairment of non-financial assets | 50 | 227 |
| Loss on disposal of property, plant and equipment | 1 | 9 |
| Gain from disposal of subsidiaries | – | (20) |
| Change in provisions and allowances | 61 | 41 |
| Finance costs and income from investments, net | 485 | 458 |
| Foreign exchange loss/(gain), net | 1,029 | (159) |
| Other | 46 | 58 |
| | **6,339** | **4,103** |
| Movements in working capital: | | |
| Inventories | 297 | (346) |
| Trade and other receivables | 102 | (174) |
| Advances paid and prepaid expenses | (5) | 10 |
| Other taxes receivable | (15) | (5) |
| Employee benefit obligations | 11 | 9 |
| Trade and other payables | 676 | (1,118) |
| Provisions | (28) | (48) |
| Other taxes payable | (97) | 2 |
| **Cash generated from operations** | **7,280** | **2,433** |
| Income tax paid | (787) | (670) |
| **Net cash generated from operating activities** | **6,493** | **1,763** |

*The accompanying notes on pages 235–269 form an integral part of the consolidated financial statements*

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (1,480) | (1,940) |
| Purchase of intangible assets | (73) | (62) |
| Purchase of other non-current assets | (104) | (88) |
| Loans issued | (7) | (18) |
| Proceeds from repayment of loans issued | 13 | 48 |
| Net change in deposits placed | 5 | (80) |
| Proceeds from sale of other financial assets | – | 9 |
| Proceeds from disposal of property, plant and equipment | 3 | 29 |
| Proceeds from disposal of subsidiaries | – | 99 |
| Interest and other investment income received | 81 | 67 |
| **Net cash used in investing activities** | **(1,562)** | **(1,936)** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from loans and borrowings | 2,173 | 4,233 |
| Repayments of loans and borrowings | (2,547) | (3,140) |
| Financial lease payments | (9) | (10) |
| Dividends paid (note 27) | (3,369) | (2,971) |
| Dividends paid to non-controlling interest | (1) | (1) |
| Interest paid | (551) | (642) |
| Proceeds from sale of a non-controlling interest in a subsidiary (note 22) | – | 294 |
| **Net cash used in financing activities** | **(4,304)** | **(2,237)** |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | **627** | **(2,410)** |
| **Cash and cash equivalents at the beginning of the year** | **852** | **3,325** |
| Effects of foreign exchange differences on balances of cash and cash equivalents | (91) | (63) |
| **Cash and cash equivalents at the end of the year** | **1,388** | **852** |

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

*US Dollars million*

| | Notes | Equity attributable to shareholders of the parent company | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Treasury shares | Translation reserve | Retained earnings | Total | | |
| **Balance at 1 January 2017** | | **6** | **1,254** | **–** | **(4,778)** | **7,340** | **3,822** | **74** | **3,896** |
| Profit/(loss) for the year | | – | – | – | – | 2,129 | 2,129 | (6) | 2,123 |
| Other comprehensive income | | – | – | – | 288 | – | 288 | 4 | 292 |
| **Total comprehensive income/(loss) for the year** | | **–** | **–** | **–** | **288** | **2,129** | **2,417** | **(2)** | **2,415** |
| Dividends | 27 | – | – | – | – | (1,846) | (1,846) | (1) | (1,847) |
| Increase in non-controlling interest due to decrease in ownership of a subsidiary | 22 | – | – | – | – | 35 | 35 | 259 | 294 |
| Other effects related to transactions with non-controlling interest owners | | – | – | – | – | (100) | (100) | – | (100) |
| Decrease in non-controlling interest due to increase in ownership of a subsidiary | | – | – | – | – | (1) | (1) | 1 | – |
| **Balance at 31 December 2017** | | **6** | **1,254** | **–** | **(4,490)** | **7,557** | **4,327** | **331** | **4,658** |
| Profit/(loss) for the year | | – | – | – | – | 3,085 | 3,085 | (26) | 3,059 |
| Other comprehensive loss | | – | – | – | (853) | – | (853) | (54) | (907) |
| **Total comprehensive income/(loss) for the year** | | **–** | **–** | **–** | **(853)** | **3,085** | **2,232** | **(80)** | **2,152** |
| Dividends | 27 | – | – | – | – | (3,336) | (3,336) | (1) | (3,337) |
| **Balance at 31 December 2018** | | **6** | **1,254** | **–** | **(5,343)** | **7,306** | **3,223** | **250** | **3,473** |

*The accompanying notes on pages 235–269 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*

## 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.

| Standards and Interpretations | Effective for annual periods beginning on or after |
|---|---|
| IFRS 16 Leases | 1 January 2019 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| IFRS 17 Insurance Contracts | 1 January 2021 |

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:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Russian Rouble/US Dollar** | | |
| 31 December | 69.47 | 57.60 |
| Average for the year ended 31 December | 62.71 | 58.35 |
| **South African Rand/US Dollar** | | |
| 31 December | 14.35 | 12.36 |
| Average for the year ended 31 December | 13.18 | 13.30 |
| **Euro/US Dollar** | | |
| 31 December | 0.87 | 0.84 |
| Average for the year ended 31 December | 0.85 | 0.89 |
| **Chinese Yuan/US Dollar** | | |
| 31 December | 6.88 | 6.51 |
| Average for the year ended 31 December | 6.62 | 6.70 |

## 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:

| | |
|---|---|
| **Lifetime expected credit losses** | Trade and other receivables<br>Financial assets other than trade and other receivables if the credit risk on that financial asset has increased significantly since initial recognition |
| **12-month expected credit losses since the reporting date** | Financial assets other than trade and other receivables at initial recognition<br>Financial assets other than trade and other receivables for which credit risk has not increased significantly since initial recognition |

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.

| For the year ended 31 December 2018 | GMK Group | KGMK Group | NN Harjavalta | GRK Bystrinskoye | Other mining | Other non-metallurgical | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Metal sales to external customers | 8,787 | 361 | 1,020 | – | 107 | 687 | – | 10,962 |
| Other sales to external customers | 160 | 33 | 6 | 6 | 1 | 502 | – | 708 |
| Inter-segment metal sales | 720 | 154 | – | – | – | – | (874) | – |
| Inter-segment other sales | 75 | 363 | – | 2 | – | 325 | (765) | – |
| **Total revenue** | **9,742** | **911** | **1,026** | **8** | **108** | **1,514** | **(1,639)** | **11,670** |
| Segment EBITDA | 6,602 | 190 | 71 | 96 | (6) | 50 | (13) | 6,990 |
| Unallocated | | | | | | | | (759) |
| **Consolidated EBITDA** | | | | | | | | **6,231** |
| Depreciation and amortisation | | | | | | | | (765) |
| Impairment of non-financial assets | | | | | | | | (50) |
| Finance costs | | | | | | | | (580) |
| Foreign exchange loss, net | | | | | | | | (1,029) |
| Other income and expenses, net | | | | | | | | 95 |
| **Profit before tax** | | | | | | | | **3,902** |
| **Other segment information** | | | | | | | | |
| Purchase of property, plant and equipment and intangible assets | 1,016 | 292 | 18 | 168 | 21 | 38 | – | 1,553 |
| Depreciation and amortisation | 612 | 82 | 24 | 13 | 6 | 28 | – | 765 |
| Impairment of non-financial assets | 8 | 3 | – | – | 39 | – | – | 50 |

| For the year ended 31 December 2017 | GMK Group | KGMK Group | NN Harjavalta | GRK Bystrinskoye | Other mining | Other non-metallurgical | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Metal sales to external customers | 6,712 | 347 | 835 | – | 128 | 393 | – | 8,415 |
| Other sales to external customers | 176 | 34 | 5 | 14 | – | 502 | – | 731 |
| Inter-segment metal sales | 500 | 122 | – | – | – | – | (622) | – |
| Inter-segment other sales | 59 | 394 | – | 1 | – | 391 | (845) | – |
| **Total revenue** | **7,447** | **897** | **840** | **15** | **128** | **1,286** | **(1,467)** | **9,146** |
| Segment EBITDA | 4,559 | 182 | 61 | (65) | (3) | 18 | (34) | 4,718 |
| Unallocated | | | | | | | | (723) |
| **Consolidated EBITDA** | | | | | | | | **3,995** |
| Depreciation and amortisation | | | | | | | | (645) |
| Impairment of non-financial assets | | | | | | | | (227) |
| Finance costs | | | | | | | | (535) |
| Foreign exchange gain, net | | | | | | | | 159 |
| Other income and expenses, net | | | | | | | | 97 |
| **Profit before tax** | | | | | | | | **2,844** |
| **Other segment information** | | | | | | | | |
| Purchase of property, plant and equipment and intangible assets | 1,225 | 228 | 16 | 449 | 20 | 64 | – | 2,002 |
| Depreciation and amortisation | 463 | 61 | 25 | – | 72 | 24 | – | 645 |
| Impairment of non-financial assets | 101 | 3 | – | – | 122 | 1 | – | 227 |

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.

| For the year ended 31 December 2018 | GMK Group | KGMK Group | NN Harjavalta | Other mining | Other non-metallurgical | Total |
|---|---|---|---|---|---|---|
| Nickel | 1,827 | 275 | 805 | 53 | 53 | 3,013 |
| Copper | 2,824 | 51 | 86 | 8 | 8 | 2,977 |
| Palladium | 2,990 | 1 | 55 | 18 | 610 | 3,674 |
| Platinum | 574 | 3 | 7 | 6 | 6 | 596 |
| Other metals | 572 | 31 | 67 | 22 | 10 | 702 |
| | 8,787 | 361 | 1,020 | 107 | 687 | 10,962 |

| For the year ended 31 December 2017 | GMK Group | KGMK Group | NN Harjavalta | Other mining | Other non-metallurgical | Total |
|---|---|---|---|---|---|---|
| Nickel | 1,409 | 254 | 647 | 53 | 53 | 2,416 |
| Copper | 2,268 | 49 | 79 | 13 | 13 | 2,422 |
| Palladium | 2,056 | 11 | 36 | 23 | 308 | 2,434 |
| Platinum | 618 | 6 | 10 | 10 | 10 | 654 |
| Other metals | 361 | 27 | 63 | 29 | 9 | 489 |
| | 6,712 | 347 | 835 | 128 | 393 | 8,415 |

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

| At 31 December 2018 | GMK Group | KGMK Group | NN Harjavalta | GRK Bystrinskoye | Other mining | Other non-metallurgical | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Inter-segment assets | 292 | 114 | 140 | 24 | – | 57 | (627) | – |
| Segment assets | 9,903 | 996 | 451 | 1,492 | 88 | 792 | (56) | 13,666 |
| **Total segment assets** | **10,195** | **1,110** | **591** | **1,516** | **88** | **849** | **(683)** | **13,666** |
| Unallocated | | | | | | | | 1,585 |
| **Total assets** | | | | | | | | **15,251** |
| Inter-segment liabilities | 139 | 63 | 122 | 39 | 5 | 259 | (627) | – |
| Segment liabilities | 1,756 | 134 | 100 | 68 | 26 | 1,028 | – | 3,112 |
| **Total segment liabilities** | **1,895** | **197** | **222** | **107** | **31** | **1,287** | **(627)** | **3,112** |
| Unallocated | | | | | | | | 8,666 |
| **Total liabilities** | | | | | | | | **11,778** |

| At 31 December 2017 | GMK Group | KGMK Group | NN Harjavalta | GRK Bystrinskoye | Other mining | Other non-metallurgical | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Inter-segment assets | 346 | 207 | 172 | 2 | 9 | 54 | (790) | – |
| Segment assets | 11,536 | 975 | 390 | 1,518 | 118 | 935 | (42) | 15,430 |
| **Total segment assets** | **11,882** | **1,182** | **562** | **1,520** | **127** | **989** | **(832)** | **15,430** |
| Unallocated | | | | | | | | 1,205 |
| **Total assets** | | | | | | | | **16,635** |
| Inter-segment liabilities | 89 | 135 | 124 | 43 | 1 | 398 | (790) | – |
| Segment liabilities | 2,128 | 157 | 73 | 89 | 32 | 171 | – | 2,650 |
| **Total segment liabilities** | **2,217** | **292** | **197** | **132** | **33** | **569** | **(790)** | **2,650** |
| Unallocated | | | | | | | | 9,327 |
| **Total liabilities** | | | | | | | | **11,977** |

## 6. METAL SALES

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

| For the year ended 31 December 2018 | Total | Nickel | Copper | Palladium | Platinum | Other metals |
|---|---|---|---|---|---|---|
| Europe | 5,868 | 1,323 | 2,356 | 1,216 | 514 | 459 |
| Asia | 2,929 | 1,090 | 386 | 1,313 | 41 | 99 |
| North and South America | 1,619 | 348 | 26 | 1,111 | 34 | 100 |
| Russian Federation and CIS | 546 | 252 | 209 | 34 | 7 | 44 |
| | **10,962** | **3,013** | **2,977** | **3,674** | **596** | **702** |
| **For the year ended 31 December 2017** | | | | | | |
| Europe | 4,753 | 1,084 | 2,130 | 756 | 449 | 334 |
| Asia | 1,939 | 804 | 115 | 825 | 119 | 76 |
| North and South America | 1,166 | 313 | – | 807 | – | 46 |
| Russian Federation and CIS | 557 | 215 | 177 | 46 | 86 | 33 |
| | **8,415** | **2,416** | **2,422** | **2,434** | **654** | **489** |

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

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **Cash operating costs** | | |
| Labour | 1,311 | 1,392 |
| Materials and supplies | 727 | 732 |
| Purchases of raw materials and semi-products | 436 | 297 |
| Purchases of refined metals for resale | 430 | 530 |
| Mineral extraction tax and other levies | 212 | 221 |
| Third party services | 200 | 242 |
| Electricity and heat energy | 143 | 143 |
| Fuel | 87 | 81 |
| Transportation expenses | 70 | 65 |
| Sundry costs | 158 | 152 |
| **Total cash operating costs** | **3,774** | **3,855** |
| Depreciation and amortisation | 653 | 630 |
| Decrease/(increase) in metal inventories | 109 | (517) |
| **Total** | **4,536** | **3,968** |

## 8. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Staff costs | 541 | 478 |
| Taxes other than mineral extraction tax and income tax | 103 | 79 |
| Third party services | 93 | 97 |
| Depreciation and amortisation | 38 | 32 |
| Rent expenses | 23 | 25 |
| Transportation expenses | 9 | 8 |
| Other | 52 | 40 |
| **Total** | **859** | **759** |

## 9. SELLING AND DISTRIBUTION EXPENSES

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Transportation expenses | 39 | 38 |
| Marketing expenses | 31 | 14 |
| Staff costs | 14 | 13 |
| Other | 8 | 10 |
| **Total** | **92** | **75** |

## 10. OTHER OPERATING INCOME AND EXPENSES

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Social expenses | 207 | 303 |
| Change in allowance for obsolete and slow-moving inventory | 15 | 11 |
| Change in allowance for expected credit losses | 6 | 19 |
| Net income earned during the pre-commissioning stage | (106) | – |
| Other, net | (27) | 29 |
| **Total** | **95** | **362** |

## 11. FINANCE COSTS

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Interest expense on borrowings net of amounts capitalised | 384 | 386 |
| Unwinding of discount on provisions and payables | 100 | 133 |
| Changes in fair value of cross-currency interest rate swap | 51 | – |
| Changes in fair value of non-current liabilities | 46 | – |
| Other, net | (1) | 16 |
| **Total** | **580** | **535** |

## 12. INCOME FROM INVESTMENTS

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Interest income on bank deposits | 59 | 39 |
| Other, net | 36 | 38 |
| **Total** | **95** | **77** |

## 13. INCOME TAX EXPENSE

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Current income tax expense | 812 | 686 |
| Deferred tax expense | 31 | 35 |
| **Total** | **843** | **721** |

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:

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **Profit before tax** | **3,902** | **2,844** |
| Income tax at statutory rate of 20% | 780 | 569 |
| Allowance for deferred tax assets | 29 | 38 |
| Non-deductible impairment of non-financial assets | 4 | 7 |
| Non-deductible social expenses | 54 | 73 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (39) | 8 |
| Tax effect of other permanent differences | 15 | 26 |
| **Total** | **843** | **721** |

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

***Deferred tax balances***

| | At 31 December 2017 | Recognised in income statement | Disposed on disposal of subsidiaries | Effect of translation to presentation currency | At 31 December 2018 |
|---|---|---|---|---|---|
| Property, plant and equipment | 368 | 86 | – | (68) | 386 |
| Inventories | 124 | – | – | (17) | 107 |
| Trade and other receivables | (3) | (5) | – | 1 | (7) |
| Decommissioning obligations | (69) | 5 | – | 11 | (53) |
| Loans and borrowings, trade and other payables | (69) | (28) | – | 15 | (82) |
| Other assets | 46 | (18) | – | (4) | 24 |
| Other liabilities | 8 | (10) | – | – | (2) |
| Tax loss carried forward | (75) | 1 | – | 13 | (61) |
| **Net deferred tax liabilities** | **330** | **31** | **–** | **(49)** | **312** |

| | At 31 December 2016 | Recognised in income statement | Disposed on disposal of subsidiaries | Effect of translation to presentation currency | At 31 December 2017 |
|---|---|---|---|---|---|
| Property, plant and equipment | 350 | 2 | (4) | 20 | 368 |
| Inventories | 102 | 16 | – | 6 | 124 |
| Trade and other receivables | (12) | 9 | – | – | (3) |
| Decommissioning obligations | (79) | 16 | – | (6) | (69) |
| Loans and borrowings, trade and other payables | (33) | (35) | – | (1) | (69) |
| Other assets | (10) | 57 | – | (1) | 46 |
| Other liabilities | 6 | 2 | – | – | 8 |
| Tax loss carried forward | (41) | (32) | – | (2) | (75) |
| **Net deferred tax liabilities** | **283** | **35** | **(4)** | **16** | **330** |

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:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Deferred tax liability | 385 | 407 |
| Deferred tax asset | (73) | (77) |
| **Net deferred tax liabilities** | **312** | **330** |

***Unrecognised deferred tax assets***

Deferred tax assets have not been recognised as follows:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Deductible temporary differences | 100 | 104 |
| Tax loss carry-forwards | 191 | 219 |
| **Total** | **291** | **323** |

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

| | | Non-mining assets | | | | |
|---|---|---|---|---|---|---|
| | Mining assets and mine development cost | Buildings, structures and utilities | Machinery, equipment and transport | Other | Capital construction-in-progress | Total |
| **Cost** | | | | | | |
| **Balance at 1 January 2017** | **7,314** | **2,855** | **2,976** | **215** | **1,387** | **14,747** |
| Additions | 1,429 | – | – | – | 840 | 2,269 |
| Transfers | – | 247 | 477 | 84 | (808) | – |
| Change in decommissioning provision | (7) | (13) | – | – | – | (20) |
| Disposals | (124) | (150) | (90) | (23) | (12) | (399) |
| Other | (40) | 42 | (6) | 2 | 2 | – |
| Effect of translation to presentation currency | 422 | 153 | 150 | 11 | 75 | 811 |
| **Balance at 31 December 2017** | **8,994** | **3,134** | **3,507** | **289** | **1,484** | **17,408** |
| Additions | 925 | – | – | – | 798 | 1,723 |
| Transfers | – | 304 | 348 | 9 | (661) | – |
| Change in decommissioning | | | | | | |
| provision | (6) | (1) | – | – | – | (7) |
| Disposals | (67) | (4) | (43) | (4) | (12) | (130) |
| Other | (12) | (13) | 20 | 5 | – | – |
| Effect of translation to presentation currency | (1,589) | (542) | (586) | (50) | (251) | (3,018) |
| **Balance at 31 December 2018** | **8,245** | **2,878** | **3,246** | **249** | **1,358** | **15,976** |
| **Accumulated depreciation and impairment** | | | | | | |
| **Balance at 1 January 2017** | **(2,090)** | **(1,413)** | **(1,618)** | **(72)** | **(248)** | **(5,441)** |
| Charge for the year | (347) | (97) | (264) | (24) | – | (732) |
| Disposals | 107 | 56 | 79 | 5 | 4 | 251 |
| Impairment loss | (154) | (87) | (7) | – | 21 | (227) |
| Other | 4 | (18) | 16 | (1) | (1) | – |
| Effect of translation to presentation currency | (120) | (78) | (82) | (4) | (15) | (299) |
| **Balance at 31 December 2017** | **(2,600)** | **(1,637)** | **(1,876)** | **(96)** | **(239)** | **(6,448)** |

| | | Non-mining assets | | | | |
|---|---|---|---|---|---|---|
| | Mining assets and mine development cost | Buildings, structures and utilities | Machinery, equipment and transport | Other | Capital construction-in-progress | Total |
| Charge for the year | (350) | (108) | (291) | (24) | – | (773) |
| Disposals | 62 | 3 | 38 | 3 | 2 | 108 |
| Impairment loss | (33) | (31) | (19) | (2) | 35 | (50) |
| Other | 9 | 6 | (12) | (3) | – | – |
| Effect of translation to presentation currency | 460 | 274 | 329 | 19 | 39 | 1,121 |
| **Balance at 31 December 2018** | **(2,452)** | **(1,493)** | **(1,831)** | **(103)** | **(163)** | **(6,042)** |
| **Carrying value** | | | | | | |
| **At 31 December 2017** | **6,394** | **1,497** | **1,631** | **193** | **1,245** | **10,960** |
| **At 31 December 2018** | **5,793** | **1,385** | **1,415** | **146** | **1,195** | **9,934** |

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.
- nflation 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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Non-current** | | |
| Loans issued and other receivables | 133 | 190 |
| Bank deposits | 8 | 2 |
| **Total non-current** | **141** | **192** |
| **Current** | | |
| Loans issued and other receivables | 57 | 1 |
| Bank deposits | 83 | 94 |
| Derivative financial instruments | 7 | 4 |
| **Total current** | **147** | **99** |

## 16. OTHER TAXES

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Taxes receivable** | | |
| Value added tax recoverable | 244 | 257 |
| Other taxes | 28 | 40 |
| | **272** | **297** |
| Less: Allowance for value added tax recoverable | (1) | (1) |
| **Other taxes receivable** | **271** | **296** |
| **Taxes payable** | | |
| Value added tax | 74 | 66 |
| Social security contributions | 37 | 26 |
| Property tax | 23 | 22 |
| Other | 28 | 33 |
| **Other taxes payable** | **162** | **147** |

## 17. INVENTORIES

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Refined metals and other metal products | 526 | 655 |
| Work-in-process and semi-products | 1,138 | 1,333 |
| Less: Allowance for work-in-process | (4) | (4) |
| **Total metal inventories** | **1,660** | **1,984** |
| Materials and supplies | 662 | 739 |
| Less: Allowance for obsolete and slow-moving items | (42) | (34) |
| **Materials and supplies, net** | **620** | **705** |
| **Inventories** | **2,280** | **2,689** |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Trade receivables from metal sales | 143 | 251 |
| Other receivables | 131 | 168 |
| | **274** | **419** |
| Less: Allowance for expected credit losses | (70) | (92) |
| **Trade and other receivables, net** | **204** | **327** |

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:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Less than 180 days | 24 | 25 |
| 180-365 days | 5 | 9 |
| | **29** | **34** |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Balance at beginning of the year** | **92** | **81** |
| Change in allowance | 5 | 16 |
| Accounts receivable written-off | (12) | (9) |
| Effect of translation to presentation currency | (15) | 4 |
| **Balance at end of the year** | **70** | **92** |

## 19. CASH AND CASH EQUIVALENTS

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Current accounts** | | |
| - USD | 398 | 334 |
| - RUB | 49 | 76 |
| - EUR | 13 | 10 |
| - other | 64 | 14 |
| **Bank deposits** | | |
| - USD | 850 | 290 |
| - EUR | – | 17 |
| - other | 10 | 105 |
| Restricted cash and cash equivalents | – | 2 |
| Other cash and cash equivalents | 4 | 4 |
| **Total** | **1,388** | **852** |

### 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

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **Basic earnings per share (US Dollars per share):** | 19.5 | 13.5 |

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

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| **Profit for the year attributable to shareholders of the parent company** | 3,085 | 2,129 |

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:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Non-current assets | 1,258 | 1,281 |
| Current assets | 195 | 117 |
| Non-current liabilities | (790) | (593) |
| Current liabilities | (139) | (156) |
| **Net assets** | **524** | **649** |
| Net assets attributable to non-controlling interest | 262 | 325 |

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Net loss for the year | (61) | (32) |
| Other comprehensive (loss)/income for the year | (104) | 31 |
| **Total comprehensive loss for the year** | **(165)** | **(1)** |
| Loss attributable to non-controlling interest | (31) | (6) |
| Other comprehensive (loss)/income attributable to non-controlling interest | (52) | 5 |

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Cash flows from/(used in) operating activities | 72 | (42) |
| Cash flows used in investing activities | (190) | (423) |
| Cash flows from financing activities | 142 | 458 |
| **Net increase/(decrease) in cash and cash equivalents** | **24** | **(7)** |

## 23. LOANS AND BORROWINGS

| | Currency | Fixed or floating interest rate | Average nominal rate during the yearended 31 December 2018, % | Maturity | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|---|---|---|
| **Unsecured loans** | USD | floating | 3.45% | 2019-2023 | 3,837 | 2,898 |
| | RUB | fixed | 8.30% | 2021 | 864 | 1,042 |
| | EUR | floating | 0.85% | 2019-2028 | 19 | 4 |
| **Secured loans** | USD | floating | 5.75% | 2018 | – | 582 |
| | RUB | fixed | 9.75% | 2021-2022 | 9 | 34 |
| **Total loans** | | | | | **4,729** | **4,560** |
| **Corporate bonds** | USD | fixed | 5.24% | 2020-2023 | 3,472 | 4,206 |
| | RUB | fixed | 11.60% | 2026 | 216 | 259 |
| | | | | | **3,688** | **4,465** |
| **Finance leasing** | EUR | fixed | 7.47% | 2025-2026 | 19 | 23 |
| | USD | fixed | 5.35% | 2019 | 2 | 4 |
| | ZAR | floating | 12.08% | 2020 | 1 | 1 |
| | | | | | **22** | **28** |
| **Total** | | | | | **8,439** | **9,053** |
| Less: current portion due within twelve months and **presented as short-term loans and borrowings** | | | | | (215) | (817) |
| **Long-term loans and borrowings** | | | | | **8,224** | **8,236** |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Accrual for annual leave | 177 | 203 |
| Wages and salaries | 147 | 168 |
| Other | 22 | 22 |
| **Total obligations** | **346** | **393** |
| Less: non-current obligations | (39) | (16) |
| **Current obligations** | **307** | **377** |

### Defined contribution plans

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

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
|---|---|---|
| Pension Fund of the Russian Federation | 278 | 311 |
| Mutual accumulated pension plan | 7 | 8 |
| Other | 7 | 5 |
| **Total** | **292** | **324** |

## 25. PROVISIONS

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Current provisions** | | |
| Decommissioning obligations | 21 | 26 |
| Provision for social commitments | 53 | 28 |
| Tax provision | 2 | 134 |
| Other provisions | 1 | 1 |
| **Total current provisions** | **77** | **189** |
| **Non-current provisions** | | |
| Decommissioning obligations | 316 | 396 |
| Provision for social commitments | 49 | 68 |
| **Total non-current provisions** | **365** | **464** |
| **Total** | **442** | **653** |

| | Decommissioning | Social commitments | Tax | Other | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **397** | **62** | **124** | **41** | **624** |
| Provision accrued | 6 | 42 | 2 | 2 | **52** |
| Settlements during the year | – | (21) | (2) | (41) | **(64)** |
| Change in estimates | (38) | 4 | – | – | **(34)** |
| Unwinding of discount | 35 | 6 | – | – | **41** |
| Effect of translation to presentation currency | 22 | 3 | 10 | (1) | **34** |
| **Balance at 31 December 2017** | **422** | **96** | **134** | **1** | **653** |
| Provision accrued | – | 47 | 21 | 2 | **70** |
| Settlements during the year | (22) | (29) | (144) | (3) | **(198)** |
| Change in estimate | (21) | (2) | – | – | **(23)** |
| Unwinding of discount | 29 | 5 | – | – | **34** |
| Effect of translation to presentation currency | (71) | (15) | (9) | 1 | **(94)** |
| **Balance at 31 December 2018** | **337** | **102** | **2** | **1** | **442** |

### Decommissioning obligations

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Discount rates Russian entities | 7.7% - 8.9% | 6.9% - 9,1% |
| Discount rates non-Russian entities | 3% - 9% | 3% - 8% |
| Expected closure date of mines | up to 2068 | up to 2071 |
| Expected inflation over the period from 2019 to 2038 | 3.0% - 4.5% | 2.9% - 4.9% |
| Expected inflation over the period from 2039 onwards | 2.9% - 3.0% | 2.9% |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Due from second to fifth year | 149 | 202 |
| Due from sixth to tenth year | 24 | 23 |
| Due from eleventh to fifteenth year | 27 | 39 |
| Due from sixteenth to twentieth year | 86 | 77 |
| Due thereafter | 30 | 55 |
| **Total** | **316** | **396** |

### 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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| **Financial liabilities** | | |
| Trade payables | 357 | 426 |
| Payables for acquisition of property, plant and equipment | 192 | 186 |
| Other creditors | 110 | 140 |
| **Total financial liabilities** | **659** | **752** |
| **Non-financial liabilities** | | |
| Advances received on contracts with customers | 892 | 31 |
| **Total non-financial liabilities** | **892** | **31** |
| **Total** | **1,551** | **783** |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Due within one month | 183 | 194 |
| Due from one to three months | 192 | 244 |
| Due from three to twelve months | 284 | 314 |
| **Total** | **659** | **752** |

## 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.

| | Sale of goods and services and participating shares | | Purchase of assets and services and other operating expenses | |
|---|---|---|---|---|
| **Transactions with related parties** | For the year ended 31 December 2018 | For the year ended 31 December 2017 | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
| Entities under ownership and control of the Group's major shareholders | 7 | 279 | 64 | 115 |
| Joint operation of the Group | – | 1 | 86 | 107 |
| **Total** | **7** | **280** | **150** | **222** |

| Outstanding balances with related parties | Accounts receivable | | Accounts payable | |
|---|---|---|---|---|
| | At 31 December 2018 | At 31 December 2017 | At 31 December 2018 | At 31 December 2017 |
| Entities under ownership and control of the Group's major shareholders | 1 | – | 1 | 2 |
| Joint operation of the Group | 8 | – | 3 | 9 |
| **Total** | **9** | **–** | **4** | **11** |

### 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:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Due within one year | 32 | 38 |
| From one to five years | 95 | 97 |
| Thereafter | 95 | 18 |
| **Total** | **222** | **153** |

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

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Due within one year | 44 | 36 |
| From one to five years | 128 | 103 |
| Thereafter | 217 | 138 |
| **Total** | **389** | **277** |

### 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.

| | 2% floating rate increase impact | |
|---|---|---|
| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
| Loss before tax | 77 | 70 |

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:

| | At 31 December 2018 | | | At 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | USD | EUR | Other currencies | USD | EUR | Other currencies |
| Cash and cash equivalents | 1,234 | 13 | 74 | 609 | 28 | 121 |
| Trade and other receivables | 265 | 3 | 4 | 384 | 4 | 4 |
| Other assets | 380 | 73 | 8 | 141 | 297 | 15 |
| **Total assets** | **1,879** | **89** | **86** | **1,134** | **329** | **140** |
| Trade and other payables | 249 | 114 | 10 | 290 | 80 | 14 |
| Loans and borrowings | 7,308 | 19 | 3 | 7,684 | 5 | – |
| Other liabilities | 160 | 19 | – | 136 | 23 | – |
| **Total liabilities** | **7,717** | **152** | **13** | **8,110** | **108** | **14** |

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:

| | US Dollar 20% strengthening against Russian Rouble | |
|---|---|---|
| | For the year ended 31 December 2018 | For the year ended 31 December 2017 |
| Loss before tax | 1,344 | 1,395 |

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.

| | Outstanding balance | |
|---|---|---|
| | At 31 December 2018 | At 31 December 2017 |
| **Cash and cash equivalents** | | |
| Bank A | 417 | 224 |
| Bank B | 402 | 143 |
| Bank C | 214 | 125 |
| Bank D | 75 | 102 |
| Bank E | 64 | 80 |
| **Total** | **1,172** | **674** |

| | Outstanding balance | |
|---|---|---|
| | At 31 December 2018 | At 31 December 2017 |
| **Trade and other receivables** | | |
| Company A | 50 | 66 |
| Company B | 38 | 41 |
| Company C | 34 | 23 |
| Company D | 20 | 18 |
| Company E | 15 | 16 |
| **Total** | **157** | **164** |

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:

| | For the year ended 31 December 2018 | | | For the year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Number of customers | Turnover USD million | % | Number of customers | Turnover USD million | % |
| Largest customer | 1 | 1,564 | 13 | 1 | 1,319 | 14 |
| Next 9 largest customers | 9 | 3,461 | 30 | 9 | 2,936 | 32 |
| **Total** | **10** | **5,025** | **43** | **10** | **4,255** | **46** |
| Next 10 largest customers | 10 | 1,965 | 17 | 10 | 1,494 | 16 |
| **Total** | **20** | **6,990** | **60** | **20** | **5,749** | **62** |
| Remaining customers | | 4,680 | 40 | | 3,397 | 38 |
| **Total** | | **11,670** | **100** | | **9,146** | **100** |

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:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Cash and cash equivalents | 1,388 | 852 |
| Loans, trade and other receivables | 394 | 518 |
| Irrevocable letters of credit | 203 | 248 |
| Bank deposits | 91 | 96 |

***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 | Total | Due within one month | Due from one to three months | Due from three to twelve months | Due in the second year | Due in the third year | Due in the fourth year | Due in the fifth year | Due thereafter |
|---|---|---|---|---|---|---|---|---|---|
| **Fixed rate bank loans and borrowings** | | | | | | | | | |
| Principal | 4,595 | 1 | – | 4 | 987 | 871 | 1,507 | 1,003 | 222 |
| Interest | 1,022 | – | 30 | 249 | 280 | 213 | 142 | 46 | 62 |
| | 5,617 | 1 | 30 | 253 | 1,267 | 1,084 | 1,649 | 1,049 | 284 |
| **Floating rate bank loans and borrowings** | | | | | | | | | |
| Principal | 3,883 | 5 | – | 205 | 957 | 1,202 | 1,302 | 202 | 10 |
| Interest | 363 | 4 | 21 | 102 | 123 | 77 | 33 | 3 | – |
| | 4,246 | 9 | 21 | 307 | 1,080 | 1,279 | 1,335 | 205 | 10 |
| **Total** | 9,863 | 10 | 51 | 560 | 2,347 | 2,363 | 2,984 | 1,254 | 294 |
| **Cross-currency interest rate swap** | | | | | | | | | |
| Payable | 1,008 | – | 10 | 31 | 41 | 926 | – | – | – |
| Receivable | (1,067) | – | (18) | (54) | (72) | (923) | | | |
| | (59) | – | (8) | (23) | (31) | 3 | – | – | – |

| At 31 December 2017 | Total | Due within one month | Due from one to three months | Due from three to twelve months | Due in the second year | Due in the third year | Due in the fourth year | Due in the fifth year | Due thereafter |
|---|---|---|---|---|---|---|---|---|---|
| **Fixed rate bank loans and borrowings** | | | | | | | | | |
| Principal | 5,586 | 1 | 1 | 766 | 6 | 988 | 1,049 | 1,506 | 1,269 |
| Interest | 1,189 | – | 36 | 239 | 258 | 257 | 188 | 106 | 105 |
| | 6,775 | 1 | 37 | 1,005 | 264 | 1,245 | 1,237 | 1,612 | 1,374 |
| **Floating rate bank loans and borrowings** | | | | | | | | | |
| Principal | 3,510 | 9 | – | 29 | 236 | 996 | 1,028 | 808 | 404 |
| Interest | 246 | 5 | 8 | 51 | 65 | 52 | 33 | 20 | 12 |
| | 3,756 | 14 | 8 | 80 | 301 | 1,048 | 1,061 | 828 | 416 |
| **Total** | 10,531 | 15 | 45 | 1,085 | 565 | 2,293 | 2,298 | 2,440 | 1,790 |

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.

| | At 31 December 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| | Carrying value | Fair value Level 1 | Carrying value | Fair value Level 1 |
| Fixed rate corporate bonds | 3,688 | 3,705 | 4,465 | 4,685 |
| **Total** | **3,688** | **3,705** | **4,465** | **4,685** |
| **Loans and borrowings, including:** | Carrying value | Fair value Level 2 | Carrying value | Fair value Level 2 |
| Floating rate loans and borrowings | 3,856 | 3,654 | 3,484 | 3,439 |
| Fixed rate loans and borrowings | 873 | 861 | 1,076 | 1,055 |
| **Total** | **4,729** | **4,515** | **4,560** | **4,494** |
| | Carrying value | Fair value Level 2 | Carrying value | Fair value Level 2 |
| Trade and other long-term payables | 200 | 210 | 402 | 440 |
| **Total** | **200** | **210** | **402** | **440** |

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

| Subsidiaries by operating segments | Country | Nature of business | Effective % held At 31 December 2018 | Effective % held At 31 December 2017 |
|---|---|---|---|---|
| **GMK Group** | | | | |
| JSC "Norilsky Kombinat" | Russian Federation | Rental of property | 100 | 100 |
| JSC "Taimyrgaz" | Russian Federation | Gas extraction | 100 | 100 |
| JSC "Norilskgazprom" | Russian Federation | Gas extraction | 100 | 100 |
| JSC "Norilsktransgaz" | Russian Federation | Gas transportation | 100 | 100 |
| JSC "Taimyrenergo" | Russian Federation | Rental of equipment | 100 | 100 |

| Subsidiaries by operating segments | Country | Nature of business | Effective % held | |
|---|---|---|---|---|
| | | | At 31 December 2018 | At 31 December 2017 |
| JSC "NTEK" | Russian Federation | Electricity production and distribution | 100 | 100 |
| LLC "ZSC" | Russian Federation | Construction | 100 | 100 |
| LLC "Norilsknickelremont" | Russian Federation | Repairs | 100 | 100 |
| LLC "Norilskyi obespechivaushyi complex" | Russian Federation | Production of spare parts | 100 | 100 |
| LLC "Medvezhyi ruchey" | Russian Federation | Mining | 100 | 100 |
| **KGMK GROUP** | | | | |
| JSC "Kolskaya GMK" | Russian Federation | Mining and metallurgy | 100 | 100 |
| LLC "Pechengastroy" | Russian Federation | Repairs | 100 | 100 |
| **Norilsk Nickel Harjavalta** | | | | |
| Norilsk Nickel Harjavalta OY | Finland | Metallurgy | 100 | 100 |
| **GRK Bystrinskoye** | | | | |
| LLC "GRK "Bystrinskoye" | Russian Federation | Mining | 50.01 | 50.01 |
| LLC "Vostokgeologiya" | Russian Federation | Geological works and construction | 100 | 100 |
| **Other non-metallurgical** | | | | |
| Metal Trade Overseas A.G. | Switzerland | Distribution | 100 | 100 |
| Norilsk Nickel (Asia) Limited | Hong Kong | Distribution | 100 | 100 |
| Norilsk Nickel USA, Inc. | USA | Distribution | 100 | 100 |
| LLC "Institut Gypronickel" | Russian Federation | Research | 100 | 100 |
| JSC "TTK" | Russian Federation | Supplier of fuel | 100 | 100 |
| JSC "ERP" | Russian Federation | River shipping operations | 100 | 100 |
| LLC "Aeroport Norilsk" | Russian Federation | Airport | 100 | 100 |
| JSC "AK "NordStar" | Russian Federation | Aircompany | 100 | 100 |

| Joint operations by operating segments | Country | Nature of business | Effective % held | |
|---|---|---|---|---|
| | | | At 31 December 2018 | At 31 December 2017 |
| **Other mining** | | | | |
| Nkomati Nickel Mine | Republic of South Africa | Mining | 50 | 50 |

## 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.