



### Platinum

In 2016, platinum sales accounted for 9% of the Group's total metal revenue. The platinum revenue increased by 4% y-o-y (or by USD 23 million) to USD 654 million primarily due to higher volumes of platinum sales (+USD 77 million) which was partly negatively offset by both lower realized platinum price (–USD 46 million) and lower re-sale of platinum purchased from third parties to meet contractual obligations (–USD 8 million).

The revenue from platinum produced in Russia from own feed increased by 6% y-o-y to USD 645 million. The revenue increased despite an 8% y-o-y decline in the average realized platinum price (from USD 1,057 per troy ounce in 2015 to USD 977 per troy ounce in 2016), which was fully offset by the increase in sales volumes (up 15% y-o-y) resulting from the sale of metal from temporary stock.

### Other metals

The other metals revenue was up 30% y-o-y (or by USD 98 million) to USD 424 million owing to the increase in gold (up 80%), silver (up 46%) and cobalt (up 15%) revenues which was partly negatively offset by lower rhodium revenue (down 23%).

Increase of revenue from other metals was driven by the physical sale volumes owing to stock sale (USD 103 million), partly offset by lower realized prices (–USD 5 million).

### Semi-products

In 2016, semi-products revenue (copper cake and nickel concentrate) increased by 12% y-o-y (or by USD 23 million) to USD 216 million, and accounted for 3% of the Group's total metal revenue. The increase was mainly driven by higher physical sales to third parties instead of intragroup sales for further processing.

### OTHER SALES

In 2016, the other sales revenue of USD 613 million was down by 7% y-o-y primarily due to Russian rouble depreciation against US dollar (negative effect of USD 51 million) and divestiture of non-core assets (negative effect of USD 73 million), which was partly positively offset by the increase of prices of services provided to third parties (positive effect by USD 16 million). Additionally, the other sales increased in real terms (USD 62 million) primarily as result of higher revenue of the Company's transport subsidiaries.

## Cost Of Metal Sales

### COST OF METALS SALES

In 2016, the cost of metal sales increased by 15% y-o-y (or by USD 486 million) to USD 3,651 million owing to:

- Reduction of cash operating costs by 3% y-o-y (USD 92 million);
- Decrease in depreciation charges by 4% y-o-y (USD 20 million);
- Change in metal inventories y-o-y (cost increase by USD 598 million) due to the sale of temporary metal stock.

Total cost of metal sales in 2016

USD **3,651** mln

/ Financial Overview / Cost Of Metal Sales

## CASH OPERATING COSTS

In 2016, total cash operating costs decreased by 3% y-o-y (or by USD 92 million) to USD 2,905 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to USD 175 million in terms of cost reduction.

Inflationary growth of cash operating costs (USD 169 million) was partly offset by cost reduction due to sale of foreign assets in 2015 (USD 27 million) and other factors (USD 59 million) including decrease of purchases of metals for resale, raw materials and semi-products.

USD mln	2016	2015	Change
<b>Cash operating costs</b>			
Labour	1,145	1,131	1%
Purchases of metals for resale, raw materials and semi-products	555	718	(23%)
Materials and supplies	520	459	13%
Third-party services	170	186	(9%)
Mineral extraction tax and other levies	122	128	(5%)
Electricity and heat energy	101	108	(6%)
Transportation expenses	89	75	19%
Fuel	60	66	(9%)
Sundry costs	143	126	13%
<b>Total cash operating costs</b>	<b>2,905</b>	<b>2,997</b>	<b>(3%)</b>
Depreciation and amortisation	456	476	(4%)
Decrease/(increase) of metal inventories	290	(308)	
<b>Total cost of metal sales</b>	<b>3,651</b>	<b>3,165</b>	<b>15%</b>

### Labour

In 2016, labour costs increased by 1% y-o-y (or by USD 14 million) to USD 1,145 million amounting to 39% of the Group's total cash operating costs in 2016 driven by the following:

- USD 97 million - cost reduction due to the Russian rouble depreciation against US Dollar;
- USD 111 million - costs increase driven by the indexation of RUB-denominated salaries and wages and the headcount increase primarily at Kola MMC owing to the ongoing downstream reconfiguration program.

### Purchases of metals for resale, raw materials and semi-products

In 2016, expenses on the purchase of metals for resale, raw materials and semi-products decreased by USD 163 million y-o-y to USD 555 million.

Decrease in purchased concentrates and matte was driven by lower metal prices (USD 45 million) and lower volume of semi-products purchased by NN Harjavalta for further processing (USD 158 million) owing to increased processing of the Group's own Russian feed.

This cost reduction was partly negatively offset by the increase in the volume of semi-products purchased by NN Harjavalta (cost increase by USD 37 million) owing to the replacement of a tolling contract with Boliden with a sale and purchase agreement.

Expenses for metals purchased for re-sale to fulfill contractual obligations increased by USD 11 million y-o-y.

### Materials and supplies

In 2016, materials and supplies expenses increased by 13% y-o-y (or by USD 61 million) to USD 520 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to cost reduction by USD 26 million.

The increase of the cost of materials and supplies in real terms was driven by the following:

- USD 38 million – local-currency inflation;
- USD 49 million – other factors driven by repairs of mining equipment as well as the equipment at Nadezhda metallurgical plant and Kola MMC.

### Third-party services

In 2016, cost of third party services decreased by 9% y-o-y (or by USD 16 million) to USD 170 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to cost reduction by USD 13 million.

Other changes in third party services in real terms were driven by the following:

- USD 19 million - cash cost reduction due to the divestiture of Tati Nickel in April 2015;
- USD 10 million - decrease in tolling expenses due to replacement of tolling contract with Boliden with a semi-products sale and purchase agreement at NN Harjavalta;
- USD 26 million - increase in other services, primarily due to inflation.

### Mineral extraction tax and other levies

In 2016, mineral extraction tax and other levies decreased by 5% y-o-y (or by USD 6 million) to USD 122 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to cost reduction by USD 11 million.

The increase in cash cost in real terms (USD 5 million) was due to higher cost of mined ore, partly offset by decrease in pollution levies.

### Electricity and heat energy

In 2016, electricity and heat energy expenses decreased by 6% (or by USD 7 million) y-o-y to USD 101 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to cost reduction by USD 8 million.

The increase of the cost of materials and supplies in real terms was driven by the following:

- USD 4 million – increase in energy tariffs owing to domestic inflation;
- USD 3 million – decrease in expenses primarily due to sale of Tati Nickel in April 2015.

### Transportation expenses

In 2016, transportation expenses increased by 19% (or by USD 14 million) y-o-y to USD 89 million, primarily due to increase in metal and semi-products shipment volumes.

### Fuel

Fuel expenses decreased by 9% y-o-y (or by USD 6 million) to USD 60 million primarily due to Russian rouble depreciation against US Dollar.

### Sundry costs

In 2016, sundry costs increased by 13% y-o-y (or by USD 17 million) to USD 143 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to cost reduction by USD 10 million.

The increase in sundry costs in real terms by USD 27 million was driven primarily by domestic inflation.

### Depreciation and amortisation

In 2016, depreciation and amortisation decreased by 4% y-o-y (or by USD 20 million) and amounted to USD 456 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to cost reduction by USD 40 million.

An increase in depreciation charges in real terms (USD 20 million) was mainly due to additions of mining and refining assets in 2016, which was partly offset by impairment of gas producing assets at the end of 2015.

### Decrease/(increase) of metal inventories

Comparative effect of change in metal inventory amounted to USD 598 million in terms of increase in cost of metal sales.

This resulted mainly from the accumulation of metal in a temporary stock in 2015 and its consequent sale in 2016.

/ Financial Overview / Cost Of Metal Sales

### COST OF OTHER SALES

In 2016, cost of other sales decreased by 18% y-o-y to USD 508 million.

Positive effect of Russian rouble depreciation against US Dollar amounted to USD 52 million in terms of cost reduction.

Decrease of cost of other sales in real terms (by USD 56 million) was driven by the following factors:

- USD 65 million – cost reduction due to sale of non-core assets (primarily Nordavia-RA);
- USD 22 million – increase in transportation companies expenditures owing to the business expansion;
- USD 13 million – cost reduction due to other factors.

### SELLING AND DISTRIBUTION EXPENSES

USD mln	2016	2015	Change
Export duties	61	78	(22%)
Staff costs	13	19	(32%)
Transportation expenses	5	8	(38%)
Marketing expenses	7	15	(53%)
Other	7	9	(22%)
<b>Total</b>	<b>93</b>	<b>129</b>	<b>(28%)</b>

Selling and distribution expenses decreased by 28% y-o-y (or by USD 36 million) to USD 93 million. The decline was driven by decrease of export duties by 22% (or by USD 17 million) owing to the cancellation of PGM export duties in September, 2016 as part of Russian Federation WTO accession package.

Further cost reduction resulted from the following factors:

- USD 6 million – effect of Russian rouble depreciation against US dollar;
- USD 8 million – decrease in marketing expenses driven by the reduced marketing campaigns in Asia and Europe.

### GENERAL AND ADMINISTRATIVE EXPENSES

USD mln	2016	2015	Change
Staff costs	376	352	7%
Taxes other than mineral extraction tax and income tax	58	54	7%
Third party services	55	55	–
Rent expenses	19	19	–
Depreciation and amortisation	20	19	5%
Transportation expenses	6	4	50%
Other	47	51	(8%)
<b>Total</b>	<b>581</b>	<b>554</b>	<b>5%</b>

In 2016, general and administrative expenses increased by 5% y-o-y (or by USD 27 million) to USD 581 million. The staff costs increased 7% y-o-y (or USD 24 million) driven primarily by salaries

revision in line with domestic inflation and higher property tax, up by 7% or by USD 4 million owing to the increase of property, plant and equipment balance.

**FINANCE COSTS**

USD mln	2016	2015	Change
Interest expense on borrowings net of amounts capitalized	403	281	43%
Unwinding of discount on provisions	46	44	5%
Other	4	1	4x
<b>Total</b>	<b>453</b>	<b>326</b>	<b>39%</b>

Increase in finance costs by 39% y-o-y to USD 453 million was driven by cumulative effect of the following factors:

- Reduction in relatively low interest bearing debt owing to the repayment of a syndicated loan from a consortium of international banks, raised in 2013;
- Increase of the Group's floating rate debt cost due to multiple increases of LIBOR rates;
- Increase of RUB denominated share of loans and borrowings during 2014-2016.

These factors were partly offset by the refinancing of some of the Group's debt in 2016, which resulted in extending maturity and reducing interest rate margins on some of the Group's USD denominated debt with floating interest.

**INCOME TAX EXPENSE**

BIn 2016, income tax expense increased by 41% y-o-y to USD 745 million driven mostly by the increase of taxable profit owing to comparative effect of RUB appreciation against US dollar as of 31.12.2016 versus RUB depreciation as of 31.12.2015. This effect was partly offset by the decline of revenue.

The effective income tax rate in 2016 of 22.7% was above the Russian statutory tax rate of 20%. This was primarily driven by non-deductible social expenses, impairment of financial and non-financial assets, write-offs and allowance for deferred tax assets. These factors were partly offset by the effect of varying tax rates applied on international subsidiaries of the Group.

**Income tax expense**

USD mln	2016	2015	Change
Current income tax expense	686	506	36%
Deferred tax expense	59	22	3x
<b>Total</b>	<b>745</b>	<b>528</b>	<b>41%</b>

**The break up of the current income tax expense by geography**

USD mln	2016	2015	Change
Russian Federation	679	490	39%
Finland	5	14	(64%)
Rest of the world	2	2	–
<b>Total</b>	<b>686</b>	<b>506</b>	<b>36%</b>