

OTHER SALES

In 2018, other sales decreased 3% to USD 708 million, primarily owing to Russian rouble depreciation (-USD 47 million). Revenue increase in real terms was primarily driven by increase in fuel and gas prices and higher revenue from services provided by transport subsidiaries of the Group to third parties.

Other sales (USD million)

Index	2017	2018	Change, %
Air transport	256	257	0
Fuel-power complex	175	178	2
Water transport	65	56	-14
Food retail	40	38	-5
Zapolyarye Health Resort	18	17	-6
Other	177	162	-8
TOTAL	731	708	-3

COST OF METAL SALES

Cost of metal sales

In 2018, the cost of metal sales increased 14% (or +USD 568 million) to USD 4,536 million. Main factors contributing to it were:

- Decrease in cash operating costs by 2% (or -USD 81 million);
- Increase in depreciation charges by 4% (or +USD 23 million);
- Change in metal inventories y-o-y primarily due to sales of palladium accumulated in 2017 (cost of metal sales increase by +USD 626 million).

Cash operating costs

In 2018, total cash operating costs decreased by 2% (or -USD 81 million) to USD 3,774 million.

The positive effect of Russian rouble depreciation (-USD 200 million) was partly offset by inflationary growth of cash operating costs by +USD 104 million.

Cost increase driven by the processing of Rostec concentrate (+USD 193 million) was partly offset by lower volumes

of refined metals purchased for resale (-USD 100 million) and headcount reduction (-USD 58 million) as part of the 2018-2020 efficiency and cost optimization programme.

Cash operating costs (USD million)

Index	2017	2018	Change, %
Labour	1,392	1,311	-6
Materials and supplies	732	727	-1
Purchases of raw materials and semi-products	297	436	47
Purchases of refined metals for resale	530	430	-19
Mineral extraction tax and other levies	221	212	-4
Third-party services	242	200	-17
Electricity and heat energy	143	143	0
Fuel	81	87	7
Transportation expenses	65	70	8
Sundry costs	152	158	4
Total cash operating costs	3,855	3,774	-2
Depreciation and amortisation	630	653	4
Decrease/(increase) in metal inventories	-517	109	n. a.
TOTAL COST OF METAL SALES	3,968	4,536	14

Labour

In 2018, labour costs decreased by 6% (or -USD 81 million) to **USD 1,311 million** amounting to 35% of the Group's total cash operating costs driven by the following:

- -USD 89 million – cost decrease owing to the Russian rouble depreciation against US Dollar;
- -USD 58 million – cost decrease following the headcount reduction as part of 2018-2020 efficiency and cost optimization programme;
- +USD 66 million – increase in real terms primarily driven by the indexation of RUB-denominated salaries and wages in line with collective bargaining agreement.

Purchases of raw materials and semi-products

In 2018, purchases of raw materials and semi-products increased 47% (or USD 139 million) to **USD 436 million** driven by the following:

- +USD 193 million – cost increase owing to the processing of copper concentrate purchased from Rostec;
- -USD 24 million – cost decrease owing to lower volumes of semi-products purchased from Nkomati;
- -USD 23 million – cost reduction owing to lower volumes of purchased semi-products from third parties for processing at NN Harjavalta.

Purchases of metals for resale

In 2018, expenses related to purchase of metals for resale decreased 19% (or USD 100 million) to **USD 430 million** owing to lower metal volumes acquired by the Company's Palladium Fund.

Materials and supplies

In 2018, materials and supplies expenses decreased by 1% (or USD 5 million) to **USD 727 million** driven by the following factors:

- -USD 48 million – positive effect of the Russian rouble depreciation;
- +USD 32 million – inflationary growth in materials and supplies expenses;

- +USD 14 million – increase in consumption of process materials that was partly offset by a reduction in repairs.

Third-party services

In 2018, cost of third party services decreased by 17% (or USD 42 million) to **USD 200 million** mainly driven by:

- -USD 15 million – positive effect of the Russian rouble depreciation;
- -USD 27 million – costs decrease primarily due to lower repairs and outsourced concentrates recovery.

Mineral extraction tax and other levies

In 2018, mineral extraction tax and other levies decreased 4% (or by -USD 9 million) to **USD 212 million** driven by the depreciation of Russian rouble.

Electricity and heat energy

In 2018, electricity and heat energy expenses were flat year on year and amounted to **USD 143 million**. Positive effect of Russian rouble depreciation was partly offset by energy price inflation.

Fuel

In 2018, fuel expenses increased by 7% (or +USD 6 million) to **USD 87 million** driven by the following:

- -USD 5 million – positive effect of the Russian rouble depreciation;
- +USD 11 million – higher oil prices.

Transportation expenses

In 2018, transportation expenses increased by 8% (or +USD 5 million) to **USD 70 million** driven by the following:

- -USD 4 million – positive effect of the Russian rouble depreciation;
- +USD 7 million – costs increase driven by outsourcing of Kola MMC transportation activities and increase in metal production volumes.

Sundry costs

In 2018, sundry costs increased by 4% (or +USD 6 million) to **USD 158 million**.

Depreciation and amortisation

In 2018, depreciation and amortisation expenses increased by 4% (or +USD 23 million) to **USD 653 million** driven by the following:

- Positive effect of Russian rouble depreciation amounted to -USD 37 million.
- Depreciation charges increased by +USD 60 million mainly due to transfers from construction in progress to production assets at the Company's operating subsidiaries in Russia and completion of downstream reconfiguration in 2H2017.

Decrease/(increase) in metal inventories

In 2018, comparative effect of change in metal inventory amounted to **USD 626 million** resulting in an increase of cost of metal sales, driven by the following:

- +USD 510 million – comparative effect of change in finished goods inventories owing primarily to the sale of palladium stock accumulated in 2017;
- +USD 116 million – comparative effect of slower growth of work-in-progress inventory relative to the prior year that resulted in cost increase.

Cost of other sales

In 2018, cost of other sales decreased by -USD 10 million to USD 622 million.

Russian rouble depreciation contributed to the reduction of the cost of other sales by -USD 41 million.

Cost of other sales increased in real terms by +USD 31 million primarily due to inflation, higher volumes of services provided by the Group's transportation subsidiaries, indexation of RUB-denominated salaries and wages, and growth of other services.