Transportation expenses

In 2017, transportation expenses decreased by 10% (or USD 7 million) to USD 64 million driven by the following:
- USD 7 million – negative effect of the Russian rouble appreciation;
- USD 14 million – costs decrease driven by transportation of Nkomati concentrate to third parties instead of NN Harjavalta production facilities.

Sundry costs

In 2017, sundry costs increased by 5% (or USD 7 million) to USD 150 million, driven by the following:
- USD 19 million – negative effect of the Russian rouble appreciation;
- USD 12 million – decrease in insurance expenses owing to the renegotiation of property insurance agreements on the same insurance cover terms.

Production costs related to joint operation

In 2017, production costs related to joint operation increased by 18% (or USD 14 million) to USD 93 million, driven by the following:
- USD 8 million – negative effect of the South African rand appreciation;
- USD 6 million – increase in expenses owing to the higher sales volume of Nkomati concentrates..

Depreciation and amortisation

In 2017, depreciation and amortisation increased by 38% (or USD 174 million) to USD 630 million.

Russian rouble appreciation amounted to depreciation and amortisation increase by USD 62 million.

Depreciation charges increased in real terms by USD 112 million mainly due to additions to production assets at the Company's operating subsidiaries in Russia in 2H2016 and in 2017.

(Increase)/decrease of metal inventories

In 2017, comparative effect of change in metal inventory amounted to USD 804 million resulting in a decrease in cost of metal sales, driven by the following:
- USD 729 million – sale of metal from temporary stock in 2016 as part of reconfiguration programme, as well as a built-up of palladium stock and accumulation of metal stock in 2017 to meet additional demand of the Company's key customers.
- USD 75 million – comparative effect of change in work-in-progress, primarily due to higher accumulation of work-in-progress at Russian subsidiaries of the Group in 2017 as part of ongoing downstream reconfiguration program and due to start of Rostec copper concentrate processing in 2017.

Cost of Other Sales

In 2017, cost of other sales increased by 24% (or USD 124 million) to USD 632 million.

Russian rouble appreciation amounted to cost of other sales increase by USD 72 million.

Cost of other sales increased in real terms by USD 52 million comprised of USD 96 million increase in expenses resulting from higher transportation services, indexation of RUB-denominated salaries and wages and growth of other services, which were partly offset positively by the sale of non-core assets resulting in a cost reduction of USD 44 million.

Selling and Distribution Expenses

Selling and distribution expenses decreased 32% (or USD 36 million) to USD 75 million due to the cancellation of PGM export duties in September 2016 as part of Russian Federation's WTO membership terms (USD 60 million cost reduction), which was partly negatively offset by increase of transportation expenses primarily due to increase of semi-product sales.

USD million	2017	2016	Change,%
Transportation expenses	38	23	65%
Staff costs	13	13	0%
Marketing expenses	14	7	100%
Export duties	1	61	(98%)
Other	9	7	29%
Total	**75**	**111**	**(32%)**

General and Administrative Expenses

USD million	2017	2016	Change,%
Staff costs	478	376	27%
Taxes other than mineral extraction tax and income tax	79	58	36%
Third party services	72	55	31%
Depreciation and amortisation	32	20	60%
Rent expenses	25	19	32%
Transportation expenses	8	6	33%
Other	65	47	38%
Total	**759**	**581**	**31%**

In 2017, general and administrative expenses increased by 31% (or USD 178 million) to USD 759 million. Rouble appreciation contributed to USD 71 million cost increase. General and administrative expenses increased in real terms due to the following:

- USD 38 million – increase in staff costs mainly due to salaries indexation;
- USD 30 million – increase of costs, resulting from the automatization of production processes and roll out of new IT systems, including USD 17 million of staff costs;
- USD 20 million –higher property tax and amortisation charges.

Other Net Operating Expenses

USD million	2017	2016	Change,%
Social expenses	303	111	173%
Change in allowance for doubtful debts	19	14	36%
Change in allowaOce for obsolete and slow-moving inventory	11	(2)	n.a.
Change in provision for reconfiguration of production facilities	(4)	(33)	(88%)
Other	33	(6)	n.a.
Total	**362**	**84**	**4x**

In 2017, other net operating expenses increased by USD 278 million to USD 362 million owing to one-off social expenses including an estimated provisional cost of long-term social agreement with the government of Zabaikalsky Krai and expenses attributed to the development of skiing resort in Sochi.

Other increase of other net operating expenses was primarily driven by change in allowances for doubtful debts, obsolete and slow-moving inventory and other current assets in line with annual stock counts as well as reversal of provision for reconfiguration of production facilities in 2016.

Finance Costs

USD million	2017	2016	Change,%
Interest expense on borrowings net of amounts capitalized	386	403	(4%)
Unwinding of discount on provisions and payables	133	46	189%
Other	16	4	4x
Total	**535**	**453**	**18%**

Increase in finance costs by 18% y-o-y to USD 535 million was mainly driven by increase of Unwinding of discount on provisions and payables.

In 2017, the Company reduced the average cost of debt to the level of 4.6% as of year-end 2017 from 5.1% as of year-end 2016 due to the consistent implementation of financial policy targets that enabled to partially offset the multiple increase of base rates (Libor) in the current period.

Major factors of the decrease of the average cost of debt:

- Reduction of funding cost of more expensive Rouble denominated debt in credit portfolio by its substitution by Dollar denominated debt in 1H2017, together with the reduction of interest rate of the bilateral Rouble denominated credit line in the amount of RUB 60 billion in October 2017.
- Partial refinancing of more expensive bilateral credit lines by proceeds of 5-year syndicated facility in the amount of USD 2.5 billion under which Nornickel has achieved one of the lowest interest rates of Libor 1M+1.50% per annum available for Russian corporates on international syndicated market since 2008 for the transactions of such size and term. In addition, Nornickel managed to reduce interest rates under the rest Dollar denominated bilateral credit lines within the Group's portfolio.
- In July 2017, the Company reached an agreement with PJSC Sberbank to reduce interest rate under GRK Bystrinskoye LLC project financing by issuing guarantee on behalf of PJSC MMC Norilsk Nickel to secure performance obligations of GRK Bystrinskoye LLC.

Income Tax Expense

In 2017 income tax expense decreased by 3% to USD 719 million driven mostly by the decrease of taxable profit, partly offset by Russian rouble appreciation against US Dollar in 2017.

The effective income tax rate in 2017 of 25.3% was above the Russian statutory tax rate of 20%, which was primarily driven by non-deductible social expenses, as well as an increase in provisions for impairment of property, plant and equipment.

Income Tax Expense

USD million	2017	2016	Change,%
Current income tax expense	686	686	0%
Deferred tax expense	35	59	(41%)
Total	**721**	**745**	**(3%)**

The breakdown of the current income tax expense by tax jurisdictions

USD million	2017	2016	Change,%
Russian Federation	672	679	(1%)
Finland	8	5	60%
Rest of the world	6	2	3x
Total	**686**	**686**	**0%**