

# CHAIRMAN'S LETTER



## Dear Shareholders,

2018 was a very successful year for the Company. Positive dynamics of metal prices, together with robust operating performance, resulted in exceptionally strong financial results and shareholder returns.

Our revenue increased 28% to USD 11.7 billion, while EBITDA was up 56%, reaching USD 6.2 billion, the highest level achieved in the last seven years. Importantly, we delivered free cash flow of almost USD 5 billion, with an extraordinary revenue to free cash flow conversion ratio of over 40%. We decreased our working capital by over USD 1 billion and reduced our net leverage and this has allowed us to continue paying industry-leading dividends.

Sustainability of our financial performance would be impossible without our relentless focus on health, safety and environment. In 2018, we continued to take a systematic approach to identifying and eliminating unsafe practices in our workplaces. Lost-time injury frequency rate has dropped over 70% during the last five years and is running well below the industry average at the moment. We also achieved substantial progress in decreasing the number of accidents, although we are yet to meet our absolute target of a zero fatality rate across all assets.

We reiterate our commitment to radically decreasing our sulphur dioxide emissions in our smelting operations by more than four times in the Norilsk region by 2023, and by half in the northern Kola Peninsula by 2020. Last year we launched a large

reconstruction project for sulphur capturing at the Copper and Nadezhda Plants. We believe that our comprehensive environmental program, costing 2.5 billion dollars over the next four years, should pay off in the long term, as the majority of investors are becoming more environmentally conscious with the increasing use of ESG metrics in their investment strategies.

It has been almost six years since I became Chairman of the Board at Nornickel, during which time the company has transformed in line with new investment and business principles, and successfully converted these into concrete actions and plans. Those actions established a solid base able to withstand volatility and deliver superior returns, even against a negative macro-economic backdrop.

At the same time, the company has been able to create additional value for its shareholders outside of the current operating perimeter and started the transition to a production growth strategy. We estimate that the commodity markets will need more of our key metals in the long-term, and our proven operational model and vast resources in the ground can respond to these growing demands.

As you may know, we are considering the expansion outside of our current footprint via new projects such as South Cluster and Arctic Palladium. The Company is capable of executing large-scale projects, not only on the back of its existing asset base, but also "from scratch", as it demonstrated with the Bystrynsky copper project. We also see additional opportunities to create value through extending cooperation downstream in the value chain, especially within the battery materials sector. This cooperation should drive further improvements stemming from expected operational synergies. In addition, it should also support the strong, long-term balance for Class-1 nickel products and Nornickel's leading role in this rapidly growing market.

We are working to raise the bar through our digital transformation. Using a combination of existing technologies such as autonomous underground equipment, positioning systems and 3D mine planning, we are incorporating digital technology across our assets. Our goal for these digital applications – mine dispatching, metal accounting, better predictive maintenance planning, as well as the creation of an advanced data analytics centre – will enable our people to unlock their full potential through real-time, data-driven decisions.

The macro-economic situation in the world remains uncertain, but I believe that global megatrends support the future of the metals we produce. Our low-cost structure, focused on sustainable development and a disciplined approach to capital allocation, makes our Company a genuine forerunner in our industry and one of the best propositions for investors. At the same time, our belief in continuous improvement is more crucial than ever, in operations, of course, but as importantly, with regard to corporate social responsibility as well.

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**GARETH PETER PENNY**  
Chairman of the Board of Directors,  
MMC Norilsk Nickel

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