



PRESIDENT'S LETTER



Dear shareholders,

The Company ended 2018 having proudly achieved quite a few accomplishments. We successfully meet our commitments and would like to thank you for supporting the initiatives that help strengthen the Company's investment case and also promote better lives together with Nornickel. I would like to speak about our performance for the year and share our strategic plans, which, when implemented, will contribute to the Company's sustainable development as well as enhance shareholder value.

FINANCIAL HIGHLIGHTS

The year 2018 was marked by a favourable macro environment and a strong operating performance. The markets of almost all our core commodities except for platinum posted strong price gains, cost inflation was subdued as domestic inflation in Russia was low. Nornickel increased copper and palladium sales volumes by approximately 20% as well as realized tangible results from operating

cost savings due to the implementation of a long-term efficiency program, including digitalization projects. Nornickel also generated maiden EBITDA of almost USD 100 million from its newly commissioned Bystrinskoye copper project.

As result, in 2018, our top line surged 28% YoY to USD 11.7 bn, while EBITDA grew 56% to USD 6.2 bn reaching the highest level since 2011. With an EBITDA margin of 53% Nornickel became one of the most profitable global diversified mining companies in the 2018 reporting period.

As promised to our shareholders, we reduced net working capital by nearly USD 1.3 bn to less than USD 900 mln by the year-end. We consider this level quite sustainable in the medium-term. Capital expenditure reduced to USD 1.6 bn as a number of large capital-intensive projects such as downstream reconfiguration at the Polar Division and the construction of Bystrinsky GOK were completed in 2017.

We are pleased to report that 2018 was also a record year for free cash flow which reached almost USD 5 bn. The Company's leverage returned to mid-cycle average, with net debt/EBITDA ratio falling to 1.1x. Led by Moody's in January 2018, Nornickel was assigned "investment grade" by all three major rating agencies.

OCCUPATIONAL SAFETY AND ENVIRONMENT

Occupational health and safety as well as risk mitigation are among the Nornickel's top priorities. In 2018 we continued our strident efforts to enhance occupational health and safety at our facilities. As a result, the number of workplace injuries reduced from 60 to 32, bringing the lost time injury frequency rate (LTIFR) down from 0.44 to 0.23 which is significantly below the global industry average. Unfortunately, we could not completely avoid fatal injuries, however, their total dropped from 8 to 6. We will continue to make every effort to achieve a zero fatality rate.

Nornickel reiterated its commitment to significantly improve the environmental impact in the regions of operation. Nornickel's main focus is to drastically cut sulphur dioxide emissions at the Russian sites by 2023, by a factor of four at Norilsk and by half within the city of Nikel on the border with Norway. The completed first stage of our environmental programme has already helped reduce sulphur dioxide emissions by 11% at Polar Division and by approximately 30% on the Kola Peninsula, while emissions within Norilsk's residential area shrank by 30–35%. In September 2018, the Company announced the start of the second stage of the environmental programme and launched the upgrade of sulphur production at Copper Plant. The second stage will also centre around the construction of facilities for capturing sulphur dioxide and neutralising sulphuric acid at Nadezhda Metallurgical Plant along with the upgrade of smelting operations at Copper Plant.

SOCIAL RESPONSIBILITY

Constant improvements in the quality of life of the Company's employees and their family members is another cornerstone of our corporate strategy. Last year, we continued our programmes to provide the Nornickel's employees with housing in Russia's mild climate regions along with encouraging the World of New Opportunities public initiatives.

Our support for sports is becoming more consistent. It is not limited to the financing of occasional sports events, as Nornickel strives to develop a more comprehensive approach by investing in sports facilities, new schools, sports grounds and mass events promoting sports and healthy lifestyles. I would also like to highlight our sponsorship of the XXIX Winter Universiade in Krasnoyarsk.

STRATEGIC PRIORITIES AND INVESTMENTS

A strong performance in 2018 and a favourable macroeconomic backdrop allow us to confidently plan and commit to continued investments in sustainable development. We have started on the second stage of our ambitious environmental programme and have launched projects to upgrade infrastructure. At the end of last year, we announced our strategic goals for 2025+ to increase the production of non-ferrous metals by 15% and platinum group metals by 25%. This will be driven by greater mining volumes at the existing mines of the Talnakhskoye Deposit and the development of the Southern Cluster along with the third stage of Talnakh Concentrator expansion project. Investment decisions on these projects are expected to be made in late 2019.

In addition, as the largest global producer of high-grade nickel, we have every chance to take leadership as a supplier of materials for the fast-growing electric car battery manufacturing industry. Our capital investment over the immediate four-year period from 2019 to 2022 will be USD 10.5–11.5 bn, with USD 1.3–1.5 bn to be spent on promising growth projects, such as the Southern Cluster and capacity expansion of the Talnakh Concentrator. On a separate note, our investment programme is fully in line with the programme of Russia's strategic development, and our projects for improving the environment and digitalising the regions that host our operational footprint have already become national.

Despite the ambitious capital investment programme, we keep paying our shareholders dividends on a regular basis. We are confident that Nornickel will remain the global mining industry's leader in terms of total shareholder return and reiterate our focus on sustainable shareholder value generation by developing Nornickel's Tier I assets.

VLADIMIR POTANIN
 President,
 Chairman of the Management Board
 MMC Norilsk Nickel

