

CHAIRMAN'S LETTER



“ Dear Shareholders,

In 2016, our business continued to face challenges posed by metal prices softness and currency volatility on the back of weaker growth expectations. Yet, at Nornickel, these demanding conditions have confirmed that the things we do control – such as development of Tier I assets, prudent capital allocation and cost controls – have not only helped us to deal with those challenges, but to strengthen our business model and position us as the industry leader for the years ahead.

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Gareth Penny

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Chairman of the Board of Directors
PJSC "MMC "Norilsk Nickel"

Despite macroeconomic challenges that put some pressure on our financial position, we did not lose sight of our objectives. In fact we accelerated our strategic transformation and delivered a number of notable accomplishments by investing USD 1.7 billion in our business during the year. We launched the upgraded Talnakh concentrator with expanded capacity and completed most projects related to the modernisation of Nadezhda smelter. More importantly, we closed the Nickel Plant in Norilsk. The shutdown of this outdated and pollutive facility is one of the key milestones of a large-scale downstream reconfiguration programme, which had put a strong emphasis on improving the Company's environmental footprint. We also continued the development of our highly profitable brownfield upstream projects in the Polar Division, as well as the Bystrinsky copper-gold project in Russia's Siberia.

Throughout 2016, our Board and management team acted on several fronts to ensure that Nornickel would not only address current macroeconomic challenges, but also have the foundation for continued success regardless of external conditions. We continued the implementation of the cost reduction programme announced in 2015 and managed to deliver good financial results. Despite low metal prices and appreciating local currency, we delivered EBITDA of USD 3.9 billion posting an industry-leading margin of 47%.

As many of you know, competitive dividend has been the Company's priority for the last four years and is still one of the pillars of Nornickel's equity story. Following this pattern, we paid an interim dividend for nine months of 2016 in the amount of USD 7.4 per share, and the Board recommends to pay additional USD 7.8 per share as the final dividend for the year 2016. At the same time, maintaining a sound balance sheet and sustaining

investment-grade credit rating is also of critical importance for us. As a result, in April 2016 the Board of Directors decided to amend the dividend policy of the Company by pegging the dividend payout ratio to the net leverage. That decision came amidst an unprecedented plunge in metal prices and is designed to ensure both sustainable dividend yield and a well-protected balance sheet.

We are continuing to take a systematic approach to identify and eliminate unsafe practices in our workplaces. In 2016, we continued to enhance our serious injury and fatality prevention programmes, started the implementation of the new Risk Control programme, updated a number of related corporate standards and rolled them out to all subsidiaries. We also started an independent audit of our occupational safety practices and managerial competences in order to assess the changes we implemented in the last three years. We believe that developing strong safety leaders is also paramount and conducted HSE training for over 300 managers and 4,000 new employees.

Turning the page to 2017, market visibility remains limited. In the second half of the year the situation on global commodity markets has stabilised and even improved, but remains fragile. Despite this uncertainty, I want to assure you that our company is well positioned to succeed. Our low-cost structure and disciplined approach to capital allocation make Nornickel resilient to macroeconomic headwinds and, thus, one of the best positioned investors in the metals and mining sector.

We continue to build on our long legacy of industrial leadership and core values – reliability, responsibility, efficiency, professional excellence and teamwork – to create a future of sustainable value creation over the long term.