

# PRESIDENT'S LETTER



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**Dear shareholders,**

The year 2016 is now over, and its results fully confirm the advantages of Nor Nickel's business model and the Company's capability to demonstrate solid operating and financial performance amid a challenging economic environment. By closely following the strategy, practising responsible investments and harmonising the work of all employees, we were able to make our Company stronger, more efficient and safer.

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The past year was notable for extremely volatile metal prices and exchange rates. Sluggish global economic growth and political uncertainty greatly affected financial and commodity markets, significantly complicating key investment and management decisions. Back in early 2016, prices for nickel, copper and platinum group metals dropped to multi-year lows, while in the second half of the year, fiscal stimulus in China and monetary easing pursued by major central banks stoked a strong rally in commodities and a return of upbeat sentiment to the industry.

However, it would be premature to talk about stable growth, so during 2016, we stayed on the course that we took four years ago, reducing production costs and sticking to the budget in implementing the investment programme.

Furthermore, given the continuing uncertainty in global markets, we believe that we should balance long-term capital expenditure, dividend yield and leverage. This is why the Board of Directors decided to adjust our dividend targets, linking the level of annual payments to the leverage. This should ensure that, on the one hand, all shareholders receive a stable dividend income, and on the other hand, Nor Nickel maintains a strong financial position.

In spite of the challenging macroeconomic environment, Nor Nickel kept the pace of downstream reconfiguration and successfully implemented key investment projects. The modernization programme announced in 2014 reached its most active phase last year.

In May, the Company commissioned Stage 2 of Talnakh Concentrator and completed most of the upgrade at Nadezhda Metallurgical Plant. In August, we shut down Nickel Plant ahead of schedule, with all converter matte from Polar Division now sent for further processing to Kola MMC and Finland. Going forward, this development will enable the Company to avoid using third-party feedstock and thus boost production profitability.

We are well aware that the Company's financial performance is directly dependent on its employees, and therefore their health and safety are absolute priorities for us. We have yet to achieve the zero target in this area, stepping up measures to prevent accidents and workplace injuries. In 2016, we implemented a corporate health and safety change management standard, conducted a series of specialised training sessions for managers and young workers, and developed a programme that encourages staff to implement new approaches to occupational health and safety.

At the same time, we understand that today a well qualified employee places high demands not only on wages and workplace safety, but also on the standard of living in general. Therefore, we continued to invest in infrastructure such as broadband internet, the Norilsk airport, sports and recreation facilities. For a better life in the Polar Division, the key objective is to materially improve the environmental conditions. Last year, we took first yet important steps in this direction: Nickel Plant was shut down in August, with Polar Division's air emissions from nickel smelting now coming only from Nadezhda Metallurgical Plant, a facility much farther away from Norilsk residential areas. The comprehensive environmental programme will culminate in the Sulphur Project, which is already underway.

On a separate note, closing down Nickel Plant, quite a large industrial facility, we reallocated some 1,600 people to other assets within the Group, with 1,000 of them re-trained for other jobs.

Record low global prices for our products could not but affect our financial performance. Specifically, Nornickel's revenue decreased to USD 8.3 bn in 2016, with lower nickel and copper prices partially offset by sales of metal from the stocks accumulated in 2015.

EBITDA came in at USD 3.9 bn, while EBITDA margin stood at 47%. The Company's outstanding financial performance was attributed to by favourable exchange rates movement, efforts to control operating cost inflation and the sale of foreign and non-core assets.

Capital expenditure increased to USD 1.7 bn, matching our guidance from Strategy Day. The investments were focused on highly profitable mining projects, the completion of Stage 2 of the Talnakh Concentrator upgrade project, Polar Division's and Kola MMC's smelting and refining capacities, and the transition to the final phase of the Bystrinsky Mining and Processing Plant construction project.

Since net debt to EBITDA remained conservative at 1.2x at the end of 2016, in line with the revised dividend targets we provided a high dividend yield to our shareholders. Including interim dividend already paid, the Company is to distribute approximately USD 2.3 bn for the full year 2016.

Finally, in line with our strategy, we continued to mitigate risks to the execution of the Bystrinsky project. First, we signed a USD 800 m credit line agreement under project financing terms with Sberbank CIB. Second, in addition to selling a 10.67% stake in the project to China's Highland Fund, we have recently announced the sale of a 39% stake to CIS Natural Resources Fund, a consortium of Russian investors.

Today, we lay the foundation for a long-term development programme until 2023 designed to thoroughly upgrade all production capacities and, ultimately, make Nornickel one of the most advanced and environmentally responsible companies in the industry.

Closing down Nickel Plant, we reallocated to other assets approximately

**1,600**  
employees

Re-trained for other jobs were

**1,000**  
employees

EBITDA margin for 2016 amounted to

**47%**

**Vladimir Potanin**  
President,  
Chairman of the Management Board  
PJSC "MMC "Norilsk Nickel"