

President's Letter



Dear Shareholders,

In 2015, Norilsk Nickel celebrated its 80th anniversary, and I am proud to say that the Company has been leading the global metals and mining sector for all these years.

Strategic Priorities in an Unstable Macroeconomic Environment

The beginning of 2016 brought more challenges to our industry. Nickel prices fell below the crisis level of 2008, with about 60% of producers operating in the red. Copper and PGM prices also plummeted amid anxiety over China's economic prospects and the dramatic strengthening of the US dollar against national currencies of commodity exporters. Today, we see many industry players that up to now have been nurturing expansion plans being forced to cut down on their CAPEX, dispose of their assets, and restructure a huge debt accumulated during the commodity supercycle.

In that context our strategic initiatives focusing on the development of Tier 1 assets, monetisation of non-core assets, and a disciplined investment approach have proved to be very well timed. Thanks to our efforts over the last three years, Norilsk Nickel can now boast high margins, low leverage and a very attractive dividend yield. It is due to these achievements that, despite the distinctly bearish sentiment in the mining industry, the Company ranked third by market capitalisation among its global competitors at the end of 2015.

Yet, we are not going to stop there and will keep working towards the strategic goals we have set. We cannot disregard negative trends in the global economy which urge us to keep a close watch on the developments in the metals market and adjust our investment programme accordingly. I am however convinced that we should not choose tactics over strategy. We will remain focused on the projects that are set to secure our future while delivering strong returns even in the current pricing environment.

Safety, Environment and Social Responsibility

Despite the challenging macroeconomic conditions and a downturn in global commodity markets, we remain committed to our social and environmental responsibilities. We intend to continue indexing our production staff salaries in full compliance with the Collective Bargaining Agreement and keep the existing social and charity initiatives running. We will also carry on with our resettlement and urban infrastructure development programmes in Norilsk implemented jointly with the federal and regional authorities.

One of our key environmental projects is the shutdown of Nickel Plant in Norilsk, which is a major source of air pollution within the urban limits. I am glad to announce that the plant will be closed in 2016 as scheduled. Its shutdown will undoubtedly improve the residents' life quality.

Despite the management team's continuous drive to improve our employees' health and safety, there were thirteen fatal injuries in 2015. Each injury is being carefully investigated to prevent accidents in the future. Complete elimination of fatalities remains our key strategic priority.

Financial Highlights

A significant drop in metal prices and the build-up of a finished goods inventory in the run-up to Nickel Plant's shutdown had a negative impact on our revenue which amounted to USD 8.5 bn. This negative impact was however largely offset by the stronger US dollar and the management team's drive to reduce operating and administrative costs. EBITDA (earnings before interest, taxes, depreciation and amortisation) stood at USD 4.3 bn, with the sector's highest margin of 50%.

In line with our philosophy of sharing profits with our shareholders, we continued to pay out dividends throughout the entire 2015. As we consider a stable dividend yield a cornerstone of Norilsk Nickel's investment case, we will keep on paying dividends in the future.

Despite robust dividend payouts and a large-scale CAPEX programme, we maintain a moderate leverage ratio. As at the end of 2015, net debt to EBITDA ratio stood at 1x, one of the industry's lowest levels.

Overall, we ensured a tight control over our operating expenses and the efficient implementation of our CAPEX programme in 2015. We are carefully

monitoring the global markets, and we launched a number of initiatives to reduce operating costs following an unprecedented drop in metal prices over the last few months. These initiatives are expected to deliver RUB 12 bn worth of savings.

On top of that, 2015 saw us enter into a number of genuinely breakthrough debt capital market transactions. In October 2015, Norilsk Nickel successfully completed its landmark offering of seven-year Eurobonds worth some USD 1 bn among high-quality international investors, becoming the first Russian company to regain access to the public debt market after a two-year break. Another pioneer transaction was a five-year CNY 4.8 bn loan agreement with a syndicate of China's three largest banks, which we view as the first step towards closer cooperation with Asian financial institutions.

Progress in the Upgrade of Production Capacities

I would like to emphasise that despite the very challenging macroeconomic environment in which we operate, our programme to reconfigure production capacities is being implemented strictly in line with the approved schedule and budget.

In 2016, we plan to commission Stage 2 of the upgraded Talnakh Concentrator, which will boost its output from 7.5 mt to 10 mt of ore and improve the quality of produced concentrates.

We have also completed the reconstruction of Nadezhda Metallurgical Plant, ramping up its capacities by 25%. After the Nickel Plant shutdown, all nickel converter matte production capacities will be clustered around a single smelting facility. This will help us reduce our operating costs, on the one hand, and bring environmental benefits to Norilsk, on the other.

We are actively engaged in upgrading Kola MMC's refining capacities. Following its completion, we will switch over to the chlorine leaching technology, which will lead to a much simpler and cheaper production process.

Overall, our near-term investment projects will be fully in line with the approved strategy of Norilsk Nickel delivering one of the industry's highest business project returns even in the current pricing environment.

In conclusion, I would like to emphasise that throughout the entire year we were committed to fulfilling our promises and obligations to all stakeholders, including our people, shareholders and the Russian government. All along, we are going to carry on with the plans that will secure Norilsk Nickel's success going forward.

President MMC Norilsk Nickel

VLADIMIR POTANIN