

PRESIDENT'S LETTER



DEAR SHAREHOLDERS,

2019 was for us a year of phenomenal achievements. Once again, we have shown the investor community the strengths of our business model and our ability to reach ambitious goals. We have been able to significantly increase the value of our business and pay industry-leading shareholder returns through the consistent delivery of our strategy, whose success has been supported by higher metal prices.

Financial highlights

Last year, we ramped up the output of all key metals, breaking a record in the process by producing almost half a million tonnes of copper. Strong operational performance and higher prices for nickel and palladium have contributed to a boost in revenue of 16% to USD

13.6 bn. Furthermore, our successful operational efficiency programme and rigorous cost management have helped us reduce our unit costs by almost 5%. As a result, our EBITDA grew by 27% to USD 7.9 bn while the EBITDA margin reached 58%. We have also seen our net profit increase by almost 2 times to USD 6 bn while free cash flow reached an impressive USD 5 bn for the second year running.

Finally, our leverage remained low, with Net Debt to EBITDA reduced to 0.9. We believe that a conservative approach to debt is central to maintaining our financial stability, which is particularly relevant amidst macroeconomic uncertainty.

Strategic priorities and investments

Last year, Nornickel came to the end of its five-year strategic cycle, which was primarily aimed at reconfiguring and upgrading its downstream facilities, and provided a secure foothold for further business growth. It is now time to take the next move to reach for even more ambitious objectives, and on this note, I would like to discuss in more detail the ten-year strategic programme that we have designed.

We have fundamentally improved our knowledge of our immense resource base to allow for a smooth transition to longer-term planning. In the Taimyr Peninsula, with its ore reserves of more than 2 billion tonnes, we intend to ramp up our production by 75%, or up to 30 Mtpa. In doing so, our output of key metals is expected to rise considerably by 2030: nickel by 15%–25% to 240–260 ktpa, copper by 20%–30% to 480–520 ktpa, and platinum group metals (PGMs) by 30%–45% to 140–150 ktpa.

These strategic plans assume that we will successfully complete the already-sanctioned South Cluster project, brownfield expansion projects at the Talnakh mines, upgrades and debottlenecking of our concentration and metallurgical facilities.

Backed by our unique metal basket and world-leading exposure to mining assets, we are perfectly positioned to support the global transition to green mobility. The rise of hybrid and electric vehicles, and the tightening of regulations on exhaust emissions across the globe are two megatrends that are expected to considerably boost the demand for our products in the coming years.

By 2030, we will be able to supply enough PGMs to the global market to produce 25–40 mln autocatalysts, in turn leading to a 170–270 mln t reduction in air pollutants. In addition, we believe that we will be able to supply enough high-grade nickel to produce 3.5–5.5 mln EV battery packs, which will reduce global GHG emissions by 50–100 mln t. We are confident that Nornickel will play a crucial role in helping the global economy, and above all transport, go green.

For this very reason, we believe that our own assets should also be green. Last year, we adopted the new comprehensive environmental protection programme, conventionally called “Sulphur Programme 2.0”. The programme is expected to reduce emissions by 90% by 2025 for the Polar Division, and by 85% as early as 2021 for Kola MMC.

Accordingly, our growth strategy and environmental projects will require significant investment, which can be broken down into three phases. During the first, active construction phase, management expects a gradual increase in investment from USD 2.2–2.5 bn in 2020. During the second phase (from 2022 to 2025), the annual investment is to reach its peak of USD 3.5–4 bn. During the third phase (from 2026 to 2030), our capital expenditures are expected to return to their historical annual average of about USD 2 bn.

Health and safety

Our top priorities are to ensure employee safety and mitigate the risk of work-related injuries. In 2019, we continued our unwavering efforts to enhance occupational health at our facilities. We have maintained our lost time injury frequency rate (LTIFR) at a level significantly below the global industry average. Despite this, it is with deep regret that I must inform you that nine of our colleagues lost their lives at the workplace during the last year. I offer my sincere condolences to their families, and I believe statistics like these are simply unacceptable. We are sparing no effort to achieve our priority goal of zero work-related fatalities at our facilities.

Social responsibility

Sustainability and social responsibility are not just hollow buzzwords for Nornickel: we have been and will continue to be an investor in social infrastructure and human capital.

In 2019, Nornickel and the Russian Government continued their joint implementation of a long-term target programme to relocate people from Norilsk and Dudinka (Krasnoyarsk Region) to other Russian regions with a better climate. Under the programme, 7,586 families moved into new homes on the “mainland” between 2011 and 2019.

We are actively involved in the construction and renovation of social infrastructure across our footprint, with the aim of creating inclusive and people-friendly work and living spaces.

On a final note, I would like to highlight that our 2019 performance has provided ample evidence that we are on the right strategic track. I would like to give my thanks to all those who have contributed to our success, and express my confidence that together we can deliver on all our long-term goals.

Vladimir Potanin

President,
Chairman of the Management Board
MMC Norilsk Nickel