

RISK MANAGEMENT

Nornickel continuously manages risks that can affect its strategic and operational goals.

This process comprises the following stages:

- Identification of risks that have external and/or internal sources
- Risk assessment based on their impact on key financial and non-financial metrics
- Development and implementation of measures to prevent risks and/or minimise their implications

Nornickel pursues the following key risk management objectives:

- Increase the likelihood of achieving the Group's goals
- Improve resource allocation
- Boost Nornickel's investment case and shareholder value

The risk management framework is based on the principles and requirements set out in Russian and international laws, as well as professional standards, including the Corporate Governance Code recommended by the Bank of Russia, GOST R ISO 31000–2019 Risk Management. Principles and Guidelines, and COSO ERM Enterprise Risk Management – Integrating with Strategy and Performance.

To manage production and infrastructure risks, Nornickel develops, approves and updates business continuity plans which in case of emergency consecutively set out:

1. a procedure for interaction between business units in rescuing people, minimising property damage, and ensuring process sustainability
2. a current operations support or resumption plan
3. a restoration or retrofit plan for affected assets.

In 2020, Nornickel improved its risk management framework as follows:

- The President-led Risk Management Committee was set up under the Management Board, along with a number of dedicated function-level risk management committees. The roles of the Risk Management Committee under the Management Board are focused on improving and developing the corporate risk management framework
- A project to automate the risk management system based on a GRC solution was moved into the implementation phase. The solution's functionality includes defining key risk indicators
- Risk trainings for Group employees were offered on a regular basis
- In order to update the development roadmap, a self-diagnostic and an external maturity assessment were carried out to assess

the compliance of the corporate risk management framework and risk management within certain business areas with global best practices

- Quantitative risk assessments for investment projects were regularly reviewed at Nornickel's investment committees to enable risk-based decision making
- As part of rolling out the approach implying the use of simulation modeling for investment project risk assessment, the aggregate impact of the risks related to key investment projects on the Company's financial and physical performance was assessed (the assessment took into account the opportunities related to each of the investment projects)
- A dedicated inspectorate was set up within the Internal Control and Risk Management vertical to monitor technical and production risks as well as environmental risks. It will focus on improving the processes of identifying, analysing and assessing technical, production and environmental risks
- A scenario-based assessment was carried out for investment projects to assess risk impacts, including the impact of the COVID-19 spread
- A number of tasks were accomplished as part of developing scoring assessment methods for certain categories of technical and production risks



In line with risk management framework improvement plans for 2021 and beyond, the following areas have been prioritised:

- Development of a target quantitative model for assessing equipment failure risks at Kola MMC, including the development of an IT system to monitor buildings and structures within the Norilsk Division, ensuring automated risk management and prevention
- Regular self-diagnostic of the risk management framework’s performance and its assessment for compliance with global best practices
- Improvement of risk management practices in strategic and operational planning
- Improvement of the approach implying the use of simulation modelling for investment project risk assessment
- Enhancement of the methodology to analyse and manage various categories of technical and production risks
- Development of a methodology for capturing a range of climate-related risk factors
- Analysis of risks within Nornickel’s logistics and operations supply chain
- Implementation of a project to automate the risk management process based on a GRC solution

Risk management framework

BOARD OF DIRECTORS
AUDIT AND SUSTAINABLE DEVELOPMENT COMMITTEE OF THE BOARD OF DIRECTORS

Key roles

- Approves the Corporate Risk Management Policy
- Supervises the building of the risk management system
- Prepares the Corporate Appetite Statement (annually)
- Manages strategic risks on an ongoing basis
- Reviews and approves the risk management development roadmap and assesses its implementation status (annually)
- Reviews report on strategic and key risks (annually/quarterly)
- Assesses risk management performance at Nornickel (annually)

MANAGEMENT BOARD
RISK MANAGEMENT COMMITTEE UNDER THE MANAGEMENT BOARD

Key roles

- Reviews strategic risks and reports on key risks
- Reviews materialised risks and lessons learned
- Reviews risk appetite metrics
- Makes decisions related to key risk management
- Reviews business continuity plans
- Reviews the strategy and development plans for the Corporate Risk Management Framework (CRMF) and Internal Control System (ICS)
- Reviews the performance of dedicated risk management committees within business verticals

RISK MANAGEMENT SERVICE

Key roles

- Develops and updates the risk management methodology
- Prepares report on Nornickel’s Top 20 risks (annually)
- Prepares report on strategic risks (annually)
- Enhances quantitative risk assessment using simulation modelling tools
- Improves the business continuity management system
- Ensures employee development and training in practical approaches to risk management

RISK OWNERS
HEADS OF BUSINESS UNITS

Key roles

- Day-to-day risk management within the integrated risk management model
- Risk-based decision making

INTERNAL AUDIT

Key roles

- Makes independent assessments of the effectiveness of risk management, internal control and corporate governance (annually)

NEW EMERGING RISKS

Nornickel's new emerging risks typically have external sources. It is hard to identify these risks and mitigate their negative impact due to the lack of predictive information. Management of new emerging risks is critical to fostering Nornickel's long-term sustainability and maintaining the Company's competitive edge in the metals market. Nornickel assesses new emerging risks and manages them based on their potential implications while considering how fast they can materialise, as well as the Company's actual capabilities to prevent and/or curb their impact.

A team of internal risk champions identifies and monitors new emerging risks, ensuring the preliminary identification and assessment of risks related to all activities of Nornickel. Once the severity of a new emerging risk is assessed and mitigation measures are identified, risk owners become responsible for managing the risk.

New emerging risks are assessed on a regular basis, including their reassessment and evaluation of their criticality to Nornickel, with an emphasis on preventing risk occurrence and mitigating potential negative implications. Controls used by Nornickel include the implementation of business continuity plans to manage external risks that can have a disastrous impact on Nornickel's operations and business processes. These controls increase Nornickel's resilience to external shocks.

In 2020, Nornickel completed a project to improve its approach to managing strategic risks that could affect its long-term performance. Trend analysis tools and questionnaires targeting a wide range of management-level respondents were used to identify, assess and prioritise risks. The results of these efforts were discussed by the Risk Management Committee under Nornickel's Management

Board and the Audit and Sustainable Development Committee. Nornickel sees the following groups of risks as its key risks: aggressive expansion of the Company's investment programme, the aging of its production assets, and the mismatch between skills supply in the labour market and the Company's needs in the context of advances in new technology and digitalisation.

INSURANCE

Insurance is an essential tool used to manage risks while protecting the property interests of Nornickel and its shareholders against any unforeseen losses related to operations, including due to external effects.

Nornickel has centralised its insurance function to ensure the consistent implementation of its uniform insurance policy and standards. Nornickel annually approves a comprehensive programme that defines key parameters by insurance type, key business area

and project. Nornickel has implemented a corporate insurance programme that covers assets, equipment failures and business interruptions across the Group. Nornickel maintains corporate insurance policies with major Russian insurers under the corporate insurance programme, involving an international broker to ensure that Nornickel's risks are underwritten by highly reputable international re-insurers.

Nornickel's freight, construction and installation, aircraft and watercraft insurance programmes are also based on the principle of centralisation. The Group's entities, directors and officers carry relevant liability insurance. Nornickel applies industry best practice and takes into account insurance market trends to negotiate the best insurance and insured risk management terms.

CLIMATE RISKS

Repercussions of climate change, including abnormal weather or lasting changes in weather patterns, may affect Nornickel's operations in the longer run. Physical consequences of climate change can include soil thawing, changes in water levels in water bodies, precipitation amounts and wind loads, which can have a material adverse effect on Nornickel's operations. As part of its risk management strategy, Nornickel implements a full range of measures to monitor and control these risks, including the introduction of a system to monitor buildings and structures in the Norilsk Industrial District. The measures taken by Nornickel to mitigate these risks are outlined in the Key Risks section.

bodies review risk information on a quarterly basis, including on risks associated with climate change.

Nornickel's plans for 2021 and beyond include the implementation of a unit- and asset-level climate change risk management strategy. Nornickel intends to collaborate with the scientific community to launch a comprehensive study of factors affecting climate in the Norilsk Industrial District; to work out proposals to expand and upgrade the climate monitoring system in the Norilsk Industrial District; to identify key initiatives to mitigate climate change risks; to improve energy efficiency and keep CO2 emissions within its stated GHG emission targets; and to develop a relevant capex plan and determine capex project timelines.

The Company also plans to develop a list of measures to ensure compliance with TCFD¹ standards.






IMPACT OF CLIMATE RISKS ON PRODUCT PORTFOLIO

Climate-related risks may offer additional opportunities for Nornickel driven by the changing structure of demand for metals required in a future low-carbon economy. Nornickel has recently assessed climate change risks based on the International Energy Agency's Sustainable Development Scenario envisaging the temperature rise in 2100 limited to 1.5 °C. In general, Nornickel expects a positive impact on its product portfolio under this scenario, driven by the development of the electric vehicle sector: a neutral impact on PGMs and a positive impact on base metals.

CLIMATE RISK MANAGEMENT

Climate risk management is part of the corporate risk management framework. Nornickel's governance

Decarbonisation of the global economy: risk assessment for Nornickel's metals

2040	Ni	PGMs	Cu
 Growth of market share of BEVs	↗	↘	↗
 Growth of hybrids	↗	↗	↗
 Fuel cells	→	↗	→
 Growth of renewables/low carbon fuel in power generation	↗	↗	↗
 Storage and grid expansion to support growth of xEVs	↗	→	↗
Net impact	↗	→	↗

¹ The Task Force on Climate-related Financial Disclosures



MAP OF NORNICHEL'S MATERIAL RISKS WITH YEAR-ON-YEAR CHANGE IN 2020

A high-level map of Nornickel's material risks reflects global best practices in risk management. The risk map ranks material risks by their impact on the Group's goals and by source.

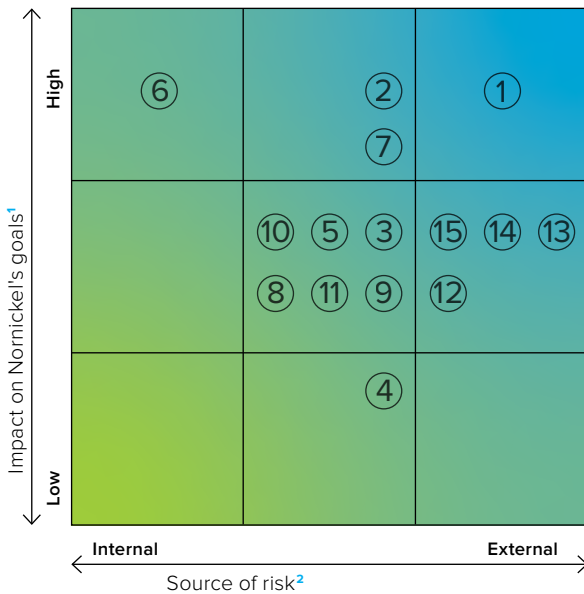
In 2020, a technical and production risk occurrence was recorded – the destruction of above-ground emergency diesel fuel storage tank No. 5 at CHPP-3. Risk assessment had been carried out at CHPP-3 facilities including storage tank No. 5 on a regular basis. The storage tank destruction risk had been identified, with its probability assessed as low. The risk assessment relied on a number of documents prepared

by experts (including the conclusions presented in the industrial safety review and declaration prepared by an expert organisation and registered with the Federal Environmental, Industrial and Nuclear Supervision Service (Rostekhnadzor)), as well as NTEK's internal regulations on risk management.

An investigation into the incident suggested that its main causes included an increase in permafrost temperature and the fact that some of the piles were not installed into hard rock, as required by the design. In addition to a thorough reassessment of the risks associated with hazardous production facilities and an increase

in the scope of the energy infrastructure upgrades programme, a range of measures were identified, including the implementation of a project to create an IT system for geotechnical and satellite monitoring of the Company's facilities located within the permafrost zone.

RISK MAP



Risk

1. Price risk (decline in market prices for Nornickel metals) ⊖
2. Market risk (lower competitiveness of Nornickel products) ⊖
3. Tighter environmental regulations ⊖
4. FX risk ⊖
5. Investment risk ⊖
6. Work-related injury risk ⊖
7. Information security risk ⊖
8. Technical and production risk³ ⊖
9. Power outages at production and social facilities in the Norilsk Industrial District ⊖
10. Compliance risk ⊖
11. Social risk ⊖
12. Changes in legislation law-enforcement ⊖
13. Lack of water resources ⊖
14. Permafrost thawing ⊖
15. Risk of epidemics⁴ ↗

- ↗ Risk increased year-on-year.
- ↘ Risk decreased year-on-year.
- ⊖ Risk has not changed year-on-year

¹ Risk an impact of uncertainty on the goals (ISO / GOST P 31000).
² Source of risk: an element which, alone or in combination with other elements, may cause a risk (ISO / GOST P 31000).
³ The information on the risk occurrence is disclosed in the Annual Report.
⁴ The description of the risk is provided in the Annual Report.