

PRESIDENT'S LETTER



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The concerted work of our seventy-thousand-strong team successfully brought us through all the hardships to achieve robust operational and financial performance for the year.

Vladimir Potanin

President,
Chairman of the Management Board
MMC Norilsk Nickel



Dear shareholders

In 2020, we faced a number of unprecedented challenges, and to overcome them, we needed the utmost effort of all our employees

COVID-19 response

The COVID-19 pandemic did not only lead to an unprecedented global economic downturn and, consequently, a significant drop in demand for our products, but it also put a huge strain on our operating model, our employees, their families and all local communities within Nornickel's footprint.

To protect our employees and ensure business continuity, special task forces were set up that supported the uninterrupted operation of our production, transport and sales assets.

In addition, we provided all-encompassing support to local authorities, healthcare authorities, SMEs and vulnerable groups, providing a much-needed lifeline to our local communities at the height of the pandemic.

Our total 2020 COVID response spending was USD 157 million, and this year we will certainly continue to support our people and local communities until we get to the other side of the pandemic.

A strategic focus on sustainability

In the end of May 2020, we experienced a major environmental incident related to the leak of diesel fuel in the Norilsk Industrial District. The Company immediately launched a comprehensive cleanup operation, with its main phase completed by the end of 2020. We are currently looking into the most effective approaches to restore the damaged ecosystem in close cooperation with all stakeholders. With our support, the Russian Academy of Sciences organised the Great Norilsk Expedition, whose primary goal is to find effective solutions for restoring the area after the incident, as well as to develop recommendations for minimising the overall impact of industry on the Arctic environment. We plan to use the expedition's findings in our programme to restore the damaged environment.

The Company has drawn an important lesson from this incident and dramatically reviewed its approach to environmental risk management. We have decided to combine isolated environmental initiatives into a comprehensive, group-wide environmental strategy, covering improvements to air quality, water stewardship, biodiversity restoration, climate change, tailings management and the remediation of historically polluted areas. Most importantly, we have also set specific targets and earmarked a budget

for each of these areas. We plan to invest around USD 5.5 billion over the next ten years to implement this strategy, which is a record-high amount for the Russian mining and metals industry.

I would also like to emphasise that in December 2020 we discontinued smelting operations in Nickel in the Kola Peninsula, as part of a comprehensive environmental programme to achieve zero emissions in the Russia–Norway border area. Along with other initiatives, this will enable an 85% reduction of sulphur dioxide emissions in the Murmansk Region by the end of 2021.

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Financial highlights

We delivered strong financial results in 2020. Our revenue increased 15% to USD 15.5 billion, driven by higher prices of palladium and rhodium, and the ramp up of the Bystrinsky project. EBITDA was down 3% to USD 7.7 billion, primarily due to a large environmental provision related to the damage caused by the fuel spill, COVID-related expenses and the temporary build-up of metal inventories.

Capital expenditures increased by 33% year-on-year to USD 1.8 billion, driven by the Talnakh ore cluster, the development of the South Cluster project, more widespread energy infrastructure overhauls, investments in industrial safety, as well as the start of the active construction phase of the Sulphur Programme.

Free cash flow increased 36% to USD 6.6 billion, an all-time high for the Company.

Our net debt decreased more than 30%, with the net debt/EBITDA ratio falling to 0.6x. We maintained a sharp focus on refinancing our debt portfolio, which enabled us to significantly reduce the average cost of debt servicing by changing in conditions increasing the limit under the USD 4.150 billion syndicated loan, and by issuing USD 500 million in Eurobonds on terms that are extremely attractive for the Company. The Company's stable financial position is confirmed by investment-grade ratings from the Big Three credit rating agencies.

Transition to the active phase of the investment cycle

To implement our growth strategy and new environmental projects, our team has updated the Company's long-term CAPEX plan. Total investments for the next 10 years are scheduled to exceed USD 27 billion. In addition to our comprehensive environmental programme, investing in the development of our mining

capacities will become a key element of our strategy. For example, we plan to increase ore production in the Norilsk Industrial District from the current 17–18 mtpa to 30–32 mtpa by developing the South Cluster and Talnakh mines. Ramping up ore output will require an expansion of processing capacities and, therefore, we have also started investing in the development of the Talnakh Concentrator, as well as in the construction of a third furnace at Nadezhda Metallurgical Plant and a new copper refining facility at Kola MMC. Over the next five years, CAPEX in fuel and energy assets, including health and safety initiatives, will amount to more than USD 4 billion, which should allow for an upgrade of over 60% of all Nornickel's energy infrastructure by 2030.

In order to efficiently execute on its ambitious strategy for upgrading and increasing the reliability of its assets, Nornickel has transitioned to a division-based governance structure, whereby production assets

gain greater investment flexibility, without compromising the strategic and expert functions of the corporate centre. In addition, the Company is developing additional infrastructure for contractors and expanding the pool of construction companies that can operate in the region to address the shortage of contractors.

Social responsibility

In line with our strategic priority for sustainability, we significantly stepped up social spending in 2020.

Apart from helping to control the spread of COVID-19 among our employees and local communities, we have implemented a number of equally important social initiatives, which I would like to discuss separately.

Upon discontinuing the smelting operations in Nikel, we provided a comprehensive outplacement programme for the shop's personnel, making it easy for employees to transfer to other operations

of the Company, as well as setting up a retraining programme and a pension plan. In addition, in partnership with the authorities of the Murmansk Region, the Company has committed to attracting new businesses and social entrepreneurs to the area, as part of its development after the shop's shutdown.

Last September, we signed an agreement with organisations representing the interests of the indigenous peoples of the North to implement a RUB 2 billion comprehensive plan to support the development of these communities. The programme will run until 2024 and includes support for traditional activities, protection of the indigenous habitat, as well as financing of housing, healthcare, infrastructure, tourism and socio-cultural projects. The list of projects was drafted up with the direct input of local communities, which should provide a framework for effective cooperation between indigenous peoples, local authorities and industrial companies on the development of the region.

In early 2021, Nornickel signed a quadripartite agreement on the social and economic development of Norilsk, which envisages the renovation of housing, the upgrade and overhaul of local utilities and engineering infrastructure, the creation of a comfortable and safe urban environment and the relocation of Norilsk and Dudinka residents to other regions with a milder climate.

In conclusion, I would like to thank all colleagues, contractors and customers who helped us overcome the challenges of 2020. I am confident that together we will deliver on all our long-term goals.