

LETTER FROM THE GENERAL DIRECTOR AND CHAIRMAN OF THE MANAGEMENT BOARD VLADIMIR STRZHALKOVSKY



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Dear Shareholders, Partners, and Colleagues,

This report sums up the results of 2009 year, which was the most difficult year for the Company in last decade. It was a year of “meeting the challenges” and “reappraising of values”. The global crisis in world’s major economies provided a great opportunity to objectively examine our performance results and redefine our priorities. It became evident that success and survival in the extremely volatile environment cannot be guaranteed by prior aggressive expansion, buildup of production capacity, or extensive all-round development. On top of this, these goals can’t be the ultimate reason of our existence. We consider intensive, rather than extensive, development to be the fundamental driver of our Company.

At present, Norilsk Nickel remains the world leader in terms of nickel production costs. Possessing a unique mineral resource base, the Company shall strengthen this competitive advantage through further operating costs reduction and optimization of production and business processes at all levels. With the emergence of economic crisis, this seemingly self-evident truth found its absolute confirmation and became the most important criteria for any decision taken by the management.

Moreover, the crisis helped to unveil another important truth: human capital is of the highest value for the Company. Norilsk Nickel’s main production assets are located within the Arctic Circle, where living and working conditions are extremely severe. Given that Russia experiences an acute shortage of blue-collar workers, one of the Company’s strategic objectives is to preserve its highly qualified personnel. Few can understand better than we do how heavily the prosperity of a corporation depends on the well-being of employees. Given that nearly all Norilsk Nickel’s entities are economic pillars of local communities, this interdependence clearly exhibits itself, when social stability and working climate at our production assets directly affect Company’s performance. Therefore, the prevention of any panic thoughts among residents of Norilsk, Monchegorsk, and other cities where our production facilities are located was of primary importance amid the crisis. The Company strived to build-up and to promote a sense of security and confidence in the future among workers. These were our top-priority objectives last year, and I think that we have succeeded in this respect.

The success is primarily attributable to anti-crisis set of measures undertaken by the management. Our goals were to maintain normal production levels, fulfill all obligations to our clients and lenders, preserve social stability in communities where we operate and prevent any mass redundancies of blue-collar personnel. These measures resulted in substantial reduction of operating expenses and, especially, non-core expenditures. For instance, administration costs decreased by USD 369 million and cash operating costs before revenue from sales of by-products diminished by USD 1.6 billion. As a result, the Company mobilized all its resources

and managed to emerge from the crisis with new strengths. Now, I would like to elaborate in more details on our specific activities in 2009.

FINANCIAL ASPECT: RESULTS EXCEEDED EXPECTATIONS

Like many other companies, Norilsk Nickel entered 2009 in the environment of total uncertainty. Metal prices plunged on average by more than 30%, demand was deteriorating rapidly in Europe, America and softening in Asia, financial markets were turbulent, and nobody knew what to expect in the nearest future. At the same time, in the beginning of 2009 the Company had to manage USD 6.4 billion of debt, not having the right to suspend the implementation of the investment program. In that difficult situation, we had to prove that the Company was a reliable borrower and partner, and it was vital that our lenders placed trust in ourselves. We fully achieved it through making timely decisions and strengthening our financial discipline. In 2009, for example, Norilsk Nickel redeemed USD 500 million Eurobonds. By the end of 2009, the Company's total debt decreased by USD 1.1 billion and reached USD 5.3 billion.

The financial performance demonstrated by the Company exceeded initial expectations due to several factors, including: recovery in prices of base and precious metals in 2H09, as well as undertaken cost-cutting measures. Temporary suspension of export duties on nickel and cathode copper also contributed a lot. As a result, Company's revenue in 2009 was USD 10.2 billion as compared to USD 13.9 billion in 2008. Net profit amounted to USD 2.7 billion as opposed to USD 555 million of net loss in 2008, primarily due to substantial write-offs of goodwill and value of international nickel assets. 2009 adjusted EBITDA totaled USD 4.4 billion.

OPERATING ASPECT: STABLE POSITIONS

In 2009, the Company faced a sharp decrease in metal prices and deterioration of demand. In course of the year a number of current and prospective nickel projects were either suspended or postponed worldwide due to high operating expenses and fundamental gap between the demand and supply. Our low-cost position enabled us to maintain our production output levels, while the majority of our assets continued to operate at the regular utilization rates. The only exception was Australian nickel assets, where the operations were placed on care and maintenance in late 2008–early 2009 due to high processing costs.

As a result, Norilsk Nickel produced 283 thousand tonnes of nickel (as compared to 300 thousand tonnes in 2008), 402 thousand tonnes of copper (as compared to 419 thousand tonnes in 2008), 2.8 million ounces of palladium (flat as compared to 2008 level), and 661 thousand ounces of platinum (as compared to 656 thousand ounces in 2008). On this metrics, Russian divisions — Polar Division and Kola MMC — exceeded their production plans, while performance of Tati Nickel (Bo-

tswana) and Nkomati Nickel (Republic of South Africa) was in line with their plans. In 2009, the nickel refinery plant Harjavalta (Finland) faced raw materials' shortages due to underproduction at Talvivaara deposit. This year, measures are taken to remedy the problem and to ensure the adequate capacity utilization of the refinery. Alternative sources of raw materials have been found, specifically, concentrates from African assets may be processed by Harjavalta.

Despite the crisis, the Company managed to continue investment program targeted at modernization of its production assets. Moreover, new important projects were launched. Significant synergies and cost-savings were discovered at some production stages as a result of exchange of experience among Group's divisions and production assets. More detailed information is available in the section "Review of Operating Performance." In total, the capital expenditures of the Group in 2009 amounted to USD 1.1 billion, including 81% spent on Russian divisions and 19% — on international assets.

In addition to the modernization program, the Company continued to implement important environmental projects. For example, USD 409 million was spent on such projects in 2009. I would like to emphasize that the environmental side of the Company's business remains the area of the highest concern for the management. This has nothing to do with "following the fashion trends" or "trying to appear positive in public eyes." We have a deep realistic understanding of the paradigm that we are not in a position to increase metals' production in Russia without reducing emissions. However, in order to achieve an appreciable and rapid reduction of emissions a radical technological solution is required, which is yet to be developed. Our experts and scientists from relevant research and development institutions have been working on this problem many years and have come up with certain proposals. The management is assessing and integrating these proposals, specifically ones related to reduction of sulfur dioxide emissions being the main air pollutant in Norilsk and other cities where the Company operates. Certain progress is achieved on Zapolyarny site of Kola MMC, where sulfur dioxide emissions will be reduced by 95% due to the implementation of new briquetting technology worth 2.2 billion Rubles. We hope that in 2010 our scientists and experts will further advance and elaborate on important solutions on the basis of existing findings.

The Company continues to place special emphasis on the development of mineral resource base. In 2008–2009, we revised our exploration strategy. At present, our exploration efforts are focused on traditional areas, where our core assets are located, adequate infrastructure and human resources are available. Moreover, we are confident that Taimyr and Kola Peninsulas have enormous exploration potential. That's why we focus our main exploration efforts in these two areas. In 2009, for example, mineral resources of the Maslovsky platinum-copper-nickel

deposit, located near Norilsk, were added to Company's books. In addition, we continue implementation of development project for construction of ore mining and processing facilities at Zabaikalsk Region in cooperation with the Investment Fund of the Russian Federation. Last year, the Company obtained a preliminary approval of changes to the passport of this project, which will allow to downscale the project to the development of two deposits instead of initially planned five deposits, where the reserves didn't prove.

DISTRIBUTION ASPECT: SALES OF 100% METALS PRODUCED

Another challenge addressed in 2009 was the necessity to fulfill all contractual obligations. The preservation of clients' confidence and high quality of service largely determined how the Company would pass through crisis times. Full implementation of production plans and stability of output contributed to this objective. Last year, in accordance with the corporate sales policy we realized 100% of our sales plan and met all contractual obligations. For instance, nickel sales reached 285 thousand tonnes, copper sales amounted to 416 thousand tonnes, palladium sales totaled 3.2 million ounces, and platinum sales reached 812 thousand ounces. It is worth noting that these results were achieved in spite of the substantial growth of global metal stocks in 2H09.

Demand in our primary sales market, Europe, decreased by 23% and in the USA by 5% challenging our sales efforts. The Asian market demonstrated higher resilience due to metal purchases made by Chinese government to replenish state reserves. In this environment, the Company's sales division focused on strengthening Norilsk Nickel position in Asian region. This objective was successfully achieved owing to the efficiency of the corporate sales system during the crisis period (for more details, please refer to "Review of sales performance and market developments"). For example, second sales office of Norilsk Nickel in China was established in Shanghai in March 2009. In 2009, nickel sales to China doubled as compared to 2008. In addition, the Company strengthened its positions in the Indian market by selling 8 thousand tonnes of nickel in 2009.

Our sales policy enables efficient operation of the whole system. Therefore, it serves as a solid foundation and is represented by sales of 100% metals produced, outstanding service and geographical diversification, allowing timely redirection of material flows and simultaneous improvement of our market positions.

SOCIAL STABILITY — BASIS FOR CORPORATE PROSPERITY

As I pointed out in the beginning of this letter, the crisis fully demonstrated the importance of maintaining social stability in the regions where we operate. Fortunately, there is no subjunctive mood for history, but

still it is hard to imagine what would have happened if Norilsk, being a landlocked city, had been plunged into a chaos of uncertainty. The city with population of more than 200 thousand people that can only be reached by air — Norilsk is our main production site. Therefore, it is very important to understand and remember that Norilsk and the Company are indivisible. There is a conventional thinking that less a business spends on social projects the better it is for its shareholders. However, from the long-term and pragmatic viewpoint, this is absolutely wrong for the Company. And our experience proves it. From this annual report on, we intend to provide our shareholders and partners with the most detailed information on the measures we undertake in areas of our operations and about the efforts we make to preserve our professional team, constituting one of our key competitive advantages together with the unique ore body and relatively low costs of metal production. A single visit to our Norilsk facilities and a conversation with our experts there would be enough to understand this. From this day on, any shareholder and partner of our Company, who is interested in gaining this experience, will have an opportunity to see the results of work of people constituting the Company and generating profit for its owners.

Even though we give a detailed account of our social programs in separately published annual Social Reports, I think that the main achievements of 2009 should also be outlined here.

Last year, for example, 17 thousand employees had an opportunity to improve their health in the corporate health resort, Zapolyarye, and participate in corporate recreation programs overseas. Most of them were married couples with children.

We launched the corporate air company branded NordStar, which was an important event for us. In some sense, it was a compulsory measure. We had to do that to prevent social tensions in Norilsk. Krasair, a carrier providing air services for Norilsk, was declared bankrupt in the beginning of the economic crisis. This caused an exorbitant increase in airfare of other air carriers, posing a threat to regular air link between Norilsk and "the mainland," because residents could not afford leaving the city with skyrocketed prices. In order to solve the problem, we decided to launch our own air company to enable Norilsk residents to travel at reasonable airfare. Since the start of NordStar, other carriers had to lower their airfares smoothing tensions and creating more competition in the sky of Norilsk. For our employees and Norilsk residents, it has meant enjoying a freedom of choice and absence of threat of isolation from the outer world.

ENERGY AND TRANSPORTATION ASPECT: INDEPENDENT POSITION PROMOTES COST REDUCTION

As you may be aware, the Company assumes an independent position with regard to transportation and core energy assets. The year of 2009

was distinguished for some important resolutions in this area. For instance, energy assets located in the Norilsk industrial district ensure supplies of heat and electricity to Company's entities and Norilsk residents. The corporate arctic fleet, formation of which was completed in 2009, is constructed using innovative technologies and enables the Company to transport its cargo without the need of assistance of icebreakers of third parties. It has significantly reduced transportation costs and has been promoting higher quality of service.

At present, the corporate fleet comprises five diesel-electric ships with enhanced ice reinforcement. They make trips between Dudinka and Murmansk. One of them makes regular one-in-two-week trips to Hamburg or Rotterdam. As a result of creation of proprietary fleet, gradual expansion of navigation geography and growth in revenue from delivering third-parties cargo in Europe and Russia, the cost of transportation of 1 tonne of cargo was decreased by hefty 60%.

In late 2009, the management decided to build one more ship, an arctic tanker, to transport gas condensate from the Pelyatka deposit, located at the Taimyr peninsula. The development of this deposit is one of Company's major investment projects in terms of maintaining energy self-sufficiency in the Norilsk industrial district. For example, new Dudinka-Norilsk gas condensate pipeline is being installed to replace the old one. In addition, mining operations have been ramped-up at the deposit, with excessive gas condensate to be removed from the Norilsk region due to safety reasons. This is where the new tanker will be used in. Scheduled to be put into operation in July 2011, the tanker will transport gas condensate from Dudinka to European customers, make a return haul to Norilsk with necessary oil products, fuel and lubricants.

CORPORATE GOVERNANCE: MOVING TO OPENNESS AND TRANSPARENCY

The management of the Company continues to improve corporate governance principles, in accordance with best international practice. Openness to dialog and transparency in decision making are among top objectives of the management of Norilsk Nickel.

The management team of the Company was fully formed in 2009, comprising experts in operations, professionals with extensive experience in both government and business entities. Some important appointments were introduced to enhance efficiency of operating units and to promote exchange of technical experience. The Board of Directors of Norilsk Nickel has positively appraised management's work in 2009.

In addition, it is important to state that large shareholders have had positive and constructive attitude on major corporate issues.

The efficient performance of the Company was reflected in higher share price, increasing by 154% since early 2009 and reaching USD 160.59 for 1 share as of May 27, 2010. The Company market capitalization totaled USD 30.6 billion, and the growth potential is far from being exhausted.

VLADIMIR STRZHALKOVSKY
GENERAL DIRECTOR AND CHAIRMAN
OF THE MANAGEMENT BOARD
May 27, 2010