

/ Risk management and control bodies /

Control bodies

INTERNAL CONTROL FRAMEWORK

The Company has an internal control system in place intended to promote the achievement of the Company's goals and enhance investor confidence in its business and corporate bodies. The internal control system is aimed at improving the effectiveness and efficiency of activities, keeping reliable and accurate financial and management accounts, ensuring compliance with the requirements of applicable Russian laws and the Company's by-laws.

The Company has the Internal Control Policy in place adopted by resolution of the Board of Directors on 25 August 2016 (Minutes of the Board of Directors No. GMK/32-pr-sd). In addition, internal control requirements, procedures, and processes are also covered by the procedure for "Internal Control Processes at MMC Norilsk Nickel", as well as by business unit regulations and other internal guidelines.

All internal control processes, principles, mechanisms, means, and procedures are structured into a system of elements:

- control environment;
- assessment of risks to business processes;
- control procedures;
- information and communications;
- monitoring of the internal control systems.

Entities that form the internal control system are structured on a number of levels, which include the Company and subsidiaries' corporate bodies, business units and employees as well as dedicated control bodies:

- Audit Committee,
- Internal Audit Department,
- Audit Commission,
- Internal Control Department,
- Financial Control Service,
- Risk Management Service.

In September 2016, the Company established an Internal Control and Risk Management Unit (Order of the President No. GMK/100-p). The unit included the Internal Control Department, Risk Management Service, and Financial Control Service.

Internal Audit Department

The Internal Audit Department was established to assist the Board of Directors and executive bodies in enhancing the Company's management efficiency and improving its financial and economic operations through a systematic and consistent approach to the analysis and evaluation of risk management and internal controls as tools to provide reasonable assurance that the Company will achieve its goals.

The Internal Audit Department conducts unbiased and independent audits, assessing how effective the internal control system and the risk management system are. Based on the audits, the Department prepares reports and proposals for the management on how to improve internal control and risk mitigation procedures, and also monitors the development and implementation of action plans to eliminate violations.

In order to ensure independence and objectivity, the Internal Audit Department functionally reports to the Board of Directors through the Audit Committee and has an administrative reporting line to the Company's President. The Audit Committee regularly reviews the performance of the Internal Audit Department.

In 2016, the Internal Audit Department remained focused on:

- accounts and repairs of process equipment;
- operations of utility and motor vehicles;
- construction and repairs;
- procurement;
- investment project management;
- compliance with health, safety and environment requirements.

In 2016, comprehensive audits were conducted in subsidiaries of the support complex, transport and logistics complex, and non-industrial assets. Based on these audits, the management developed action plans which provide for a range of activities aimed at improving internal control procedures and mitigating risks.

Audit Commission

The Audit Commission is a corporate body which monitors the financial and business operations of the Company. The Commission audits the Company's financial and business operations on an annual basis and at any time as decided by the Commission, resolutions of the General Meeting of Shareholders and the Board of Directors or as requested by shareholders who hold collectively at least 10% of the Company's voting shares. Following the review of financial and business results, the Audit Commission issues an opinion. Business operations were last audited in April–May 2016.

The Audit Commission works in the shareholders' interests and reports to the General Meeting of Shareholders, which elects members of the Audit Commission until the next Annual General Meeting of Shareholders. The Audit Commission is independent from the the Company's executive officers and its members do not hold positions in the Company's management bodies.

Remuneration payable to members of the Audit Commission was approved by the Annual General Meeting of Shareholders on 10 June 2016. Members of the Audit Commission who are employed by the Company are remunerated throughout the year as per their job description and employment terms.

Internal Control Department

The Internal Control Department aims to create an efficient internal control framework that represents a combination of organisational processes, policies and guidelines, control procedures, corporate culture principles and actions that the internal control entities perform to provide reasonable assurance that the Company will achieve its targets; the Department's functions include:

- developing and improving an efficient internal control framework;
- ensuring a consistent approach to the design, operation and development of the internal control framework;
- detecting and preventing any waste, misuse or misappropriation of funds or assets of the Company and its subsidiaries, wrongdoings and theft;
- ensuring accuracy of metrics and measurement standards for the control and accounting of metal bearing products;
- arranging and implementing internal controls so as to combat illegal activities, such as money laundering and terrorism financing;
- managing the Corporate Trust Service operations.

Financial Control Service

The Financial Control Service audits the financial and business operations of the Company, its subsidiaries and affiliates to report and issue recommendations to the President and directors of the Company. The head of the Financial Control Service is appointed by a resolution adopted by the Company's Board of Directors.

Corruption control

The Company complies with Russian and international anti-corruption laws. In its interaction with government officials, the Company, as well as its employees and corporate bodies, comply with the applicable laws (including anti-corruption laws), thus fostering the Company's reputation and building up trust towards the Company from its shareholders, investors, business partners and other stakeholders.

As part of its effective anti-corruption combat, the Company has developed and approved the following anti-corruption regulations:

- Code of Business Ethics;
- Directors' Code of Corporate Conduct and Business Ethics;
- Anti-Corruption Policy;
- Regulation on the Product Procurement Procedure for MMC Norilsk Nickel's Enterprises;
- Standard anti-corruption agreement – appendix to the employment contract;

In the reporting year, the Audit Commission consisted of five people as prescribed by the resolution of the Annual General Meeting of Shareholders dated 10 June 2016

Nº	Name	Primary employment
1.	Vladimir Shilkov	Chief Investment Officer at CIS Investment Advisers, Deputy Project Manager of the Financial Control Service at MMC Norilsk Nickel
2.	Anna Masalova	Chief Financial Officer, Moscow–McDonalds CJSC
3.	Georgy Svanidze	Head of Financial Department, member of the Management Board at Interros Holding Company
4.	Elena Yanevitch	Chief Executive Officer, Interpromleasing
5.	Artur Arustamov	Director of Price Control and Commercial Operations Department, RUSAL Global Management B. V.

Remuneration of the Audit Commission members in 2016

Remuneration types	thousand RUB	USD
Remuneration for the membership in a control body	6,300	93,981
Salary	4,445	66,309
Bonus	11,445	170,731
Commissions	0	0
Benefits	0	0
Compensation	0	0
Other types of remuneration	0	0
Total	22,190	331,022

- Regulation on Information Security;
- Regulation on the Prevention and Management of Conflicts of Interest;
- Regulation on Business Gifts;
- Procedure for anti-corruption due diligence on internal documents at the Head Office of MMC Norilsk Nickel.

Having joined the Anti-Corruption Charter of the Russian Business, the Company introduces dedicated anti-corruption programmes based on the Charter and set forth in the Company's Anti-Corruption Policy. In January 2016, the Company confirmed compliance with the Charter and secured its position on the Charter's Register.

The Company joined the Anti-Corruption Charter of the Russian Business.

In November 2016, the Company joined the United Nations Global Compact, which aims to promote recognition and practical application of ten basic principles of human rights, labour, environment and anti-corruption by businesses worldwide.

The Company's personnel receive ongoing training on anti-corruption matters. In August 2016, all personnel at the Head Office of the Company and personnel in managing and administrative positions at the Company's branches, representative office, and Russian subsidiaries were trained and tested in "Preventing Corruption" distance learning course. An important element of the Company's undertakings are corruption prevention

/ Risk management and control bodies / [Control bodies](#)

measures that are aimed at making employees clearly aware of the possible consequences and the “inevitability of penalty” not only for those who engage in corruption, but also for those who become aware of corruption and do not report it. Starting in 2015, all of the Company employees sign an agreement setting out their obligations in the anti-corruption area. All of the Company’s employees are familiarised with the corporate Anti-Corruption Policy and related regulations. In December 2016, the Company held an anonymous survey among the employees of its Head Office in order to get their opinions on the extent of corruption in the Company and the efficiency of its anti-corruption efforts.

The Company ensures functioning of the Preventing and Fighting Corruption page on the corporate website containing information on anti-corruption regulations adopted, measures taken, preventive procedures introduced, legal training sessions organised and law-abidance promotion efforts taken.

Regulating the conflict of interest

One of the key anti-corruption measures is timely prevention of possible conflicts of interest and management of those. Procedures for assessing and settling conflicts of interest are set forth in the Regulation on the Prevention and Management of Conflicts of Interest at MMC Norilsk Nickel, approved by the Order of the Company’s President in December 2015. As part of the above-mentioned Regulation, the Company has approved the Standard Declaration form for reporting conflicts of interest, to be filled in by candidates applying for vacant positions or by the Company’s employees whenever required.

On top of that, the Company has undertaken measures aimed at preventing potential conflict of interest involving corporate bodies and key managers.

In December 2016, the Company approved the Report Form on relatives and family members to be submitted annually by members of corporate bodies.

Alongside with the measures listed above, the Regulation on the Prevention and Management of Conflicts of Interest at MMC Norilsk Nickel extends to all employees of the Company. The Regulation sets forth key principles aimed at meeting the balance of interests between the Company and its employees. These include obligation of each employee to disclose a conflict of interest and protection against liability in relation to the reported conflict. The Company undertakes measures aimed at identifying related-party transactions.

All measures combined, undertaken in order to identify and prevent conflicts of interest, minimise the probability of negative consequences for the Company.

Corporate trust service

In February 2010, the Company launched the Corporate Trust Service. It helps the Company’s management promptly respond to reports of abuses, embezzlement and other violations. Shareholders and other stakeholders have an opportunity to report any actions that will or might result in financial damages or be detrimental to the business reputation of the Company. The key principles underlying the Corporate Trust Service include guaranteed confidentiality for whistleblowers and timely and unbiased consideration of all reports.

To serve the same purpose, the Company has arranged for a 24/7 hotline: +7 800 700-1941, +7 800 700-1945 ☎ or by email: skd@nornik.ru

Information on received and processed reports is disclosed annually by the Company as part of its CSR report.

Improving procurement¹

The Company undertakes counterparty due diligence to confirm their reliability, solvency and financial stability; The Company reinforces anti-corruption principles by including an anti-corruption clause in its contracts with counterparties. Since 2004, the Company has moved its procurement to transparent procurement procedures. In 2014, the Company introduced a Regulation on general principles of procurement procedures for all MMC Norilsk Nickel’s enterprises; The Company runs Tender and Investment Committees whose main focus is to make the Group’s procurement and investment more efficient and transparent.

Insider information

The company implements actions to prevent unauthorised use of insider information. In accordance with Federal Law No. 224-FZ of 27 July 2010 “On Prevention of Unlawful Use of Inside Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation”, as well as the Market Abuse Regulation of the European Union No. 596/2014 of 16 April 2014, the Company keeps a list of insiders, keeps track of transactions and constituent documents, as well as events, in order to control implementation of measures as provided in Russian and international legislation, which includes disclosure of insider information. The Company also undertakes other measures aimed at preventing unlawful use of insider information.

Integrated safety system of the Company

In 2016, MMC Norilsk Nickel’s corporate security operations focused on regular updates and the implementation of a comprehensive security system, which drew heavily on the ongoing analysis of the full range of the Company’s modern-day challenges and threats in a rapidly changing operating environment.

¹ Detailed information on procurement by the Company is disclosed in the Procurement section of this Annual Report.

The ongoing implementation of the MBO (Management by Objectives) principles in the economic, corporate, information and physical security systems has enabled the Company to promptly and adequately respond to the production and financial risks, clamp down on embezzlement, implement initiatives to counter illicit trafficking of precious metals and metal bearing materials, and efficiently prevent in-house corruption.

In an effort to take public-private partnership in the field of security to a new level of quality, cooperation was established with government law-enforcement authorities, also in the Company's regions of operations. The Company pays special attention to complying with the federal anti-terrorism laws and enhancing security of the Company's strategic power and transportation facilities. In 2016, the close cooperation with law enforcement authorities helped the Company protect these facilities from any potential unlawful intrusion.

The Company ensures 100% safety and confidentiality of the employee and counterparty personal data through an ongoing upgrade of the dedicated protection systems. Steps are taken to integrate information security processes with other group-wide business processes and novel IT solutions. Measures undertaken in 2016 ensures a reliable protection of the Company's IT infrastructure. MMC Norilsk Nickel receive an outstanding award at InfoSecurity Russia 2016: Best Industrial IT Security.

The Company has further fostered its international activity in the field of industry-specific business security. As the chair of the Security Committee of the International Platinum Group Metals Association, the Company's representative works together with the United Nations Interregional Crime and Justice Research Institute (UNICRI) to prepare and implement practical recommendations in order to strengthen public-private partnerships aimed at fighting illicit transnational trafficking of precious metals. These initiatives received the support of world's major metal producers.

The Institute for Modern Security Challenges, the Company's subsidiary, has been developing new corporate tools to protect the Company's legitimate interests focusing on the analysis of best international practices, introduction of acknowledged standards and practices of secure development of mining companies, expert reviews and preparation of analytical materials. Their practical implementation is aimed at optimising the Company's security costs and more efficient process management.

infosecurity

MMC Norilsk Nickel receive an outstanding award at InfoSecurity Russia 2016: Best Industrial IT Security.



EXTERNAL AUDIT

The external auditor of both RAS and IFRS financial accounts for MMC Norilsk Nickel is endorsed by the General Meeting of Shareholders based on the recommendation by the Board of Directors following a tendering process endorsed by the Audit Committee under the Board of Directors.

Selection of the auditor for both RAS and IFRS financial accounts is done in line with the Procedure of Auditor Selection, as endorsed by the Company. A tender commission is established for the purpose of selecting the auditor. The commission produces lists of auditors who perform best in the Russian market of audit services. The auditor whose conditions of RAS and IFRS audit are recognised to be the best following the Procedure, is then acknowledged as the winner of the tender by the Audit Committee and is recommended to the Board of Directors of the Company.

In March 2016, the Audit Committee under the Board of Directors considered the tender winner and recommended the firm to the Board of Directors. In June 2016, the General Meeting of Shareholders of MMC Norilsk Nickel, following the recommendation of the Board of Directors of the Company, approved JSC KPMG as the Company's auditor for both RAS and IFRS 2016 accounts.

The auditor's fee, as endorsed by the Board of Directors, stood at USD 2.2 mln, including overhead charges and VAT. The share of non-audit services rendered to the Company stood at 15% of the total KPMG fee for 2016.

In line with the audit contract, the auditor delivered the following:

- review of the interim abbreviated consolidated financial accounts as at 30 June 2016;
- audit of IFRS consolidated financial accounts for 2016;
- audit of RAS annual accounting/financial statement for 2016.



For more information on risk management see in the quarterly reports of the Company in section 2.4 "The risks connected with purchase of placed securities" located on website: <http://www.nornik.ru/en/investor-relations/information-disclosure/quarterly-reports-of-regular-securities-issuer>