

# Key Risks and their Mitigants

RISK TYPE/GROUP	RISK DESCRIPTION	ACTIONS TO MINIMISE RISK
<b>TECHNICAL AND PRODUCTION RISKS</b>		
Technical and production risks	<p>The Company's key production sites are located in the Far North of Russia. Due to the environment and climatic conditions prevailing in the region, the Company is faced with technical challenges when conducting geological exploration, mining and processing of ore, providing energy to production facilities and city infrastructure and transporting end products to customers.</p> <p>The most hazardous factors include:</p> <p><i>a) for metals and mining businesses:</i></p> <ul style="list-style-type: none"> <li>■ flooding at mines/quarries;</li> <li>■ accidents and incidents involving underground mining equipment;</li> <li>■ emissions of combustible gases and toxic substances;</li> <li>■ accidents and incidents at the key stages of ore processing;</li> </ul> <p><i>b) for fuel and energy businesses:</i></p> <ul style="list-style-type: none"> <li>■ accidents involving pipelines and main gas lines;</li> <li>■ accidents involving electricity grids;</li> <li>■ accidents at heating stations;</li> </ul> <p><i>c) for transportation businesses:</i></p> <ul style="list-style-type: none"> <li>■ reduction in navigation depths in rivers;</li> <li>■ damage to river terminals;</li> <li>■ infrastructure breakdowns at the Norilsk airport;</li> <li>■ accidents and incidents involving river and marine vessels, tugboats, and cranes;</li> </ul> <p><i>d) for oil depots in the Norilsk Industrial District and Dudinka:</i></p> <ul style="list-style-type: none"> <li>■ damage to buildings;</li> <li>■ equipment failures;</li> <li>■ collapse of buildings used in process operations.</li> </ul>	<p>To operate in the Far North, the Company uses the latest equipment and takes all necessary measures to address problems related to adverse weather conditions (extremely low temperatures, blizzards, reduced navigation depth of the Yenisei River), which under certain conditions can have a major impact on the Company's operations. To mitigate potential implications for its production facilities, the Company regularly evaluates the risk of unplanned disruptions in processes and develops measures to prevent and limit the potential consequences of accidents and incidents.</p> <p>A programme to identify and assess technical and production risks is in place. The Company has developed and is implementing a programme of organisational and technical actions aimed at reducing critical technical and production risks.</p> <p>The Company has developed and is continuously improving internal standards and regulations pertaining to its operations (including technical maintenance), which often contain stricter equipment maintenance and repair requirements than the applicable laws of the Russian Federation.</p> <p>All hazardous production sites have industrial safety declarations in place.</p> <p>In 2015, the Company made a comprehensive effort to review potential risks following reconfiguration and modernisation of production facilities, including the downtime in production chain and related risks. The survey results and best practices of risk management in the mining and metals industry helped develop and implement a property and business interruption (downtime) insurance programme.</p>
<b>STAFF MANAGEMENT RISKS</b>		
Skilled labour recruitment and retention risks	<p>The key risk factors are as follows: limited labour resources in the Norilsk Industrial District and increased demand for skilled labour with skills, knowledge and experience required to join the Company.</p>	<p>The Company is implementing a number of employee training and development programmes, including:</p> <ul style="list-style-type: none"> <li>■ talent pool programmes;</li> <li>■ human capital development programme;</li> <li>■ social programmes aimed, among other things, at recruiting and retaining skilled workers and specialists from other regions of the Russian Federation.</li> </ul> <p>In 2015, the Company extended the Collective Bargaining Agreement until 2018.</p>
Shortage of young skilled specialists in the regions of operations	<p>As the Group's operations are located far from major educational and cultural centres in a region with a severe climate, local young people tend to leave the Norilsk Industrial District for study or work elsewhere, while graduates from "the continent" do not see it as a place to go and start a career.</p>	<p>The Company interacts with educational institutions in the Norilsk Industrial District. There are employer-sponsored vocational training programmes in place with a focus on the professions and training areas required by the Company.</p> <p>The Company offers work placement to participants of the Professional Start programme targeting students of the Norilsk State Industrial Institute and other Russian universities, and signs employer-sponsored educational contracts with students. There are graduate internship programmes in place.</p> <p>The Company also implements other youth and student engagement programmes as follows: World of New Opportunities: an ArktikPro R&amp;D project and FabLab programmes in Norilsk and Monchegorsk.</p>

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Deterioration of employee proficiency	<p>The risk factors related to the deterioration of employee proficiency are as follows:</p> <ul style="list-style-type: none"> <li>■ inadequate skills of graduates due to, among other things, a natural outflow of qualified teaching staff combined with a limited inflow of young teachers to replace them;</li> <li>■ weak motivation of young workers and specialists to look for employment;</li> <li>■ shortage of skilled labour in a number of regions where the Company operates;</li> <li>■ high staff turnover.</li> </ul>	<p>The Company has its employees trained and educated both locally, on site, and centrally, through its corporate training centres. The Company establishes contacts with Russian educational institutions and industry training centres, engages their teachers to train Company employees, including those in the Norilsk Industrial District.</p>
<b>REPUTATIONAL RISKS</b>		
Reputational risks	<p>Reputational risk is a risk of damage to the Company's business reputation caused by various external and/or internal factors that may undermine positive perception of the Company's activity by target groups and/or the general public.</p>	<p>To mitigate reputational risks, the Company has designed and implemented the following internal guidelines:</p> <ul style="list-style-type: none"> <li>■ Code of Business Ethics;</li> <li>■ Information Policy Regulation;</li> <li>■ Regulation on the Prevention and Management of Conflicts of Interest;</li> <li>■ Regulation on Business Gifts;</li> <li>■ Regulation on the Procedure to Access Insider Information, Confidentiality Protection, and Supervision of Compliance with Laws on Prevention of Unauthorised Use of Insider Information and Market Manipulation;</li> <li>■ Procedure for the Interaction between the Company's Officers and Russian and International Mass Media.</li> </ul> <p>Additionally, the Company has adopted the Code of Corporate Conduct and Business Ethics for the Board of Directors, which contributes to stronger ethical standards, goodwill and responsibility, providing the key principles of conduct that are mandatory for all members of the Board.</p> <p>The Company makes a responsible choice of suppliers and contractors, paying special attention to their business ethics. Seeking to establish business cooperation with partners committed to anti-corruption activities, the Company implements measures to establish anti-corruption principles by including anti-corruption clause in its contracts. The Company acts as a reliable and trustworthy partner that honours its obligations.</p> <p>The Company has implemented an action plan to prevent unauthorised use of insider information and market manipulation in order to protect investor rights and enhance the Company's credibility.</p> <p>A coordinated policy has been adopted to increase informational transparency, enhance investor appeal, and improve the Company's business reputation.</p> <p>The Company publishes corporate information, including data about the Company's financial and operational performance, progress in implementing its strategy, and the success of its economic, social and environmental activities, on the corporate website and the website of the authorised news agency. The Company cooperates with stakeholders.</p> <p>The Company maintains and develops an intranet portal that provides employees with full information on the Company's structure, operations, and current operational and social activity updates, contributing to stronger corporate identity.</p>

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<b>LEGAL RISKS</b>		
Risks related to adverse changes in legislation and law enforcement practices, including those in customs, foreign exchange and tax regulations.	<p>Legal risks are related to adverse changes in legislation and law enforcement practices, discrepancies in legal norms and gaps in legislation regulating Norilsk Nickel's activities, including those concerning mining and production, environmental protection, foreign economic activities, tax regulations, and labour relations. The Company is involved in foreign economic activities with some of its assets and liabilities denominated in foreign currencies. Therefore, changes in customs and foreign exchange regulations have an impact on Norilsk Nickel's financial and operational activities on the group and subsidiary levels.</p> <p>Tax regulation risks are related to frequent changes in tax laws and their application by tax and judicial authorities. The Company is a major taxpayer and bears the burden of mineral production tax, value-added tax, and corporate profit tax, and is compliant with its legal tax obligations. That said, there is a possibility that claims may be filed against the Company in connection with varying interpretations of the law by tax authorities.</p>	<p>In an effort to balance the interests of the authorities, community and business in the regions of operations, the Company submits its proposals as to draft laws and other regulations being developed and reviewed by the Open Government and projects being assessed for regulatory impact.</p> <p>The Company's representatives participate in expert panels (working groups) of the Federal Assembly of the Russian Federation, federal and regional executive authorities, local authorities, the State Commission for the Development of the Arctic Zone, the Chamber of Commerce and Industry of the Russian Federation, and the Russian Union of Industrialists and Entrepreneurs concerning various topics such as:</p> <ul style="list-style-type: none"> <li>■ development of Russia's Arctic Zone;</li> <li>■ labour relations;</li> <li>■ environmental protection;</li> <li>■ industrial safety;</li> <li>■ technical regulation and standardisation;</li> <li>■ improvement of controls and oversight, elimination of administrative barriers;</li> <li>■ fiscal policy;</li> <li>■ antitrust policy.</li> </ul> <p>To promptly respond to legislative changes and, when necessary, make adjustments to business procedures, the Company continuously monitors legislation with respect to its activities, including foreign exchange regulation and controls, tax and customs regulations.</p>
Risks related to actions and decisions of public authorities	The Company's operations are affected by actions and decisions of central and local authorities on natural resource and land use, lease rates, state control (supervision), etc.	The Company monitors its compliance with the applicable law and business process requirements on an ongoing basis to mitigate the risk of negative comments from regulatory authorities, and is committed to holding a constructive dialogue with them as regards the interpretation of laws. Pre-trial and trial remedies are used if needed.
Antitrust risks	Antitrust regulation risks are related to the fact that Norilsk Nickel holds a dominant position in certain commodity markets, with some of the Group's enterprises being natural monopolies and, consequently, being subject to requirements and bans established by the antitrust law. Natural monopolies within the Group are also subject to antitrust requirements as regards tendering procedures.	Norilsk Nickel has procedures and regulations in place to ensure strict compliance of its operations with the requirements of the antitrust law. The Company fully meets the requirements of the Federal Antimonopoly Service's instructions. Natural monopolies within the Group have regulations on procurement procedures for goods, works and services developed as prescribed by the applicable law.
Risks related to unlawful or unreasonable claims of contractors	Key risk factors related to unlawful or unreasonable claims of contractors are as follows: improper performance of agreements by contractors, faulty or fraudulent actions of contractors.	The risk of contractors making unlawful or unreasonable claims is mitigated by approval procedures for draft contracts, including consideration of potential risks, established by the Group.

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<b>STRATEGIC RISKS</b>		
Strategic risks	<p>Strategic risks affect both the Company's long-term objectives and ongoing business goals. The Company identifies various strategic risk factors, including the following:</p> <ul style="list-style-type: none"> <li>■ sanction risks related to sanctions that may be imposed by the EU and US regulatory authorities against the Company and/or its shareholders, as well as the metals and mining industry in general;</li> <li>■ risks related to the adverse economic environment, including economic slowdown or recession in Europe and China, or the expected contraction of commercial demand for metals;</li> <li>■ strengthening of regulatory requirements;</li> <li>■ pressure from major industry players;</li> <li>■ downward trends in the metals market;</li> <li>■ failure to achieve key investment project targets.</li> </ul>	<p>The Company monitors and analyses the political and economic environment, metals market trends and competitors' behaviour on an ongoing basis to provide forecasts and make decisions on the Company's current operations and further growth.</p> <p>The Company has a strategy in place specifying its key growth objectives, relevant roadmaps and KPIs, and updates it on an annual basis.</p> <p>The Company's strategic model serves as a tool to assess the economic impact of different options and construct various scenarios for the Company's businesses depending on macroeconomic forecasts and managerial decisions.</p>
<b>COMPLIANCE RISKS</b>		
Compliance risks	<p>Compliance risks include risks of legal liability and/or legal sanctions, material financial loss or loss of reputation, and other adverse effects of the Company's non-compliance with the applicable regulations, instructions, rules, standards or codes of conduct.</p>	<p>Norilsk Nickel puts in a lot of effort to ensure compliance of its operations with statutory and special regulations and rules, and is committed to high standards of social responsibility and ethics. Compliance efforts are concentrated on both prevention of violation of laws and industry norms, and implementation of ethical business standards.</p> <p>The Company also focuses on improving the Company's transparency:</p> <ul style="list-style-type: none"> <li>■ undertakes anti-corruption, anti-money laundering and counter-terrorist financing initiatives;</li> <li>■ implements and continuously reviews measures to prevent unauthorised use of insider information and market manipulation;</li> <li>■ ensures better information disclosure.</li> </ul> <p>Having joined the Anti-Corruption Charter of the Russian Business and adopted the Anti-Corruption Policy, the Company introduces dedicated anti-corruption programmes and practices focusing on Norilsk Nickel's internal affairs and its relations with business partners and the state.</p> <p>The Company provides ongoing training on anti-corruption matters for its personnel.</p> <p>All of the Company's employees are familiarised with the corporate anti-corruption regulations, with each employee signing an individual agreement setting out their obligations in the area. The Company ensures functioning of the Preventing and Fighting Corruption page on the corporate website <a href="http://www.nornik.ru">www.nornik.ru</a> and the relevant section on the Company's intranet portal containing information on anti-corruption regulations adopted, measures taken, preventive procedures introduced, legal training sessions organised and law-abidance promotion efforts taken.</p> <p>The Company has also established the Corporate Trust Service, providing its employees with a means to report any actual or potential violations related to the Company's operations.</p>

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<b>SOCIAL RISKS</b>		
Social risks	Sustainably favourable social and economic environment across the Company's footprint is a key factor of its performance. Deteriorating social and economic environment may lead to social tensions and adversely affect both the Company's production processes and reputation.	<p>To mitigate social risks, the Company takes the following measures:</p> <ul style="list-style-type: none"> <li>■ strictly adheres to the Collective Bargaining Agreements made between the Group's companies and their employees;</li> <li>■ actively interacts with regional and local authorities, and civil society institutions;</li> <li>■ fulfils its social obligations under public-private partnership agreements;</li> <li>■ holds public meetings to facilitate constructive dialogue between the private sector, public authorities and local communities;</li> <li>■ implements the World of New Opportunities charity programme aimed at supporting and promoting regional public initiatives;</li> <li>■ implements the Norilsk Upgrade project introducing innovative solutions for ensuring sustainable social and economic development of the region;</li> <li>■ conducts opinion polls in the Norilsk Industrial District on such matters as quality of life, employment levels, migration attitudes, social well-being and areas of concern;</li> <li>■ implements social projects and programmes aimed at supporting employees and their families, as well as former employees of the Company.</li> </ul>
<b>ENVIRONMENTAL RISKS</b>		
Technology-related risks	Increased environmental footprint is an inherent part of operating the Company's key assets.	<p>The Company develops and implements research, design, construction and installation solutions as part of its investment projects and activities aimed at reducing the technology-related risk. In particular, the shutdown of the Nickel Refinery in 2016 will help reduce man-made impact on the environment. The commissioning of new capacities at the Talnakh Concentrator will lower impact on the environment due to the lower sulphur content in concentrates intended for metallurgical processing.</p>
Risk of revocation of ISO 14001 certificate	There is a risk that during recertification and supervision audits the certifying body identifies breaches of ISO 14001:2004, which could lead to revocation of the compliance certificate and the necessity to undergo ISO 14001:2004 compliance certification once again.	<p>To avoid such revocation, the Company works to maintain its environmental management system in a proper condition. To ensure compliance with ISO 14001:2004, it implements environmental monitoring initiatives and makes efforts to lower its environmental footprint by, without limitation:</p> <ul style="list-style-type: none"> <li>■ planning and conducting personnel training as required;</li> <li>■ conducting internal audits;</li> <li>■ getting ready for surveillance/recertification audits involving the Company's representatives.</li> </ul> <p>The surveillance audit held by Bureau Veritas Certification in 2015 confirmed compliance of the Company's Corporate integrated system of quality and environment management (KISM) with the ISO 9001:2008 and ISO 14001:2004 requirements.</p>

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<b>HEALTH AND SAFETY RISKS</b>		
Risks of occupational injuries	<p>Working conditions at the Company's sites require strong professional qualifications, including knowledge of health and safety basics. Failure to comply with the Group's health and safety rules may result in health and life threats, temporary suspension of operations, and property damage.</p>	<p>To mitigate health and safety risks, the Company undertakes the following in accordance with its Industrial Health and Safety Policy:</p> <ul style="list-style-type: none"> <li>■ improves working conditions, including by using new equipment and technologies, and increases the level of occupational safety at its facilities;</li> <li>■ provides employees with modern certified personal protective equipment and special clothing, and initiates preventive and therapeutic interventions to reduce potential impact of hazardous and dangerous production factors;</li> <li>■ carries out regular training, instructs and evaluates employee performance in health and safety, conducts corporate workshops.</li> </ul> <p>To minimise occupational injury rates, the Company is implementing a Health and Safety Strategy addressing the following objectives:</p> <ul style="list-style-type: none"> <li>■ develop leadership and management commitment to health and safety principles;</li> <li>■ introduce corporate standards and rules covering occupational safety matters such as: <ul style="list-style-type: none"> <li>- Safety Behaviour Audits;</li> <li>- Power Source Insulation;</li> <li>- Risk Assessment;</li> <li>- Vehicle and Pedestrian Safety;</li> <li>- High-Hazard Operations;</li> <li>- Accident Investigation.</li> </ul> </li> <li>■ launch independent audits of the industrial safety system;</li> <li>■ implement the Corporate Communications Programme and a media relations plan focused on occupational health and safety;</li> <li>■ develop and implement an analytical control system for health and safety processes.</li> </ul>
Suspended/recalled licences	<p>The specifics of its operating environment require the Company to undertake the following operations that are subject to licensing:</p> <ul style="list-style-type: none"> <li>■ operation of flammable, explosive and chemically aggressive production facilities of hazard classes 1, 2 and 3;</li> <li>■ operations involving the use of industrial explosives.</li> </ul> <p>The risk of suspension (revocation) of such licences can be triggered by violation (gross violation) of licensing terms and conditions.</p>	<p>To mitigate this risk, the Company undertakes the following with respect to the licensed operations:</p> <ul style="list-style-type: none"> <li>■ training and certification in industrial safety for the management and technical personnel;</li> <li>■ ensuring functioning of the industrial safety management system;</li> <li>■ implementing production control over on-site compliance with industrial safety requirements;</li> <li>■ obtaining official letters from industrial safety bodies;</li> <li>■ obtaining statements of compliance with industrial safety practices;</li> <li>■ preventing trespassing;</li> <li>■ acquiring compulsory insurance policy covering civil liability for on-site accidents;</li> <li>■ having and implementing on-site accident management action plans;</li> <li>■ signing service contracts with professional emergency rescue services;</li> <li>■ having financial and material reserves for accident management purposes;</li> <li>■ complying with the procedure for carrying out technical investigation of accidents, incidents and cases of loss of explosive industrial materials.</li> </ul>

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<b>RISKS INHERENT IN INTERNATIONAL ASSETS<sup>1</sup></b>		
Risks inherent in Norilsk Nickel Harjavalta (Finland)	<p>The operations of Norilsk Nickel Harjavalta are exposed to several risk factors such as:</p> <ul style="list-style-type: none"> <li>■ absence of its own reserve base and dependence on third-party feedstock and its producers;</li> <li>■ dependence on vendors and contractors, including with respect to key reagent prices;</li> <li>■ tightening of the Finnish and EU laws on industrial safety and environment, which can trigger higher production costs.</li> </ul>	<p>To reduce these risks, the Company undertakes the following, including without limitation:</p> <ul style="list-style-type: none"> <li>■ takes measures to ensure that Norilsk Nickel Harjavalta uses feedstock produced by the Company's Russian businesses (these measures have been in place since 2015 and will continue into 2016);</li> <li>■ optimises the existing procurement and services contracts;</li> <li>■ adopted (in 2015) and has been implementing a programme to improve efficiency with a focus on energy savings and higher added value products;</li> <li>■ continuously monitors the Finnish and EU industrial safety and environment requirements. The production is being adjusted to comply with new requirements.</li> </ul>
<b>FINANCIAL RISKS</b>		
Price risks	Risk of losses caused by adverse price index changes and falling market values of products, works, services, and other assets, including those purchased by the Company.	In 2015, price risks were balanced as the decline in nickel prices was partially offset by the weaker rouble.
FX risks	Risk of losses caused by adverse changes in currency exchange rates.	Norilsk Nickel generates the bulk of its revenues in US dollars, while most of its costs are in Russian roubles. To hedge its currency positions, the Company buys/sells derivative financial instruments and uses trade finance.
Interest rate risks	Risk of losses caused by adverse changes in interest rates in the lending market.	The Company maintains a balanced debt structure based on a 60/40 floating and fixed interest rates ratio to control the risk of higher debt service costs in case of floating rate changes.
Credit risks	Risk of losses caused by counterparty failure to perform on time.	The Company minimises its credit risk by spreading it across a large number of counterparties and setting credit limits based on the analysis of counterparties' financial standing and non-financial drivers. The Company also hedges credit risks by insuring receivables.
Liquidity risks	Liquidity risk means that the Company is unable to pay when due.	The Company ensures centralised management of liquidity throughout the Group. Liquidity is managed by using detailed budgeting procedures and maintaining daily payment positions with a horizon of up to one month. To manage liquidity, the Company forms a reserve of liquid funds and has at its disposal committed credit lines from a number of banks sufficient to compensate for potential revenue fluctuations given price, FX and interest rate risks.

<sup>1</sup>Following the sale of the assets in Australia (Black Swan and Silver Swan) and Botswana (Tati Nickel Mining Company), the Company no longer analyses any risks associated with these projects. The sale of Ncomati in South Africa is expected to close in Q1 2016.