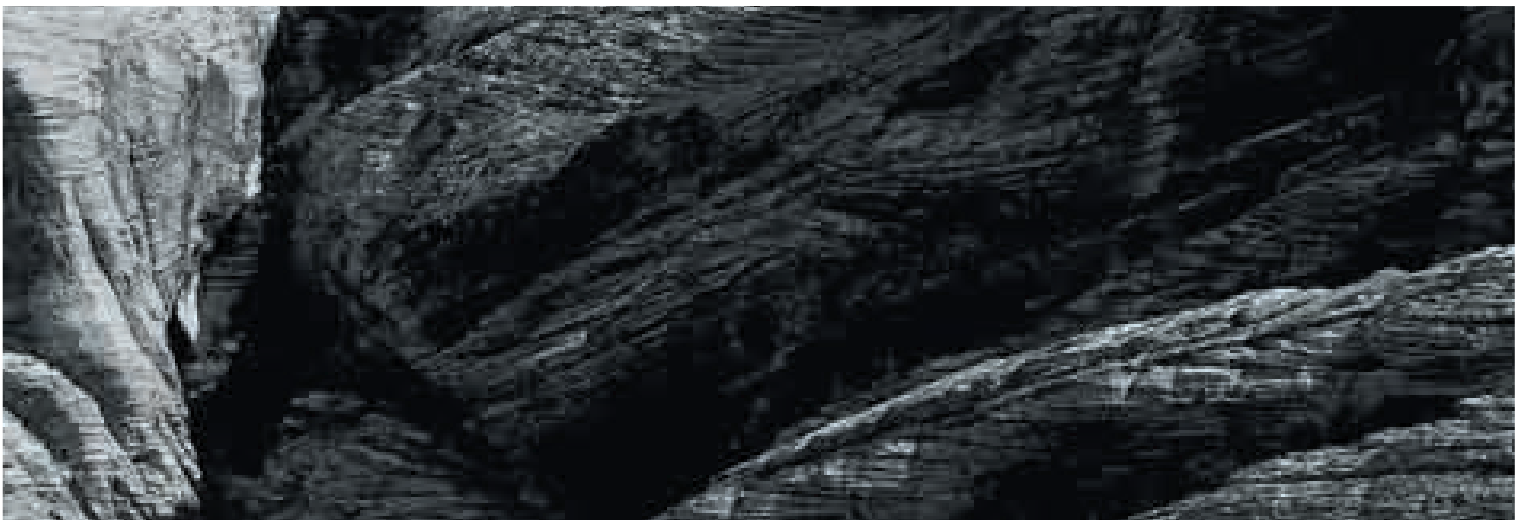




Overview  
of human resources  
and social policies

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# Overview of human resources and social policies



## + Personnel development

A major focus in implementing corporate policies with regard to personnel development is on providing Group companies with efficient employees based on identification, development and facilitation of the full realization of the labor and creative potential of each employee, instilling a feeling of corporate unity and loyalty to the Company interests.

To implement such policies, the Group applies state-of-the-art technologies for professional training, recruitment and adaptation of young employees, searching for highly qualified specialists, preparing an internal pool of talent, working with target employee groups, developing a corporate culture and synchronizing internal communications.

In 2006, the Group's entities ran additional professional training courses for a total of 31.2 thousand employees, which makes up 42% of the average annual headcount. Over 80% of the training was delivered by the Company's own educational center.

The Group runs an internal distance learner network. In 2006, entities in the Kola Peninsula were connected to the distance learner network. The number of network users increased by 2.9 times from the previous year. The existence of a mature internal training system made it possible to raise the professional personnel development programs rolled out in the Group's entities to a new level of quality.



In 2007, pursuant to a decision of the Group's management, a non-government educational institution for additional vocational training (increasing qualifications), the Norilsk Nickel Corporate University, was set up. The University is aimed at achieving the following objectives: reviewing the needs in training the Group's employees, making forecasts and drafting personnel training plans, and carrying out research and scientific activities.



In 2006, 3,700 workers were selected and recruited to the Group's entities. The Group searches for applicants and recruits personnel in the nation-wide labor market by applying modern technologies and engaging personnel recruitment agencies to ensure a targeted selection of highly qualified specialists and executive-level employees. To enhance effectiveness and efficiency of the personnel recruitment efforts, in 2006, the Group launched a corporate-wide Job and Career web initiative, where all entities of the Group may place information on existing vacancies, receive curriculum vitae's and establish business contacts with job applicants.

96 { A focus was placed on recruiting and adapting young workers and specialists. A total of 1,129 young people participated in ongoing targeted corporate programs, including graduates and students from 15 related universities.

In 2006, a joint program named the Future of the North was initiated and funded by MMC Norilsk Nickel and Vladimir Potanin's charity foundation. The program's goal is supporting promising students and participants in the Professional Start corporate program, who are eager to start their career at the Group's entities in the Norilsk industrial district.

### Personnel motivation

The key objectives of the Group's compensation policy are to motivate and reward employees for high performance and ensure the effective utilization of payroll.

The key element of personnel motivation is a system of incentives that is implemented through coordinated labor compensation policies that include managing payroll expenses and employee reward systems.

An employee's salary is based on the achieved productivity and performance levels, and the competitive level in comparable labor markets. Such approaches allow the Group to recruit and retain personnel with the level of professionalism and qualifications that meets the existing requirements.

The Group strives to constantly improve the employee reward systems, accentuating the link between the contribution from an individual employee to the overall output and his/her remuneration.

In 2006, tariff rates and official rates of pay were raised for employees of the Kola Peninsula, the Arkhangelsk Seaport, and certain divisions of the OJSC Yenisey River Shipping Company. To stimulate motivation among employees in support of efforts aimed at reducing fuel and energy consumption and safeguarding the Group's property, the Group developed appropriate incentives programs. The Group continues to develop such performance management tools as awarding bonuses to employees out of the collective incentive funds and awarding bonuses to executives depending on achieved Key Performance Indicators (KPI's).

In connection with restructuring activities and management structure reform, the Group adopted a remuneration scheme based on success achieved in the implementation of structural changes by way of paying for additional business unit-specific allowances to employees.

Over the reporting period, a labor productivity increase was achieved through the efforts of the Group's employees and management, which helps the Group to keep a leading position in terms of labor remuneration among the largest Russian mining companies. The average salary of Group employees increased in 2006 by 13%, to RUR 31.6 thousand (USD 1.2 thousand) in comparison to the previous year, which exceeds the country's average by 2.9 times, and the metallurgic industry's average in Russia by 2.2 times.

In 2006, payroll expenses incurred by the Group entities and reported under IFRS as cost of metals sold and as selling, general and administrative expenses amounted to USD 1,3 billion.

In combination with social payments and benefits covering all the employees, the Group provides an additional social package to highly qualified employees who achieve high performance results and share corporate culture and social responsibility principles. In 2006, an additional social package was provided to employees under the following social programs:

- joint corporate post-retirement benefits plan;
- beneficial lending;
- additional corporate transport compensation.

To reward employees of certain entities of the Group based on their performance results in 2006 and to create conditions for supplementary post-retirement benefits, the Group made a decision to grant 70,000 employees the right (option) to a pension contribution in the amount of RUR 10,000 (USD 368) to be made by the Group to their registered pension accounts in a non-government pension fund. The corporate post-retirement option program was implemented in the first half of 2007.

The Group emphasizes non-material employee motivation, assuming that timely moral rewards adequately reflecting labor achievements facilitate the feeling of involvement and importance of individual contributions, by employees, to the achievement of the corporate objectives among employees and fosters an interest in improving the performance of the division where the employee works, as well as the performance of the Group on a whole.

In 2006, over 3 thousand employees of the major entities of the Group were awarded various rewards for high performance results, implementation of innovative projects and many years of conscientious work. Among them, 321 employees received government and industry awards.

### Development of the corporate culture

The Group pays a lot of attention to the development of a corporate culture where all employees recognize the value of teamwork and work collectively to achieve established goals, where employees adopt a positive approach towards existing development challenges, and where a healthy lifestyle is promoted.

In accordance with the corporate event plan in 2006, MMC Norilsk Nickel organized festive and sporting events and events for kids. Over 120,000 people, consisting of Group's employees and their family members, attended such events.

The extensive activities of the Merry Norilsk Nickel club, uniting 10 teams of various entities of the Group, promotes creativity among the youth. In November 2006, the Fourth Annual Corporate Festival of the Merry Norilsk Nickel club was held in Norilsk.

One of the vital goals of the corporate culture development efforts is the promotion of a healthy lifestyle as a means of enhancing labor potential and productivity and creating of conditions for regular fitness and sporting activities. In 2006, over 22,000 employees of the Group took part in corporate sports events.

In 2006, as part of the Nickelka kids club project, the Group continued its efforts aimed at developing the creative capabilities of kids and teenagers living in the regions where the Group operates, building a positive image of the Group and motivating them to choose a career related to the Group.

### Healthcare programs and labor environment

Recreation and health care programs for Group employees and their family members represent a high priority social policy initiative and an efficient tool for occupational illnesses prevention as it helps to reduce the sickness rates and fosters high performance results.

Under health care programs, employees have an opportunity to receive special treatment at corporate and third-party recreation centers located in Russia. In 2006, around 20,000 people were treated at sanatorium resorts under discounted resort holiday packages provided by the Group to employees and their family members.

Health care and recreation programs for employees and their family members are funded by the Group entities, based on joint participation at the expense of organizations, employees and government social security programs.

In 2006, the Group continued to implement a program under which certain communal and sports facilities were repaired; for example, canteens, checkrooms and medical centers were equipped with modern appliances and equipment. Approximately RUR 170 million (USD 6.3 million) was spent in implementing the program in 2006.

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### Social adaptation programs as part of restructuring

To improve production effectiveness and secure a leading position in the global mining sector, in 2006, MMC Norilsk Nickel continued to implement structural changes aimed at dividing the Group's operations into separate business streams. These efforts were supported by the roll-out of programs fostering the social adaptation of employees.

When eligible employees are moved to newly established entities of the Group, their social guarantees are preserved. The following social security measures were taken in 2006, with regard to redundant employees:

- creating additional vacancies for employing dismissed employees;
- transferring dismissed employees to vacancies available in other structural divisions (with due regard to their occupation and qualification);
- running training and re-training courses for dismissed employees to master new professions in accordance with the Group's needs;
- employment assistance to employees after the completion of training.

The Group also has targeted programs in place aimed at supporting retirees who retire and depart the Norilsk industrial district. These programs are focused on maintaining an optimal age structure of the personnel and ensuring staff rotation due to the retirement of older employees.

Thanks to the implementation of the social adaptation programs in 2006, more than 1,900 employees retired and moved from the Taimyr Peninsula to areas with a better climate, which contributed to the effective staff rotation due to the internal mobility of employees and the recruitment of young workers and specialists.

### Local community assistance

In close cooperation with regional authorities, municipalities and public organizations, the Group assists the socially sustainable development of territories and contributes to the welfare of the population residing in the areas of the Group's operation, and implements extensive charity programs for the socially-vulnerable layers of the population in the regions where the Group entities are principle employers.

The Group monitors and maintains the housing stock in Norilsk city. In accordance with the program of social infrastructure reconstruction, a series of measures were taken, including capital repairs of preschool institutions, the city hospital, cultural and recreational centers, sports installations and schools.

The Group works together with the Norilsk city Administration on supporting and developing the fitness and sports infrastructure of the city. In 2006, the Norilsk city Administration and the Group signed an agreement on the implementation and financing on a parity basis of the program for the development of the fitness and sports infrastructure of the city for the years 2007-2010.

As for preserving and developing the Group's personnel potential, the long-term interests of the Group and that of the local community overlap. In 2006, the Group, together with local municipalities, regional and federal authorities, and higher educational institutions, carried out joint efforts focused on improving the quality and efficiency of young worker and specialist training and providing career guidance and sponsorship activities in schools located in cities where the Group operates.

The Group provides aid to the population of the Taimyr settlements, carries out activities aimed at the preservation and restoration of the cultural traditions of the native peoples of the Far North and the protection of the unique nature of the Taimyr Peninsula.

Traditionally, as part of the regional charity program, the Group supports local public organizations, including:

- Russian Society of Disable People;
- Russian Society of Blind People;
- Russian Society of Deaf People;
- Association of public organizations of parents raising handicapped children of the Norilsk industrial district Victoria;
- Norilsk City Council of War and Labor Veterans;
- Union for the Protection of Victims of Illegal Political Repression;
- Community of former Norilsk residents in the southern part of the Krasnoyarsk Region;
- Norilsk sports and creative teams;
- budgetary health care and cultural organizations;
- youth and student organizations;
- law enforcement agencies;
- military divisions;
- organizations and institutions of the Krasnoyarsk region.

### Social partnership

Collective agreements embody many years of tradition regarding regulating relations in the social and employment sphere between the employer and the employee. Such agreements are in place in the Group and most of its entities. Apart from the Collective agreement, internal regulations governing the provision of benefits and compensations are in force at the Group entities and all subsidiaries that ensure the social security of employees.

In 2006, the social partnership system reached a new level of maturity. To further improve communication with employees, to preserve the accumulated as well as to develop a new common social and labor standards for the Group's employees, the Corporate Social and Employment Board (the CSEB) was set up. The CSEB represents 55,000 people, who are employed by the Group entities.

The CSEB initiated to organize annual regional corporate forums at the Group entities to consider opinions of personnel representatives. At the Corporate Forum that took place in February 2006, an Agreement was approved that regulated relationships in the social and employment sphere at the Group entities located in Norilsk and the Taimyr (Dolgano-Nenets) municipal district for the period from 2006 to 2008. This Agreement determined the basic standards of employer-employee relations in the social and labor sphere for all entities of the Group located in the Norilsk industrial district.

Further improvement in social partnership is achieved by the establishment of an open dialogue between the employer and employees, direct communication of employees with the management, which allows making prompt decisions regarding day-to-day issues at such levels when they arise.

The Group's social policy was highly applauded at a Russian national competition called the Russian Organization of High Social Efficiency. The Group was named, in 2006, a Honorary Russian High Social Efficiency Organization.

Details of the MMC Norilsk Nickel social policy are disclosed in the Company's 2006 Social report.

