

## **Explanatory note**

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### **Remuneration and reimbursement of expenses of Independent Directors – members of the Board of Directors of MMC Norilsk Nickel.**

#### **I. Cash remuneration**

Based on international corporate practices related to the amounts and procedures of payment of remunerations to independent members of the Board of Directors and taking into account the experience of major Russian companies (including reviews and statistical data provided by the Russian Directors Institute and by the Association of Independent Directors), it is proposed:

1. To establish that the basic amount of remuneration to be paid to an Independent Director shall be RUB 1,250,000 per quarter, and that their expenses shall be reimbursed upon presentation of documental proof in the amount of up to RUB 2 million per year.
2. If an Independent Director presides over a Board Committee (Committees), the additional remuneration in the amount of RUB 625,000 per quarter shall be paid to such Independent Director for each of the Committees, over which he/she presides, while each independent director shall preside over no more than two Board Committees.
3. In addition to remunerations established for independent directors by the Annual General Meeting of Shareholders (Resolution dated June 28, 2007), to establish that Independent Director – Chairman of the Independent Directors Committee shall receive additional remuneration in the amount of RUB 500,000 per quarter for the period from January 1, 2008 to June 30, 2008.

The term of remunerations mentioned in pp. 1 and 2 above shall be from July 1, 2008 until the end of term of a corresponding independent director and/or until he/she ceases to perform the duties of the Committee Chairman (accordingly).

#### **II. Options Program**

Taking into account the results of analytical efforts covering existing market practices in relation to remuneration of independent directors, which was held based on the data provided by Ernst&Young consultants and by the Russian Association of Independent Directors, it is proposed to complement the compensations package for independent members of the Board of Directors of MMC Norilsk Nickel through introducing a remuneration that will depend on the Company's performance in the form of the Independent Directors Remuneration Program – Options Plan. The proposal is as follows:

1. To establish the term of the Program for the period from July 1, 2008 to June 30, 2009 or until the end of term of each respective Independent Director.
2. The Board of Directors will adopt a resolution to include Independent Directors of the Company in the Program and to submit the resolution to the General Meeting of Shareholders of the Company for approval.
3. To propose that the General Meeting of Shareholders approve the size of conventional share blocks to be held by Program participants. Conventional Stocks issued to a Program participant enables the participant to receive only cash remuneration under the Program without grant of any other rights carried by the Company's shares.
4. To propose that the General Meeting of Shareholders approve the Program. Key provisions of the Program are as follows:
  - Upon expiration of the Program term each Participant will be eligible to receive remuneration provided that he will be an Independent Director of the Company at the

Program expiration date. If for any reason an Independent Director ceases to carry out his/her duties in this capacity before Program termination date, his remuneration shall be identified pro rata to duration of the Participant's term as an Independent Board member within the Program's term.

- Remuneration to Participant will be comprised of the following components:
  - a. Absolute component will be calculated based on 50% of the Participants Conventional Share Block and on the absolute growth of the Company's share value during Program term adjusted by the special ratio ensuring that the remuneration will be commensurate with real terms in situations where market prices for the Company's shares are highly volatile.
  - b. Relative component will be calculated based on 50% of the Participants Conventional Share Block and on the amount, by which the Company's total per share income growth exceeds the total per share income growth of a set of peer companies during the Program term.
  - c. Dividend equivalent shall be equal to the dividend amount for the Program term calculated for the amount of the Company's shares, which are used in calculation of the absolute component of remuneration.
- Remunerations shall be paid to Program Participants within 30 days following the date of Program expiry / the date, on which a respective Participant stops performing the duties of the Company's independent director.

In accordance with the Federal Law *On Joint Stock Companies* (Art. 64 p. 2), the General Meeting of Shareholders of the Company is authorized to adopt resolutions on payment of remunerations and compensations to members of the Board of Directors.