



Polymetal UN Global Compact Communication on Progress (COP) Report 2009

“One of the leading Russian gold and silver mining companies Polymetal is proud to support the United Nations Global Compact (UNGC) voluntary initiative. We are committed to internalize the initiative’s ten principles in the areas of human rights, labour, environment and anti-corruption at each of our subsidiaries in three regions of operation in Russia as well as to support the initiative financially. With the continuing Polymetal’s growth and potential international expansion to Kazakhstan, it is important to share our key actions and outcomes related to ten principles in our first Communications in Progress (COP) report”.

*Vitaliy Nesis
Chief Executive Officer*

Human Rights

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

COMMITMENT

Polymetal supports and respects the protection of internationally proclaimed human rights: every single person within the company is entitled to enjoy his or her human rights without distinction as to race, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Rights of every person within the company are protected by the current *Constitution of the Russian Federation* (Chapter 2. Rights and Freedoms of Man and Citizen), by the *Labor Code of the Russian Federation* and by multiple internal documents such as *Internal Regulations*.

Polymetal's support of human rights and freedoms of our employees, and people living in the communities neighboring our mines, is described on our *website*, in our *Annual Report 2008* (Social Responsibility, p. 70-82) and in the *Sustainable Development report 2007*.

SYSTEMS

- Polymetal's *Management System for Industrial and Occupational Safety* is based on Russian laws and regulations, various federal laws and standards of industrial safety and healthcare. The Company has introduced international best practices of industrial and occupational safety with the goal to reduce injuries and health risks, and to effectively implement the corporate *Safety System*.
- Polymetal provides healthcare support for its employees.
- Polymetal continuously supports local communities via long-term social partnership agreements with the local municipalities in all regions of its operations. The Company has a number of programs that focus on the modernization of local schools, health and cultural facilities, as well as the maintenance and upgrade of roads and other infrastructure.
- Polymetal introduced successful feedback initiative *Obratnaya svyaz* in May 2007, where employees can ask managers any question. Interested personnel could ask a question and receive an accurate response in a timely manner.

ACTIVITIES (including Outcomes or Expected Outcomes)

Social work

- To support education, Polymetal funded projects such as the complete renovation of a kindergarten and arts school in Omsukchan (Magadan Region), the construction of sports and athletics complexes in the areas of Okhotsk and Amursk (Khabarovsk Territory), the restoration of educational institutions in the Polina Osipenko District and town of Kherpuchi, and the reconstruction of social institutions in Krasnoturinsk (Sverdlovsk Region).
- To support healthcare, the Company provided assistance to an orphanage in Amursk in the Khabarovsk Territory, a healthcare facility in the town of Kherpuchi of Polina Osipenko District, and bought equipment for hospitals in Omsukchan, Srednekansk, and Severo-Evensk districts in Magadan region.
- With the goal to support cultural traditions, Polymetal sponsored cultural facilities in the Polina Osipenko District and bought equipment for the Amursk movie theater in Khabarovsk Territory. The company also helped to renovate the Community and Folk Arts Center in the

town of Omsukchan and the House of Culture in the town of Evensk in Magadan Region. In 2008, the Company helped organize trades fairs, festivals and competitions in all the regions in which it operates. For example, Polymetal helped to organize annual festival for the Metallurgist's day.

- As part of its program to support the indigenous people in the north of the Magadan Region, the Company acquired two Buran snowmobiles and fuel for the Balygychan clan in the Srednekansk District. Polymetal also bought tents for reindeer herders in the Severo-Evensk District. In 2008, the company provided support for the *Buben Druzhy* folklore festival in the Khabarovsk Territory.

Health

- Polymetal provides *Mandatory Health Insurance* to all employees.
- The Company is particularly focused on developing preventative care. We provide free medical checks for employees and give vaccinations. Doctors inform workers about occupational diseases and provide them with information on disease prevention.
- Employees could access medical treatment at healthcare facilities with which Polymetal has signed contracts. For example, Polymetal signed an agreement with *Metropolitein* hospital in St. Petersburg. Employees have an opportunity to receive treatment in this hospital which is located in the walking distance from the headquarters of the company.
- There are first aid medical stations at all Company's operations.

Safety and Security

- The safety department of Magadan Silver (the productions and development subsidiary of Polymetal) introduced prevention program which aims to reduce risks and protect production as well as to protect commercial, production and business information. The department developed multiple internal legal regulations in order to improve safety and it works closely with local authorities such as administration, Department of Internal Affairs, and Federal Security Service. The safety department together with security department eliminated eight incidents to steal property in 2008.
- The department launched video supervision initiative to prevent violations of law.
- Every new employee completes the security screening and safety training prior to beginning of his or her work with the goal to ensure safe environment in the workplace.
- There were no fatal accidents at the sites in 2008.
- Occupational Safety Days are held at all Company operations for introductory and follow-on instruction.
- Lost workdays due to accidents and workplace injuries at the Company operations totaled 576 days in 2008 which is a 6% decrease from 2007. This way Polymetal continued a five year trend of improving reportable lost time frequencies.
- The Company has received a positive review from an external audit conducted by SRK Consulting (UK) Ltd. This audit confirmed that Polymetal has implemented its Occupational Safety Management System in compliance with World Bank guidelines. Additional System upgrades will include the implementation of OHSAS 18001 (Occupational Health and Safety Assessment Series). Work on this project began in March 2007 with risks identification stage and with formulation of the goals to reduce risks to the minimum. The project plan was developed and 28 employees received additional training called "Integrated management systems". The implementation of OHSAS 18001 is in process in 2009 and is planned to be completed by 2012.

Industrial and Occupational Safety Achievements and Goals (Annual Report p. 76)		
Major Goals 2008	Achievements 2008	Major Goals 2009
Introduce the Management System for Industrial and Occupational Safety (MSIOS) at exploration and construction operations.	Successfully introduced	Focus on personnel health and safety policies.
Develop and improve the MSIOS's regulations for the organization and application of industrial safety requirements at riskful production sites.	New regulations were reconfirmed by the Russian Technical Supervisory Authority.	Identify primary dangers and risks in the workplace.
Increase responsibility of operations managers, technical supervisors, engineers, technicians, and employees for violating safety rules and regulations.	A system for supervision and accountability was introduced and the number of disciplinary measures and fines for violations increased.	Improve work ethos and employee responsibility for the condition of their workplaces.
Conduct an analysis of operating efficiency and rate the quality of preventative measures introduced.	A quarterly analysis was conducted and corrective measures were developed.	Introduce preventative measures to reduce the primary causes of accidents and emergencies.

GOALS

- Create a system to regulate labor relations and develop a social partnership that takes into consideration both employee and company needs;
- Modernize the employee incentive system, offering competitive salaries and benefits packages that would lead to increased productivity and improved results;
- Train personnel in order to ensure that all Polymetal subsidiaries have an adequate number of qualified specialists;
- Improve labor conditions and level of safety at the workplace;
- Improve living conditions at our operations.

Case Study: “Obratnaya Svyaz”

Polymetal introduced successful feedback initiative “Obratnaya svyaz” in May 2007 to ensure better communication and interrelationships between employees and management of the Company.

Interested personnel had an opportunity to write and submit the note with any kind of question to the special feedback boxes located in every of Polymetal’s offices. Also, questions could be send to the company’s newspaper “North Latitude” (via regular letter or by filling out special coupon located in each edition of the newspaper), could be asked via special form on the website, through the phone service “Direct Line” with the management of the company, personally or at the meeting. Each question is registered and processed according to the regulations at each of the Polymetal’s subsidiaries.

In 2008, the company received 508 questions from employees. The questions were on various topics: social benefits, salary, security at work, and other questions. This indicated a 5% increase in number of questions from 2007.

Human Resources professionals answered questions (23% of all questions) about salaries in personal dialogues with employees. 17% of all questions came from groups who inquired about living and work conditions. Polymetal answered questions regarding financial aid, travel reimbursement, transportation to and from work, and medical expenses.

Two examples that prove the success of the program: employees from the production and development subsidiary Gold of Northern Urals were satisfied with new fixed lunch price set by the management, while new safety rules for transportation to and from work were introduced to employees in Magadan after employees’ requests.

Answers to the most important and frequently asked questions were published in the company’s internal newspaper “North Latitude”.

As a result, all 508 questions were answered either in personal dialogues, via the phone calls using “Direct Line” service or in the newspaper. According to the poll of 1000 people in 2008, employees of the company recognized “Obratnaya Svyaz” program as the most effective way to receive response to his or her question. This initiative helps to build relationships within the company, to expedite response time to the important inquiries and to regulate healthy interrelationships among the company management and employees.

Labour

- Principle 3** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4** the elimination of all forms of forced and compulsory labour;
- Principle 5** the effective abolition of child labour; and
- Principle 6** the elimination of discrimination in respect of employment and occupation.

COMMITMENT

Polymetal is committed to the freedom of association and the effective recognition of the right to collective bargaining for our employees, and the elimination of all forms of forced and compulsory labour. We continually support our standard of no child labour and no discrimination in our organization or any organization we work with.

SYSTEMS

- In 2007, Collective Bargaining Agreements were established to represent employees at most of Company's operations. Collective Bargaining Agreements protect the interests of all Polymetal employees and create an effective mechanism of handling questions of social and labor relations.
- Polymetal maintains several educational programs of professional development: mandatory training, skill development and refresher training.
- Polymetal representatives participate in working groups and committees created by local administrations to solve social issues.
- As part of the continuous effort to establish a more effective social policy in its operational areas, the Company regularly monitors public opinion via analysis of annual social surveys.

ACTIVITIES (including Outcomes or Expected Outcomes)

- Polymetal have never experienced any incidents of forced or compulsory labor at our operations.
- Polymetal's average wage is above the average wage in Russia.
- In 2008, average monthly salary increased by 32% since 2007
- Polymetal ensures that every employee has an appropriate compensation and benefits package which may include (taking into consideration work environment and geographical location of the subsidiary): benefits, guarantees and compensation for employees from other regions who are stationed in the Far North and other remote areas, as mandated by existing legislation and local legislative acts; material assistance for employees for various extraordinary situations; additional severance pay for employees who reach retirement age; compensation for employees with children attending pre-school or after-school programs; compensation for comprehensive summer camp packages for employees' children; and compensation for employees and their families equal to the price of round-trip tickets to a vacation destination once every two years.
- Company holds sporting, cultural and corporate events for employees.
- Polymetal received *Attractive-employer* award from the Russian online job search portal SuperJob.ru.
- Gold of Northern Urals, the production and development subsidiary of Polymetal, satisfied requests of its employees and substituted three-by-eight-hours shifts to two 12 hour shifts

from February 1, 2009. This way employee would go to work less often and get necessary rest between shifts.

- In December 2007, Gold of Northern Urals admitted Collective Agreement - a document which regulates the following questions between the employer and employees: salary rates, internal regulations and dress code for employees who work in hostile conditions and other questions. In 2008, several changes were made in the Collective Agreement regarding paid summer vacations for employee's children, higher stipend during the maternity leave, additional support of athletic and cultural activities, and compensation for milk.
- Magadan Silver (a subsidiary of Polymetal) utilizes Collective Agreement as well. In particular, the document supports rights of young families and women on maternity leave by providing additional financial compensation. Engineers and mechanics receive additional days off for non-standard work days according to this Agreement.
- The Second Conference of the Okhotskaya Mining and Exploration Company collective (a subsidiary of Polymetal) was held on May 11, 2008. The following accomplishments at Okhotskaya Mining and Exploration Company were discussed at the conference: 145 employees received additional training and 67 employees finished job security trainings. The company developed several job safety and health programs: 774 employees participated in mandatory medical examination at the company's expense and company paid for the individual safety certificates for 1010 people.

Education

- 1196 employees received an additional training in 2008: 709 employees went through the mandatory training program, 412 – skill development and 75 went through refresher training.
- Polymetal's reserve includes 12 employees who have Ph.D. degrees at the Polymetal Engineering (a service subsidiary of Polymetal) and 11 employees with Ph.D. at Polymetal Management.
- In 2008, 84 students participated in the "Youth. Professionalism. Career." internship program. The Company provided students with room and board, roundtrip transportation to the facilities and pays them for their labor. During the internship, students also take part in cultural and social projects.
- During the fall of 2008, the company initiated the new program called Management Reserve. Polymetal plans to introduce training program for employees that could potentially work as a substitute to managers in case of emergency. Additional trainings, internships and educational materials are part of the two-year program.

GOALS

- Polymetal's goals for 2009 and 2010 years include the expansion of work force with young specialists, the personnel pool; work to receive accreditation for the Company's educational activities, including professional training and skill development for employees at plants.
- The goal of the Polymetal's subsidiary Okhotskaya Mining and Exploration Company for 2009 is to increase communication mechanism with employees in order to protect their interests and to direct employees with their questions to the appropriate managers.
- One of the goals of Gold of Northern Urals for 2010 is to join the "Gold Mining Union in Ural", a union which would be a non-commercial partnership among employees in gold mining industry. This union would work according to the Russian laws and would provide support and consulting services for the mining companies in the Russian market.

ENVIRONMENT

- Principle 7** Businesses should support a precautionary approach to environmental challenges;
- Principle 8** undertake initiatives to promote greater environmental responsibility; and
- Principle 9** encourage the development and diffusion of environmentally friendly technologies.

COMMITMENT

Polymetal's activities are based on the principles of responsibility to our employees, environment protection and assistance in the developing of the stable and healthy communities. Polymetal makes arrangements to minimize our environmental impact and to ensure that we support the economic development of the communities in which we operate. Reducing environmental impact is a key priority for the Company. Polymetal strives to improve production safety and is implementing an environmental protection system that will protect the environment of the regions the Company operates in.

SYSTEMS

- Guided by its principles of information openness and transparency, Polymetal maintains an active public relations effort to keep local communities, the government and NGOs informed about its environmental impact.
- Public hearings are held concerning every new project where the Company presents detailed information on the technology as well as the economic and environmental aspects of the potential projects. All public hearings held have been resulted in projects approval by the community.
- *Environmental and Industrial Sanitation Management System* was launched at Polymetal and its subsidiaries in 2006 which corresponds with all World Bank requirements, ISO 14001 international standards, Russian Federal Laws, the regulations of the *Ministry of Natural Resources of Russian Federation* and *Russian Consumer Inspection*.
- Polymetal's Environmental Directory department works on the environmental impact assessment and ecological norms across the company.

ACTIVITIES (including Outcomes or Expected Outcomes)

- In 2005, Polymetal published Environmental and Socioeconomic Aspects reports for Khakanja, Voro, Dukat and Lunnoe processing plants with the purpose to provide these reports during public hearings of the 2004–2005 results. Each report described the organizational structure, ecological policy, environmental control rules and initiatives, monitoring, events, and charitable and sponsorship help.
- In August 2006, SRK Consulting Engineers and Scientists prepared "*Polymetal Environmental Compliance Strategy Final Report*" which ensured that our company and each of its subsidiaries has obtained, performed and observed to the standards required by the Environmental Compliance Strategy. This means that all Polymetal operations adhered to sound principles of environmental management as defined by then current policies and guidelines of the World Bank Group such as compliance with the relevant sections of the following documents: – *IFC Environmental, Health & Safety Guidelines for Precious Metal Mining (Draft Guidance, July 2004)*, *World Bank Environment, Health & Safety Guidelines for Mining and Milling Underground (1995) and Open-pit (1995)*, *World Bank – Pollution Prevention and Abatement Handbook (1998)*, and various other documents.

- Polymetal spent \$793,500 on water conservation and utilization, soil conservation, and air protection projects in 2008.
- In 2008, new equipment was bought for eco-laboratory at Magadan Silver (a subsidiary of Polymetal) which allows us to conduct tests more accurately and to improve our ecological control quality of air, natural and sewage water.
- Polymetal constantly monitors quality of surface and underground water in the region of exposure, and air quality on the border of plants' sanitation zones and in the nearest communities. In 2008, the ambient environment did not change significantly contrasting with the baseline norms.
- Most industrial run-off is used in a water recirculation system. All types of sewage water (utility, pit-run, rain, and melted water from industrial site) go through the high-efficiency cleaning structures before its discharge into natural water body. The quality of the waste water meets environmental protection standards after filtration.
- Gold of Northern Urals (a subsidiary of Polymetal) used water (from domestic waste water, pit and rain water) in the technological process heap leaching of oxidized ore in 2008. This initiative saves up to 100 000 m² of water from natural resources a year. The use of recycled water led to cancellation of construction plans of the water supply well and reduction in the amount of disposable water from the pit and producing area of gold-processing plant.
- Air-quality targets are achieved by managing and filtering atmospheric emissions, and using dust suppression at open pit mines, dumps and technical roads.
- New section of tailings was commissioned at the Omsukchan plant at Magadan Silver (a subsidiary of Polymetal). Waste channels and a water re-circulation system were constructed in order to prevent water contamination.
- Reconstruction of the tailings impoundment was completed at Lunnoye (a subsidiary of Polymetal). In order to prevent water from filtering into the Leviy Bulur stream in the valley in which the impoundment is located, a frozen curtain was built below the impoundment's dam.
- In order to reduce the amount of drainage water discharged into the natural watershed at Northern Urals Gold, construction of a water pipe from the drainage wells at Voro's open pit mines to the processing plant's industrial area was begun in Q4 2008. As of 2009, the plant has been built and is currently at the commissioning stage.
- Polymetal strives to decrease cyanide emission into environment at all operations. Concentration of cyanic hydrogen in the air, water and on the sanitary-protection border does not exceed permissible standards.

GOALS

- To decrease industrial waste disposal.
- To improve on the existing *Environmental and Industrial Sanitation Management System* and develop the *Ecological Management System* which would have international compliance in the nearest future. The transition to the new system will be done gradually in 2009–2010.

ANTI-CORRUPTION

Principle 10 Businesses should work against corruption in all forms, including extortion and bribery.

COMMITMENT

Polymetal is committed to work against corruption in all forms.

SYSTEMS

- Polymetal stands against corruption and does not participate in illegal activities.
- Polymetal conforms and obeys Russian laws and corresponding regulatory legal acts.
- External and internal company relations are based on principles of honesty, objectivity, justice and conscientiousness.
- Structure and work of the Company are transparent. Polymetal has internal and external auditors, as well as other organizations of control.
- The Company maintains high level of business ethics.
- Appropriate confidentiality and disclosure of the information is an important standard within the Company.

ACTIVITIES (including Outcomes or Expected Outcomes)

- Polymetal's corporate management system is based on Russian legislation. In addition, Polymetal strives to conform to current global business standards and to apply international best practice.
- The Company's public status increases its responsibility to ensure transparent corporate management and open access to information in accordance with the requirements of the
- London Stock Exchange and UK Law.
- Currently, the Polymetal's main internal regulatory documents that determine management procedures and rules of corporate conduct are: *The Company Charter*; *Regulations for the Board of Directors*; *Regulations for the Audit Committee of the Board of Directors*; *Regulations for the Remuneration and Nomination Committee of the Board of Directors*; and *Regulations on internal control of financial activities*. These documents are founded on the basic principles of good corporate conduct and transparency and Polymetal adjusts them in accordance with changes in legislation adapting them to reflect the latest developments in corporate governance.
- Internal audits of financial and production activities are conducted by the *Internal Audit Division*, an independent department that reports to the CEO. The Internal Audit Division is used to conduct internal audits and checks, as well as to evaluate the activities of each element of the Company for risk management, internal review and corporate governance.
- *Revision committee* provides regular monitoring of Company activities, subsidiaries and management bodies. It also audits the Company's financial position and internal review systems. The Revision Commission confirms the reliability of financial reports and investigates any reports of the dubious use of insider information.
- Current *Audit Committee of the Board of Directors* performs evaluations of the effectiveness of internal control procedures over financial activities and prepares suggestions to update them.

GOALS

- Polymetal's goal is to be in compliance with the corporate governance code of the Federal Commission for the Securities Markets of Russia.