**MMC NORILSK NICKEL PRESENTS**
**THE CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2006**
**PREPARED IN ACCORDANCE WITH INTERNATIONAL**
**FINANCIAL REPORTING STANDARDS**

Open Joint Stock Company ("OJSC") Mining and Metallurgical Company Norilsk Nickel ("MMC Norilsk Nickel" or the "Company") and its subsidiaries (the "Group") present the consolidated financial statements for the year ended 31 December 2006, prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated annual financial statements have been audited by Deloitte & Touche in accordance with the International Standards on Auditing, and they have issued an unqualified audit opinion.

The measurement currency of the consolidated annual financial statements is the Russian Rouble, which reflects the economic substance of the operations conducted by the Group which has most of its assets in the Russian Federation.

The Group has selected the US Dollar as its presentation currency. Using USD as a presentation currency is common practice for global mining companies.

On 15 May 2007, the Board of Directors of MMC Norilsk Nickel approved the Group's reorganization plan involving the spin-off of non-core energy assets into a separate company, shares of which will be distributed among MMC Norilsk Nickel shareholders on a proportional basis. Strategic energy assets engaged in power supply to the Group's production facilities in the Taimyr Peninsula, will not be subject to spin-off. Shareholders that will not vote or will vote against the reorganization will be entitled to present their ordinary shares in MMC Norilsk Nickel for repurchase. The project time schedule and final list of the energy assets to be spun-off will be determined by September 2007.

Separate disclosure of the disposal group of assets and liabilities will be presented in the Group's consolidated financial statements for the year ending 31 December 2007.

**Presentation of the Polus Group's results in the consolidated annual financial statements**

The financial performance of the Polus Group was reflected in the consolidated financial statements of the Group for the two years ended 31 December 2006 as follows:

– ***Consolidated income statement***
  - The financial results of operations of the Polus Group for the period from 1 January 2006 to 17 March 2006 (date of completion of the spin-off transaction) are not consolidated, and are shown separately as income for the period from discontinued operations.
  - The financial results of operations of the Polus Group for the year ended 31 December 2005 are not consolidated and are shown separately as income for the year from discontinued operations.

– ***Consolidated balance sheet***
  - The consolidated balance sheet of the Group as at 31 December 2006 is presented excluding the Polus Group data effective from 17 March 2006.
  - The consolidated balance sheet of the Group as at 31 December 2005 is presented with the Polus Group data being disclosed separately as assets and liabilities to be disposed of.

– ***Consolidated statement of cash flows***
  - The consolidated cash flow statements of the Group for the two years ended 31 December 2006 are presented inclusive of the Polus Group data for the period from 1 January 2006 to 17 March 2006 and for the full year ended 31 December 2005.

## CONSOLIDATED INCOME STATEMENT
**FOR THE YEAR ENDED 31 DECEMBER 2006**
*(US Dollars million)*

| | Notes | 2006 | 2005 | *% change y-o-y* |
|---|---|---|---|---|
| **Metal sales** | | | | |
| Nickel | | 6,228 | 3,674 | ***70*** |
| Copper | | 2,841 | 1,644 | ***73*** |
| Palladium | | 1,265 | 914 | ***38*** |
| Platinum | | 1,116 | 864 | ***29*** |
| Gold | | 100 | 73 | ***37*** |
| **Metal sales** | **1** | **11,550** | **7,169** | ***61*** |
| Cost of metal sales | 2 | (3,158) | (2,994) | ***5*** |
| **Gross profit on metal sales** | | **8,392** | **4,175** | ***101*** |
| *Gross profit* | | *73%* | *58%* | |
| Selling, general and administrative expenses | 3 | (1,090) | (841) | ***30*** |
| Other net operating expenses | 4 | (278) | (156) | ***78*** |
| **Operating profit** | | **7,024** | **3,178** | ***121*** |
| Finance costs | 5 | (21) | (121) | |
| Net (loss)/income from investments | 6 | (226) | 59 | |
| **Profit before income tax** | | **6,777** | **3,116** | ***117*** |
| Income tax | 7 | (1,805) | (838) | |
| **Profit for the year from continuing operations** | | **4,972** | **2,278** | ***118*** |
| Profit for the year from discontinued operations | 8 | 993 | 74 | |
| **Profit for the year** | **9** | **5,965** | **2,352** | ***154*** |
| Attributable to: | | | | |
| Shareholders of the parent company | | 5,989 | 2,355 | |
| Minority interest | | (24) | (3) | |
| | | **5,965** | **2,352** | |
| *Profit for the year* | | *52%* | *33%* | |
| **Weighted average number of ordinary shares in issue during the year** | | **188,767,177** | **201,242,833** | |
| **Basic and diluted earnings per share from continuing and discontinued operations attributable to shareholders of the parent company (US Dollars)** | | **31.7** | **11.7** | ***171*** |
| **Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent company (US Dollars)** | | **26.5** | **11.3** | ***135*** |

## 1. METAL SALES

In 2006, revenues from metal sales totalled USD 11,550 million, which represented a 61% increase from 2005. The main factor of revenue growth in 2006 was the overall increase of sales prices for the metals produced by the Group.

The favourable situation in the metal markets, expansion of the sales geography and focus on end customers enabled the Group to have a revenue increase for all metals of USD 4,381 million, of which USD 3,751 million (86%) was for base metals, and USD 630 million (14%) for PGMs and gold.

**Adjusted [(1)] average selling prices of metals**
**(excluding Polus Group and Stillwater Mining Company)**

| **Metal** | **2006** | **2005** | ***% change y-o-y*** |
|---|---|---|---|
| Nickel (US Dollars per tonne) [(1)] | 24,081 | 14,560 | ***65*** |
| Copper (US Dollars per tonne) | 6,689 | 3,652 | ***83*** |
| Palladium (US Dollars per ounce) | 321 | 205 | ***57*** |
| Platinum (US Dollars per ounce) | 1,133 | 901 | ***26*** |
| Gold (US Dollars per ounce) | 608 | 450 | ***35*** |

**Physical volumes of metal sales**
**(excluding Polus Group)**

| **Metal** | **2006** | **2005** | ***% change y-o-y*** |
|---|---|---|---|
| **MMC Norilsk Nickel** | | | |
| Nickel (‘000 tonnes) [(1)] | 257 | 244 | ***5*** |
| Copper (‘000 tonnes) | 424 | 450 | ***(6)*** |
| Palladium (‘000 ounces) | 3,220 | 3,231 | ***-*** |
| Platinum (‘000 ounces) | 750 | 758 | ***(1)*** |
| Gold (‘000 ounces) | 153 | 162 | ***(6)*** |
| **Stillwater Mining Company** | | | |
| Palladium (‘000 ounces) | 648[(2)] | 933[(3)] | ***(31)*** |
| Platinum (‘000 ounces) | 326 | 216 | ***51*** |
| Gold (‘000 ounces) | 11 | - | - |

Notes:
(1) Excluding sales of metal purchased from third parties.
(2) Including 63,000 ounces of palladium delivered ex the inventory received in 2003, as part payment in MMC Norilsk Nickel share purchase transaction.
(3) Including 439,000 ounces of palladium delivered ex the inventory received in 2003, as part payment in MMC Norilsk Nickel share purchase transaction.

### *Nickel*

The revenue from nickel sales increased by 70% and reached USD 6,228 million in 2006 as compared to USD 3,674 million in 2005. Due to a significant growth in the adjusted average selling price of nickel by 65% – from USD 14,560 per tonne in 2005 to USD 24,081 per tonne in 2006. During 2006 the physical volumes of nickel sales (excluding sales of metal purchased from third parties) increased by 5% (or 13,000 tonnes) to 257,000 tonnes as compared to 244,000 tonnes in 2005.

### *Copper*

Revenue from copper sales increased by 73% from USD 1,644 million in 2005 to USD 2,841 million in 2006. In 2006, the decrease in physical volume of copper sales by 6% (or 26,000 tonnes) to 424,000 tonnes as compared to 450,000 tonnes in 2005 was offset by an increase in the average selling price by 83% – from USD 3,652 per tonne in 2005 to USD 6,689 in 2006.

### *Palladium*

Palladium sales increased by 38% from USD 914 million in 2005 to USD 1,265 million in 2006.

Palladium sales excluding sales of Stillwater Mining Company increased by 56% from USD 661 million in 2005 to USD 1,033 million in 2006. In physical terms, sales of palladium produced by the Group in Russia amounted to 3,220,000 ounces in 2006, which is practically the same as sales for 2005, which amounted to 3,231,000 ounces.

The palladium sales by Stillwater Mining Company decreased by 8% from USD 253 million in 2005 to USD 232 million in 2006. The decrease in revenue is explained by a 31% decrease in physical volumes of sales, which was due to the sales in the previous periods of metal received by the company from the Group as part payment for the purchase of Stillwater Mining Company shares, and an increase in the sales of palladium received from processing scrap. In 2006, Stillwater Mining Company sold 648,000 ounces of palladium, including 63,000 ounces of palladium received from the Group in 2003 (as compared to 933,000 ounces in 2005, including 439,000 ounces received from the Group in 2003). The decrease in the physical volume of sales was offset by the increase in the sales price.

### *Platinum*

Platinum sales increased by 29% from USD 864 million in 2005 to USD 1,116 million in 2006

Sales of platinum produced by the Group in Russia increased by 24% from USD 683 million in 2005 to USD 850 million in 2006. The increase is explained mainly by the growth of the sales price by 26% from USD 901 per ounce in 2005 to USD 1,133 per ounce in 2006; with a slight decline in the physical sales volumes of 1% (8,000 ounces) to 750,000 ounces in 2006.

Platinum sales by Stillwater Mining Company increased by 47% from USD 181 million in 2005 to USD 266 million in 2006. The main growth factor is the increase of sales in physical terms by 51% (110,000 ounces) from 216,000 ounces in 2005 to 326,000 ounces in 2006, which relates primarily to the growth of sales of platinum received from processing secondary material.

### *Gold (excluding Polus Group)*

Gold sales increased by 37% from USD 73 million in 2005 to USD 100 million in 2006. The increase is explained mainly by an increase in sales prices of 35% from USD 450 per ounce in 2005 to USD 608 per ounce in 2006. In physical terms, sales of gold produced by the Group in Russia amounted to 153,000 ounces and by Stillwater Mining Company to 11,000 ounces or 164,000 ounces in total as compared to 162,000 ounces of gold in 2005.

## 2. COST OF METAL SALES

**Cost of metal sales (excluding Polus Group)**
*(US Dollars million)*

| | **2006** | *% of Total* | **2005** | *% of Total* | *% change y-o-y* |
|---|---|---|---|---|---|
| Total cash operating costs (see table below) | 2,538 | *82* | 2,410 | *83* | ***5*** |
| Amortisation and depreciation of operating assets | 568 | *18* | 498 | *17* | ***14*** |
| **Total production costs** | **3,106** | **100** | **2,908** | **100** | **7** |
| Decrease in metal inventories | 52 | | 86 | | *(40)* |
| **Cost of metal sales** | **3,158** | **100** | **2,994** | **100** | **5** |

Cost of metal sales increased by 5% from USD 2,994 million in 2005 to USD 3,158 million in 2006.

***Cash operating costs***

Cash operating costs increased by 5% to USD 2,538 million in 2006 against USD 2,410 million in 2005.

The cash operating cost structure virtually did not change in 2006. Labour remained the most significant item of cash operating costs, increasing its share of the general structure of operating costs from 32% in 2005 to 34% in 2006. In addition, the share of scrap PGM costs also increased from 3% in 2005 to 8% in 2006, due to purchases by Stillwater Mining Company.

In 2006, the Group continued to cut expenses on metals purchased from third parties. The share of this item in the general structure of cash operating costs changed from 3% in 2005 to 1% in 2006. Additionally, in 2006 the Group substantially reduced the purchases and processing of scrap copper, which resulted in the reduction of the share of this item in the total volume of cash costs – from 3% in 2005 to almost zero in 2006.

Key reasons for the growth in total cash operating costs of USD 467 in 2006, before revenue from sales of by-products, compared to 2005 included:

– an increase effect arising from the translation into presentation currency by USD 94 million;
– an absolute increase of cash operating costs by USD 373 million**.**

**Cash operating costs (excluding Polus Group)**
*(US Dollars million)*

| | 2006 | % of Total | 2005 | % of Total | % change y-o-y |
|---|---|---|---|---|---|
| Labour | 1,060 | *34* | 862 | *32* | ***23*** |
| Consumables and spares | 833 | *27* | 765 | *28* | ***9*** |
| PGM scrap purchase | 268 | *8* | 82 | *3* | ***227*** |
| Repairs and maintenance | 171 | *5* | 134 | *5* | ***28*** |
| Transportation | 143 | *4* | 117 | *4* | ***22*** |
| Insurance | 139 | *4* | 116 | *4* | ***20*** |
| Tax on mining and pollution levies | 127 | *4* | 119 | *4* | ***7*** |
| PGM toll refining costs | 77 | *2* | 76 | *3* | ***1*** |
| Utilities | 73 | *2* | 88 | *3* | ***(17)*** |
| Exploration expenses | 49 | *2* | 39 | *1* | ***26*** |
| Cost of refined metals purchased from third parties | 28 | *1* | 91 | *3* | ***(69)*** |
| Non-ferrous scrap metal purchased | 5 | - | 87 | *3* | ***(94)*** |
| Other costs | 237 | *7* | 167 | *7* | ***42*** |
| **Total cash operating costs** | **3,210** | **100** | **2,743** | **100** | **17** |
| **Revenue from sales of by-products** | **(672)** | | **(333)** | | ***102*** |
| **Total cash operating costs** | **2,538** | | **2,410** | | ***5*** |

### *Labour*

In 2006, labour costs increased by USD 198 million (or 23%) to USD 1,060 million. The increase is caused by the effect of translation into presentation currency by USD 34 million and an increase in the salary level by USD 164 million.

### *Consumables and spares*

Consumables and spares costs in 2006 increased by USD 68 million (or 9%) up to USD 833 million. The increase is caused by the effect of translation into presentation currency by USD 30 million and the growth of purchase prices for inventories due to inflation.

### *PGM scrap purchase*

In 2006, purchases of PGM scrap increased by USD 186 million (or 227%) to USD 268 million due to the increase in purchases by Stillwater Mining Company to effectively utilize production capacities and increase PGM production.

### *Repairs and maintenance*

In 2006, repairs and maintenance costs increased by USD 37 million (or 28%) to USD 171 million due to mid-life repair of the flash smelting line in the Taimyr Peninsula, and also due to inflation.

### *Transportation*

The increase of metals transportation cost by USD 26 million (or 22%) up to USD 143 million in 2006 are related mainly to the increase in transportation tariffs. In addition, there was an increase in cargo insurance, which generally is in line with the growth of prices for metal products.

### *Insurance*

Insurance expenses in 2006 increased by USD 23 million (or 20%) up to USD 139 million. The reason was the introduction of additional insurance related to the risk of downtime of the main production unit.

*Tax on mining and pollution levies*

Tax on mining and pollution levies increased by USD 8 million (or 7%) up to USD 127 million in 2006, which is mainly caused by the increase in the taxable base for mining tax purposes due to the increase in cost of production and the effect of translation into the presentation currency.

*PGM toll refining costs*

In 2006, PGM toll refining costs increased by USD 1 million (or 1%) up to USD 77 million due to the effect of translation into presentation currency.

*Utilities*

In 2006, expenses on utilities decreased by USD 15 million (or 17%) to USD 73 million. The main reason for the decrease was the long-term agreement signed in August 2005 for the long-term lease of generating and transmitting capacities of OJSC Taimyrenergo as a single production facility and replacement of expenses on electric power supplies and utilities with corresponding lease payments. Lease costs within cash operating expenses were recorded as other expenses, which partially explain the related dynamics of other expenses growth. After the acquisition in July 2006 of a 100% stake in OJSC Taimyrenergo lease expenses were replaced with the respective depreciation charges recorded as depreciation of property, plant and equipment.

*Exploration expenses*

The increase in exploration expenditures in 2006 by USD 10 million (or 26%) to USD 49 million as compared with 2005 is caused by significant growth of exploration work (more than twice as large) performed by GRK Bystrinskoye aimed at classifying and expanding mineral resource base of the Group.

*Cost of refined metals purchased from third parties*

In 2006, the cost of refined metal purchased from third parties decreased by USD 63 million (or 69%) to USD 28 million, mainly due to decrease of beneficial offerings in the market.

*Non-ferrous scrap metal purchased*

In 2006, the purchase of scrap non-ferrous metals decreased by USD 82 million (or 94%) and amounted to USD 5 million as a result of the cessation of scrap copper processing at OJSC Kola MMC due to high purchasing prices and a sharp decline in the profitability of finished copper from scrap.

*Other cash costs*

In 2006, other cash costs increased by USD 70 million (or 42%) up to USD 237 million due to the increase in transportation expenses related to the increase of copper transportation to high-value added production and growth of internal transportation tariffs, increase in the volume and cost of services related to tailings pipe maintenance and relocation, growth of lease tariffs and increase in other expenses related mainly to inflation.

*Sales of by-products*

Sales of by-products in 2006 increased by USD 339 million (or 102%) and totalled USD 672 million mainly due to the increase of selling prices for by-product metals.

*Amortisation and depreciation of operating assets*

In 2006, amortisation and depreciation charges increased by USD 70 million (or 14%) up to USD 568 million as compared with 2005 due to the launch of the facilities of:

– the second start-up complex at Severny Gluboky Mine in the Kola Peninsula;

– the start-up complex of OJSC Taimyrgaz;
– the resource base and enrichment facilities in the Taimyr Peninsula; and
– purchase of OJSC Taimyrenergo assets in July 2006.

***Decrease in metal inventories***

The main reasons for the decrease in the balance of metal inventories in 2006 were as follows:

– increase in operating expenses at Taimyr and Kola Peninsulas resulted generally in the increase of unit cost of production, which, in turn, led to an increase in the value of inventories by USD 24 million;
– the actual cessation of the scrap copper purchases made a material impact on the unit cost of production of copper at Kola Peninsula and resulted in significant decline in both the value and the volume of copper stock by USD 10 million at Kola Peninsula;
– reduction of palladium balances by USD 11 million, received in 2003 from MMC Norilsk Nickel as part payment of the share purchase transaction of Stillwater Mining Company.

**Total production cost per unit of metal produced**

| | Taimyr Peninsula | | | Kola Peninsula | | |
|---|---|---|---|---|---|---|
| **Metal** | **2006** | **2005** | ***% change y-o-y*** | **2006** | **2005** | ***% change y-o-y*** |
| Nickel (US Dollars per tonne) | 4,477 | 4,637 | (3) | 5,701 | 5,177 | 10 |
| Copper (US Dollars per tonne) | 1,265 | 1,020 | 24 | 1,659 | 2,940 | (44) |
| Palladium (US Dollars per ounce) | 92 | 85 | 8 | 116 | 88 | 32 |
| Platinum (US Dollars per ounce) | 350 | 364 | (4) | 439 | 374 | 17 |
| Gold (US Dollars per ounce) | 183 | 181 | 1 | 227 | 185 | 23 |

In 2006, the total cost of nickel production per tonne in the Taimyr Peninsula decreased by 3% to USD 4,477 per tonne, whereas in the Kola Peninsula the cost of nickel production increased by 10% to USD 5,701 per tonne.

The main reason for the decrease in nickel production cost in the Taimyr Peninsula was the reallocation of production costs between nickel and copper, based on the relative sales value of the joint products, to increase the proportionate share of production cost of copper as a result of the higher copper price (+83%) as compared to nickel (+65%) in 2006. The increase in the cost of nickel production in the Kola Peninsula is due to the reallocation of costs between nickel and copper, based on the relative sales values of the joint products, to increase the share of production cost of nickel as a result of the decline of the copper production in 2006 by 38% mainly as a result of the actual abandonment of the purchase of scrap copper for processing, and the growth of production costs generally.

In 2006, the cost of copper production per tonne in the Taimyr Peninsula increased by 24% to USD 1,265 per tonne, and decreased by 44% to USD 1,659 per tonne in the Kola Peninsula. The main reason for the increase in the copper production cost in the Taimyr Peninsula was the reallocation of production costs to copper due to higher copper price. The cost of copper production in the Kola Peninsula decreased due to the actual abandonment of the processing of scrap copper.

In 2006, the cost of palladium production per ounce in the Taimyr Peninsula increased by 8% to USD 92 per ounce, and increased by 32% to USD 116 per ounce in the Kola Peninsula. The increase in the cost of palladium production in the Peninsulas was due to:

– a general increase in the overall production costs;
– a larger allocation of production cost in the Kola Peninsula to palladium due to the abandonment of the purchase and processing of scrap copper;

– the increase in the relative sales value of palladium due tot the reduction in the volume of copper produced due tot the abandonment of the purchase and processing of scrap copper, as compared to 2005.

In 2006, the cost of platinum production in the Taimyr Peninsula decreased by 4% to USD 350 per ounce, and increased by 17% to USD 439 per ounce in the Kola Peninsula. The decrease of the cost of platinum in the Taimyr Peninsula relates to the reallocation of production costs between copper and palladium, and the increase in the Kola Peninsula - to the reallocation of costs to nickel, palladium and platinum, the growth of general production costs and the effect of translation to the presentation currency.

In 2006, the cost of gold production in the Taimyr Peninsula increased by 1% to USD 183 per ounce, and by 23% to USD 227 per ounce in the Kola Peninsula. Ignoring the effect of translation to presentation currency, the product unit cost even decreased, which was explained by the reallocation of production costs between copper and palladium. The increase in prices for copper, nickel and palladium significantly outperformed the prices realized for the other metals sold by the Group. The increase of the cost of gold production in the Kola Peninsula is explained by the general increase of production costs.

## 3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

During 2006, selling, general and administrative expenses increased by USD 249 million (or 30%) to USD 1,090 million as compared to USD 841 million in 2005. The increase due to the effect of translation to presentation currency amounted to USD 33 million.

**Selling, general and administrative expenses (excluding Polus Group)**
*(US Dollars million)*

| | **2006** | *% of Total* | **2005** | *% of Total* | *% change y-o-y* |
|---|---|---|---|---|---|
| Export customs duties | 484 | *44* | 301 | *36* | ***61*** |
| Salaries | 240 | *22* | 194 | *23* | ***24*** |
| Taxes other than mining and income taxes and pollution levies | 82 | *8* | 68 | *8* | ***21*** |
| Advertising | 70 | *6* | 58 | *7* | ***21*** |
| Other expenses | 214 | *20* | 220 | *26* | ***(3)*** |
| **Selling, general and administrative expenses** | **1,090** | **100** | **841** | **100** | **30** |

***Export customs duties***

Export customs duty increased by USD 183 million (or 61%) to USD 484 million in 2006, which is completely in line with the dynamics of growth of export revenues, which basically form the basis for calculation of customs payments.

***Salaries***

Labour costs increased by USD 46 million (or 24%) to USD 240 million. The main reason for the growth was salary increase.

***Other expenses***

Such as transportation, legal, auditing, insurance and other expenses decreased during the reporting year.

## 4. OTHER NET OPERATING EXPENSES

During 2006, other net operating expenses increased by USD 122 million to USD 278 million as compared to USD 156 million in 2005. The main reason for the growth was the increase of expenses related to recognition of loss from impairment of property, plant and equipment, and the effect of exchange rate differences as a result of the Russian Rouble's ("RUR") appreciation against the US Dollar during 2006.

**Other net operating expenses (excluding Polus Group)**
*(US Dollars million)*

| | 2006 | *% of Total* | 2005 | *% of Total* | *% change y-o-y* |
|---|---|---|---|---|---|
| Impairment of property, plant and equipment | 87 | *31* | 10 | *6* | *770* |
| Maintenance of social sphere facilities | 78 | *28* | 69 | *44* | *13* |
| Donations | 68 | *24* | 49 | *31* | *39* |
| Foreign exchange loss/(gain), net | 33 | *12* | (1) | - | - |
| Loss on disposal of property, plant and equipment | 21 | *8* | 28 | *18* | *(25)* |
| Change in provision for tax penalties | 19 | *7* | 15 | *10* | *27* |
| Change in allowance for value added tax recoverable | 9 | *3* | 15 | *10* | *(40)* |
| Change in allowance for doubtful debts | 5 | *2* | (10) | *(6)* | - |
| Operating profit of non-mining entities | (28) | *(10)* | (16) | *(10)* | *75* |
| Other | (14) | *(5)* | (3) | *(2)* | *367* |
| **Other net operating expenses** | **278** | **100** | **156** | **100** | **78** |

## 5. FINANCE COSTS

During 2006, interest expenses decreased by USD 100 million to USD 21 million as compared to USD 121 million in 2005. The main reason for the decrease was the appreciation of the RUR against the US Dollar during 2006 as compared to a depreciation of the same in 2005, and the currency exchange gain arising from the revaluation of borrowings denominated in US Dollars. Interest expenses on borrowings also decreased by USD 15 million to USD 60 million as compared to USD 75 million in 2005, as a result of decrease of the averaged amount borrowed for the year.

**Finance costs (excluding Polus Group)**
*(US Dollars million)*

| | 2006 | 2005 | *% change y-o-y* |
|---|---|---|---|
| Interest expense on borrowings | 60 | 75 | ***(20)*** |
| Unwinding of discount on decommissioning obligations | 19 | 12 | ***58*** |
| Interest expense on pension obligations | 7 | 8 | ***(13)*** |
| Foreign exchange (gains)/loss on revaluation of borrowings, net | (65) | 26 | **-** |
| **Total finance costs** | **21** | **121** | ***(83)*** |

## 6. NET (LOSS)/INCOME FROM INVESTMENTS

During 2006, losses arising from investing activities increased by USD 285 million and amounted to USD 226 million as compared to gains from investing activities of USD 59 million in 2005. The main reasons for the result were the loss arising on the disposal of the investment in Gold Fields Ltd.

## 7. INCOME TAX

**Income tax**
*(US Dollars million)*

| | **2006** | **2005** | ***% change y-o-y*** |
|---|---|---|---|
| Current tax | 1,893 | 911 | *108* |
| Deferred tax | (88) | (73) | *(21)* |
| **Total income tax expense** | **1,805** | **838** | **115** |

During 2006, the total income tax expense increased by 115% to USD 1,805 million from USD 838 million in 2005. This increase was mainly due to the growth of pre-tax income of the Group, the main reason for which was the growth of the revenue from metal sales. The effective tax rate did not change from 2005 and remained at 27%.

## 8. PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS

Due to the spin-off of the gold mining assets the financial result, assets and liabilities of the Polus Group intended for disposal were presented separately in the respective sections of the financial statements.

## 9. PROFIT FOR THE YEAR

Profit for the year increased from USD 2,352 million in 2005 to USD 5,965 million in 2006 as a result of higher prices for metals sold and better control over expenditures.

## CONSOLIDATED BALANCE SHEET
## AS OF 31 DECEMBER 2006
*(US Dollars million)*

| | Notes | 2006 | *% of Total* | 2005 | *% of Total* | *% change y-o-y* |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 10 | 8,134 | | 7,145 | | |
| Intangible assets | | 73 | | 44 | | |
| Investments in associates | | 208 | | 95 | | |
| Investments in securities and other financial assets | 11 | 2,615 | | 690 | | |
| Other non-current assets | 12 | 44 | | 94 | | |
| Non-current assets of disposal group | 13 | - | | 1,109 | | |
| | | **11,074** | ***68*** | **9,177** | ***62*** | ***21*** |
| **Current assets** | | | | | | |
| Inventories | 14 | 1,471 | | 1,301 | | |
| Trade and other receivables | | 745 | | 440 | | |
| Other current assets | | 707 | | 567 | | |
| Investments in securities and other financial assets | | 104 | | 134 | | |
| Cash and cash equivalents | 15 | 2,178 | | 922 | | |
| Current assets of disposal group | 13 | - | | 2,189 | | |
| | | **5,205** | **32** | **5,553** | **38** | **(6)** |
| **TOTAL ASSETS** | | **16,279** | **100** | **14,730** | **100** | **11** |
| **EQUITY AND LIABILITIES** | | | | | | |
| **Capital and reserves** | **16** | **13,136** | ***81*** | **11,397** | ***77*** | ***15*** |
| **Non-current liabilities** | | | | | | |
| Long-term borrowings | 17 | 632 | | 635 | | |
| Employee benefit obligations | | 57 | | 56 | | |
| Environmental obligations | | 322 | | 269 | | |
| Deferred tax liabilities | | 881 | | 543 | | |
| Non-current liabilities of disposal group | 13 | - | | 236 | | |
| | | **1,892** | **12** | **1,739** | **12** | **9** |
| **Current liabilities** | | | | | | |
| Short-term borrowings | 17 | 158 | | 357 | | |
| Current portion of employee benefit obligations | | 259 | | 212 | | |
| Trade and other payables | | 421 | | 300 | | |
| Tax payable | | 393 | | 187 | | |
| Derivative financial liabilities | | 15 | | - | | |
| Dividends payable | | 5 | | 301 | | |
| Current liabilities of disposal group | 13 | - | | 237 | | |
| | | **1,251** | **7** | **1,594** | **11** | **(22)** |
| **TOTAL EQUITY AND LIABILITIES** | | **16,279** | **100** | **14,730** | **100** | **11** |

The balance sheet total as at the end of 2006 was USD 16,279 million and increased by USD 1,549 million (+11%), of which USD 832 million is due to the effect of translation to presentation currency.

The balance sheet structure has changed compared to 2005:

- the share of non-current assets increased from 62% to 68%;
- the liquidity of current assets increased (the share of cash and cash equivalents in the overall current assets increased from 17% to 42%);
- the share capital and reserves increased to 81% as compared to 77% in 2005;
- the share of current liabilities decreased from 11% to 7%.

Changes to other balance sheet items not discussed below were insignificant.

## 10. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2006, property, plant and equipment amounted to USD 8,134 million as compared to USD 7,145 million as at 31 December 2005. The increase in property, plant and equipment by USD 989 million was due to increase of capital construction of mining, metallurgical and energy facilities, additions of property, plant and equipment as a result of the acquisition of OJSC Taimyrenergo and the effect of translation to the presentation currency.

## 11. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

As at 31 December 2006 investments in securities and other financial assets amounted to USD 2,615 million compared to USD 690 million as at 31 December 2005. The increase by USD 1,925 million resulted primarily from the acquisition of securities of OJSC OGK-3, and the receipt of shares OJSC TGK-1 as a result of the reform of the Russian energy sector. The value of the Group's financial investments into RAO UES of Russia shares was adjusted to reflect the results of the valuation, which corresponds to the change in the market value of the respective assets.

## 12. OTHER NON-CURRENT ASSETS

As at 31 December 2006, other non-current assets amounted to USD 44 million as compared to USD 94 million as at 31 December 2005. The decrease was due to the reduction of the long-term part of value added tax reimbursable, which is explained by changes in the tax legislation and tax administration effective 1 January 2006.

## 13. ASSETS AND LIABILITIES OF DISPOSAL GROUP

On 30 September 2005, at the Extraordinary General Meeting of Shareholders of MMC Norilsk Nickel, the majority of shareholders voted in favour of the spin-off of the CJSC Gold mining company Polus and its subsidiaries into a separate company OJSC Polyus Gold. Due to the spin-off of the gold mining assets the financial result, assets and liabilities of the Polus Group intended for spin-off were presented separately in the respective sections of the consolidated balance sheet as of 31 December 2005, which is in compliance with the requirements of the International Financial Reporting Standard No. 5 "Non-Current Assets Held for Sale and Discontinued Operations". The results from Polus Group operations for the year ended 31 December 2005 and from 1 January 2006 to 17 March 2006 – the completion date of the spin-off, are also shown separately as income from discontinued operations.

## 14. INVENTORIES

As at 31 December 2006, inventory of finished goods, work-in-process and stores and materials amounted to USD 1,471 million as compared to USD 1,301 million as at 31 December 2005. The increase in this line item was mainly due to the growth in value of by-product balances and the increase in the balances of stores and materials due to inflation, as well as the effect of translation to presentation currency (+USD 111 million).

## 15. CASH AND CASH EQUIVALENTS

As at 31 December 2006, cash and cash equivalents amounted to USD 2,178 million as compared to USD 922 million as at 31 December 2005. The increase in balances of cash and cash equivalents is mainly due to the significant growth of revenues from metal sales.

## 16. CAPITAL AND RESERVES

As at 31 December 2006, share capital and reserves amounted to USD 13,136 million (including minority interest of USD 319 million) as compared to USD 11,397 million (including minority interest of USD 334 million) as at 31 December 2005.

Key factors that affected share capital and reserves:

– profit for the year;
– dividends announced and paid by the Company during the financial year;
– repurchase of the Company's shares for USD 999 million;
– increase of the fair value reserve for investments available-for-sale;
– increase of the accumulated exchange rate differences provision.

## 17. BORROWINGS

As at 31 December 2006, long-term borrowings of the Group amounted to USD 632 million compared to USD 635 million as at 31 December 2005.

As at 31 December 2006, short-term borrowings (including current portion of long-term borrowings and overdrafts) amounted to USD 158 million compared to USD 357 million as at 31 December 2005. This decrease was mainly due to the material growth of own cash generated by operations to a level sufficient to finance the Group's investment activities.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2006

*(US Dollars million)*

| | Notes | 2006 | 2005 |
|---|---|---|---|
| Net cash generated from operating activities | 18 | 5,647 | 2,961 |
| Net cash generated from/(used in) investing activities | 19 | 378 | (1,427) |
| Net cash used in financing activities | 20 | (4,909) | (1,873) |
| **Net increase/(decrease) in cash and cash equivalents** | **21** | **1,116** | **(339)** |
| Cash and cash equivalents at beginning of the year | | 922 | 1,325 |
| Effect of translation to presentation currency | | 140 | (36) |
| Cash and cash equivalents of disposal group | 13 | - | (28) |
| **Cash and cash equivalents at end of the year** | **21** | **2,178** | **922** |

## 18. NET CASH GENERATED FROM OPERATING ACTIVITIES

The main source of cash for the Group includes the net cash flows from operating activities. Due to the significant increase of revenue from metal sales in 2006 net cash generated by operations almost doubled and amounted to USD 5,647 million compared to USD 2,961 million in 2005.

During 2006, a considerable growth of operating cash flows enabled the MMC Norilsk Nickel to invest into operating assets and accumulate significant cash resources.

## 19. NET CASH GENERATED FROM INVESTING ACTIVITIES

Net cash inflow from investing activities in 2006 amounted to USD 378 million.

The main component of the cash inflow from investing activities was the sale of the financial investment of 20% in Gold Fields Ltd. for USD 1,925 million.

The cash outflow from investing activities comprised the following key components:

– purchase of shares in subsidiaries and associates for USD 264 million;
– acquisition of property, plant and equipment and intangible assets for USD 724 million.

## 20. NET CASH USED IN FINANCING ACTIVITIES

In 2006, net cash used in financing activities amounted to USD 4,909 million. The cash outflow comprised the following key components:

– cash distribution with regard to the spin-off of Polus Group of USD 2,366 million;
– repayment of short-term borrowing of USD 1,055 million;
– distribution of dividends for USD 1,079 million and repurchase of own shares for USD 999 million.

The cash outflow for financing activities was partially offset by cash proceeds from short-term borrowings of USD 573 million.

## 21. NET INCREASE IN CASH AND CASH EQUIVALENTS

Net cash and cash equivalents increased in 2006 by USD 1,256 million to USD 2,178 million. The Group plans to use the cash to finance capital investment in expansion and maintenance of production assets, purchase of metallurgical and energy assets and payment of dividends.

The full text of the consolidated financial statements of the Group for the year 2006 prepared in accordance with IFRS is available at the corporate web-site (www.nornik.ru/en) in Investor Relations/Financial Statements and Reports/Financial Statements section.

## RECOMMENDATION OF THE BOARD OF DIRECTORS ON THE 2006 DIVIDEND

Based on the 9 months financial results of 2006, an Extraordinary General Meeting of Shareholders was held on 24 November 2006 and they approved the distribution of dividends in the amount of 10.7 billion RUR (about USD 400 million) or 56 RUR (USD 2.1) per ordinary share. The interim dividends were paid in December 2006.

Based on the financial and operating results for the 2006 financial year, the Board of Directors proposed for approval at the Annual General Meeting of Shareholders of MMC Norilsk Nickel to be held on 28 June 2007 dividends for 2006 of 32 billion RUR (about USD 1,250 million) or 176 RUR (USD 6.7) per ordinary share.

Therefore, taking into account dividends already distributed for 9 months of 2006, additional dividends for 2006 will amount to 22 billion RUR (about USD 850 million) or 120 RUR (USD 4.6) per one ordinary share.

## CONFERENCE CALL

MMC Norilsk Nickel will hold a conference call devoted to the publication of the Group's IFRS consolidated annual financial statements for 2006 on 8 June 2007 at 5 p.m. Moscow time (9 a.m. New York, 2 p.m. London).

Telephone numbers for access to the conference call are:

+1 (800) 700-7784 (USA)
+1 (651) 291-1246 (other countries)
Access code: 875879

The conference call record will be available during one week afterwards, from 8:30 p.m. Moscow time (12:30 a.m. New York, 5:30 p.m. London) on 8 June 2007 at the following phone numbers:

+1 (800) 475-6701 (USA)
+1 (320) 365-3844 (other countries)
Access code: 875879

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