

Letter from the General Director and Chairman of the Management Board



Dear shareholders,

Today we are summing up another year of the Group's operation. 2007 was successful and difficult at the same time.

On the one hand, the market was very favorable and commodity prices were steadily higher for almost all the metals produced by Norilsk Nickel. As a result, the financial performance for 2007 was the best in the Group's history. Reported sales for the year amounted to USD 17.1 billion, which is 44% more than in 2006. Profit for 2007 amounted to USD 5.3 billion. The triumphant performance in the reporting period was also reflected by the increase in the Group's market capitalization which hit a record of USD 63.5 billion in 2007, growing nearly twice during the reporting year.

On the other hand, during the year under review the business was divided between the two principal shareholders. It is obvious that a divergence of interests between the two largest shareholders is not good for the Company. As a result, the non-core energy asset spin-off that might have created significant additional value for our shareholders did not take place.

Enhanced financial performance

I would like to talk about our financial results now. A favorable situation in the metal markets, expanding of the sales geography and focusing on final customers enabled the Group to have a historic record of revenue in 2007 – USD 17.1 billion.

MMC Norilsk Nickel Annual Report 2007

The main factor of revenue growth in 2007 was the increase of average annual sales prices for the metals produced by the Group. The metal prices grew accordingly:

- nickel – by 55%;
- copper – by 7%;
- palladium – by 10%;
- platinum – by 15%.

The amount of sales of by-products grew mainly due to increase in the by-product prices, basically for cobalt and rhodium.

Cost of metal sales by the Group increased by USD 1.7 billion in 2007. Norilsk Nickel International and Stillwater Mining Company excluded, the cost of sales across the Group increased by 17%.

Key factors driving the growth of cash operating costs were consolidation of Norilsk Nickel International, absolute increase of cash operating costs and effect of translation to presentation currency.

In 2007, salaries and wages remain the largest portion of cash operating expenses and amounted to 31%.

The average salary of the employees of the Group's entities in Russia increased in 2007 by 31% when compared to the previous year to RUB 41.4 thousand (USD 1.6 thousand), three times higher than the country average and 2.3 times higher than the metallurgic industry average.

The absolute growth of cash operating costs was due to increase in costs of metals transportation, including a general increase in transportation tariffs.

In 2007, Norilsk Nickel EBITDA remained one of the highest in the industry and amounted to the historic record – USD 10.2 billion.

I would like to underline, that the Group's income tax expense increased by USD 729 million (or 39%) in 2007.

As at 31 December 2007, long-term borrowings of the Group increased by USD 7.3 billion as compared to 31 December 2006. Most of the borrowings were represented by syndicated loans extended for the acquisition of LionOre and OGK-3.

In view of the availability of cash of USD 4 billion and a short-term deposit of USD 2.8 billion at 31 December 2007, net borrowings at 31 December 2007 amounted to USD 1.2 billion.

Enhanced operational performance

In the reporting year the Group carried out its plans in terms of all metals production.

The acquisition of OM Group's and LionOre's nickel assets contributed a lot to increasing the operating performance results of Norilsk Nickel. Norilsk Nickel Harjavalta (Finland) and Norilsk Nickel Cawse (Australia) were consolidated into the Group with effect from 1 March 2007 and Black Swan, Lake Johnston and Waterloo (Australia) and 85% of Tati Nickel (Botswana) were consolidated into the Group with effect from 28 June 2007 together with equity accounting the 50% share of the Nkomati Joint Venture

(the Republic of South Africa) as of the same date.

Total saleable output across the Group in 2007 inclusive from the date of acquisition of foreign assets was as follows:

- 276,000 tonnes of saleable nickel, which exceeded the initial plan by 13%;
- 416,000 tonnes of saleable copper, which exceeds the planned figure by 2%;
- 3.5 million ounces of palladium, including output by Stillwater Mining Company (or 3.1 million ounces of palladium excluding Stillwater Mining Company output) which is in compliance with the plan;
- 858,000 ounces of platinum, including output by Stillwater Mining Company (or 734,000 ounces of platinum excluding Stillwater Mining's output) which exceeded the initial plan by 3%.

Total output of saleable nickel in 2007 amounted to 234,000 tonnes. After the date of acquisition of the foreign assets the Group increased its consolidated nickel production by 41,000 tonnes – 4,000 tonnes were produced in Australia, 7,000 tonnes – in Botswana, 29,000 tonnes – in Finland and 1,000 tonnes – in the Republic of South Africa.

The saleable copper output by the Group in Russia amounted to 404,000 tonnes in 2007.

In the reporting year the Group produced 3 million ounces of palladium in Russia, and the palladium output by Stillwater Mining Company amounted to 413,000 ounces.

Letter from the General Director and Chairman of the Management Board

The saleable platinum output by the Taimyr and Kola Peninsulas in 2007 amounted to 728,000 ounces while output by Stillwater Mining Company amounted to 124,000 ounces.

Norilsk Nickel continuously strives to improve its technological production processes and search for new technological development opportunities. To this end the Group forwarded from the Taimyr Peninsula a batch of rich nickel concentrate with a nickel content of some 4,000 tonnes to Norilsk Nickel Harjavalta refinery (Finland) for further test refining.

Potential growth

With a view of effectively growing metal production further, the Group conducts active geological exploration across the country and abroad, in addition to developing the existing mineral resource base.

New geological exploration activities are conducted in the southern and western parts of Siberia and the Far Eastern Federal Districts of the Russian Federation, in the Taimyr and Kola Peninsulas and in Western Australia.

The polymetallic project realized in the Zabaikalsky Krai (Chita project) is one of the Group's largest projects aimed at developing a new mineral resource center in the Russian Federation. This project will create a large copper operation in the south of the Zabaikalsky Krai that would be comparable with other global mining companies in terms of output and reserve levels.

Norilsk Nickel became a public private partnership pioneer, having embarked on construction of transport infrastructure in the south-east of the Zabaikalsky Krai that will help to develop the Group's polymetallic deposits. The new railway line will be constructed by 2011 with 69% of the project finance to be contributed by the Investment Fund of the Russian Federation and the remaining 31% - by Norilsk Nickel.

The Group pays much attention to the development of the Kingash nickel project. Kingash is located in Krasnoyarsk Krai of southern Siberia. Exploration over the last year has identified this area as one of the few remaining under-explored nickel sulfide belts in the world with excellent potential for large tonnage nickel-copper-PGM deposits amenable to open pit mining. There is also good potential for smaller associated massive sulfide bodies (rich ores).

Securing energy supplies and transportation links

In 2007, the Group produced 100% of the electricity and thermal power used by its production assets and residential areas in the Norilsk Industrial District and the Taimyr (Dolgano-Nenets) municipality.

In 2007, we completed the preparation of the survey and design activity necessary to construct a gas condensate and natural gas liquids processing plant. The survey work was completed and the design work has started to construct a Pelyatka-Dudinka gas and gas condensate pipeline.

We continue building our own fleet of ice-breaker carriers to achieve secure sea transportation. The first ship had been in operation for two years, and another four will be floated this year and in the first quarter of 2009. These are ice breaker carriers that may pass the Northern Sea Route, the principal transportation route for the Group's cargoes, unaccompanied by ice breakers. A unique Finnish technology has been used and the ships are being built at German and Finnish shipyards.

Social and environmental responsibility

In shaping its development strategy and the strategy of its current global operations the Company is focused on compliance with social and environmental responsibility principles, which is essential for effective and sustainable business development.

In the reporting year, the Group continued its interaction with target staff groups aimed at retaining and developing employees and improving the efficiency of internal communications. An increase in labor productivity was achieved through the efforts of the Group's employees and management, which enabled the Group to keep leading positions in terms of labor remuneration amongst the largest Russian mining companies. In 2007, the average pay of a Group employee in the Russian Federation amounted to RUB 41.4 thousand (or USD 1.6 thousand), which is 3 times higher than the country's average and almost 2.5 times higher than the Russian metallurgic industry's average.

MMC Norilsk Nickel Annual Report 2007

The Group also implemented large-scale social projects. Alykel, a new airport facility was commissioned with our direct participation in the Norilsk Industrial District. Jointly with the Norilsk city Administration, in 2007 we started to implement a program of fitness and sports infrastructure development.

The Group's social policy was highly appraised by the Russian national "Russian Organization of High Social Efficiency" competition. Kola MMC won the 7th National "Russian Organization of High Social Efficiency" competition for the year 2007.

We traditionally pay significant attention to environmental issues. The Group has a Corporate Integrated Quality and Environmental Management system developed, implemented and certified in 2005 by

an international certification body. Effective measures taken by the Group to reduce emission into the atmosphere resulting in the quality of the air being improved each year.

During the year the Group made it to the top of the social and environmental responsibility ratings, organized by the Independent Environmental Rating Agency in cooperation with Russian Greenpeace for the year 2006.

In December 2007, we entered into an agreement with the Federal Service for Environmental, Technological and Atomic Supervision for cooperation in the area of industrial safety and subsoil and environment protection. This became another example of partnership and mutual trust between the government

and the business community in addressing environmental and industrial security challenges.

Conclusion

In conclusion, I would like to thank MMC Norilsk Nickel's shareholders, employees and business partners for their cooperation and support as well as other parties which helped the Group to achieve its strategic objectives.

I am looking forward to our brilliant future. Together, we can address any challenge!

General Director and
Chairman
of the Management Board
Denis Morozov

28 May 2008