

Letter from the Chairman of the Board of Directors



The key task of the Company's management is to increase value for our shareholders. We are pleased to note that upon completion of the spin-off, the market capitalization of MMC Norilsk Nickel and OJSC Polyus Gold as at the end of 2006 was USD 29.6 billion and USD 9.4 billion, respectively. Thus, the aggregate market capitalization of both companies after the spin-off of the gold mining assets has more than doubled.

We are proud that the success of the project was noticed in the Russian business community: MMC Norilsk Nickel won "Best corporate project" at the national "Company of the Year" awards.

Strategic development

In 2006, the Group continued to expand its international cooperation, focusing on increasing and diversifying of its resource base, as well as on gaining the best international experience. We have taken a significant step forward in this direction.

On 27 January 2006, a joint venture agreement was signed between MMC Norilsk Nickel and Rio Tinto, one of the largest mining companies in the world. The activities of the newly established joint venture include:

- identification of potentially attractive geological exploration projects in the southern regions of the Siberian and Far-Eastern Federal Districts of the Russian Federation;
- geological exploration and subsequent development of these deposits, if both partners consider them valuable.

The combination of the natural resources which the Group has access to with the technical exploration and mining skills of Rio Tinto opens up new prospects for

the Russian mining industry, ensuring favorable conditions for geological exploration and development of national resources.

On 12 June 2006, MMC Norilsk Nickel signed an alliance agreement with BHP Billiton – the largest natural resources company in the world. At the initial stage the partners are focused on identifying attractive sites for geological exploration in western Siberia and the northwestern regions of the Russian Federation.

The alliance will capitalize on both partner's competitive strengths. As the largest Russian mining company, MMC Norilsk Nickel has all the appropriate knowledge and experience to successfully operate in the Russian Federation, while the BHP Billiton contributes its world-class geological exploration technologies and deposit development experience.

One of our main strategic acquisitions in the reporting year was the purchase by Smart Hydrogen of Plug Power, a US based company and leading developer of environmentally friendly and reliable energy products. Smart Hydrogen was established on a parity basis between MMC Norilsk Nickel and CJSC Holding Company Interros specifically for the implementation of international hydrogen energy projects. Presently Smart Hydrogen owns 35% of Plug Power. The Group has been supporting hydrogen energy and fuel cell research and development in Russian Federation for quite a while, and considers this area to be quite promising.

In March 2007, as part of our strategy of developing our global business and expanding the production outside the Russian Federation, the Group acquired OM Group's Nickel Business.

This allowed the Group to gain access to up-to-date production and operational skills and technologies. The Group expects to benefit from the combination of its existing and newly acquired foreign assets' extraction and hydrometallurgy technical know-how. Besides, the acquired operational assets in Finland and Australia will allow the Group to expand its production globally and extend the existing product line by adding nickel salts and briquettes.

Also, in March 2007, the Group acquired additionally issued shares of OJSC OGK-3, and increased its ownership in the share capital of the company to 46.6%. With our mandatory tender offer to the minority shareholders of OJSC OGK-3 we expect to become the majority owners of the company.

On 15 May 2007, the Board of Directors of the Company considered the spin-off of power assets of the Company and the distribution of the shares of the newly established company among the shareholders of MMC Norilsk Nickel on a pro-rata basis. The newly established power holding company is expected to include the spun-off electric power assets of the Group, but will not include assets supplying power to the Taimyr Peninsula.

As a result of the spin-off, the largest private power holding company in Russia will be established. This will create additional value for the Group's shareholders.

Increase in shareholders' value

MMC Norilsk Nickel took the 1st place amongst the Russian mining companies and the 6th place amongst the leaders of the global mining industry with market capitalization at the end of 2006.

The Group is continuously seeking opportunities to increase the value for its shareholders. Given the successful interim performance in 2006 the Group continued the practice of distributing of interim dividends. At the Extraordinary General Meeting of Shareholders held on 24 November 2006 the shareholders approved the distribution of interim dividends for the 9 months of 2006 of Russian Roubles ("RUR") 56 (USD 2.1¹) per ordinary share. In December 2006, MMC Norilsk Nickel paid out RUR 10.7 billion (approximately USD 400 million) in the form of interim dividends.

Based on the financial results for the year ended 31 December 2006, the Board of Directors recommended for approval at the Annual General Meeting of Shareholders of MMC Norilsk Nickel, to be held on 28 June 2007, the payment of a final dividend for 2006 of 176 RUR (USD 6.7) per ordinary share.

Taking into account the interim dividends already paid out for the 9 months of 2006, the aggregate dividends for 2006 will amount to nearly RUR 22 billion (nearly USD 850 million) or 120 RUR (USD 4.6¹) per ordinary share.

Therefore, the shareholders' dividend income for 2006 amounted to 3.64%, which supports the sustainable increase of this indicator over the past four consecutive years.

Note:

[1] At the rate of the Central Bank of the Russian Federation at the date of announcement of the Board of Directors' recommendations to the General Meeting of the Company's Shareholders.

Due to the considerable increase in the market value of the Company's shares, the increase in the dividend payouts and the distribution of OJSC Polyus Gold's shares as part of the spin-off, the total earnings per ordinary share of MMC Norilsk Nickel in 2006 amounted to 126% or 1.5 times higher when compared with 2005.

In addition, in October 2006, the Board of Directors made a decision to repurchase up to 7,500,000 ordinary shares of the Company at an average market price calculated over the past 3 months, i.e. at RUR 3,510 (USD 129.1) per ordinary share. As a result, the Company repurchased 7,498,950 ordinary shares for a total cash consideration of RUR 26.3 billion (approximately USD 967.4 million).

Corporate governance improvement

The Group is continuously improving its corporate governance. The Group follows international information disclosure standards, complies with the general provisions of the Corporate Governance Code issued by the Russian Federal Commission for the Securities Market, seeks to achieve maximum transparency in its operations, and ensures the timely and fair disclosure of information to our shareholders and investors.



Traditionally the Company's Board of Directors includes independent directors. The Audit Committee of the Board of Directors plays a significant role in the Company's management structure, and is headed by an independent director. Its responsibilities include interaction with the auditors, the review and analysis of the financial statements, and assessments of internal controls.

The Group's dividend policy, according to which 20-25% of IFRS net income is to be distributed among the shareholders, is transparent and clear. The Company has fully applied the provisions of the Regulation on Insider Information.

14 { We are proud to note that the Group's efforts aimed at improving corporate governance and information transparency were recognized by the leading Russian stock exchanges and business press during the year. The Group's annual report for 2005 was:

- the overall winner in the 2005 annual report competition held by MICEX and "Securities Market" magazine;
- the winner of the same competition in the "Best Information Disclosure in English Language Annual Report" category;
- the winner of the "Best Annual Report of the RTS Quotation List Issuer" special category in the 2005 annual report competition held by RTS and the rating agency "Expert RA".

I am pleased to mention that Guy de Seliers, our member of the Board of Directors, has been nominated for the "Director of the Year 2006" national award in the "Independent Director" category.

Staff changes

I would also like to mention the significant staff changes that took place in the Group. In March 2007, the Group's Board of Directors accepted the resignation of Mikhail Prokhorov, and unanimously voted for the appointment of Denis Morozov as the General Director of MMC Norilsk Nickel, effective from 3 April 2007.

Mr. Prokhorov has made a great contribution to the Group's success. Significant developments in the life of the Company are inseparably associated with his name. We appreciate Mr. Prokhorov's devoted work, which helped to increase the Company's market capitalization almost twenty-fold, strengthen its leading role in the international mining and metals industry, and implement efficient corporate governance and high standards of social and corporate responsibility.

I would like to congratulate the newly appointed General Director of MMC Norilsk Nickel and wish him great success in his work. Headed by Mr. Morozov, the Group will implement many new projects and continue working on those currently underway.

In conclusion I would like to thank the Group's shareholders, business partners and employees for active participation in the life of the Group. I am confident that our combined efforts will help us to achieve our objectives and strengthen the Group's leadership in the global mining and metals industry.

Chairman of the Board of Directors
A.A. Klishas

4 June 2007