

Letter from the General Director – Chairman of the Management Board



Dear Shareholders,

Let me congratulate you on yet another successful year for MMC Norilsk Nickel. I would like to record that the Group achieved excellent results not only due to favorable metals market conditions but due to the right strategic decisions, as well as coordinated work of our people and trust of shareholders and investors.

Whereas revenue for 2006 grew by 61% as compared to 2005, to USD 11,550 million, profit for the year rose by 154% to USD 5,965 million.

During 2006 MMC Norilsk Nickel proved again that its shares are amongst the most liquid shares in the Russian stock market yielding the highest return in the mining industry to its shareholders, both in the form of dividend payouts, multiple growths in the Company's market capitalization and in the form of unlocking value through the spin-off of assets.

Improvement of financial performance

In 2006, the commodity prices for base and precious metals reached record heights. The factors that significantly influenced world commodity prices for the main products of MMC Norilsk Nickel were:

- continued growth of the countries of the Asian-Pacific region and in particular China;
- increased activity in the metals market by the international investment funds; and
- metal production lagging behind its consumption.

The highest growth was within the base metals market. During 2006 the average nickel price for the year increased by

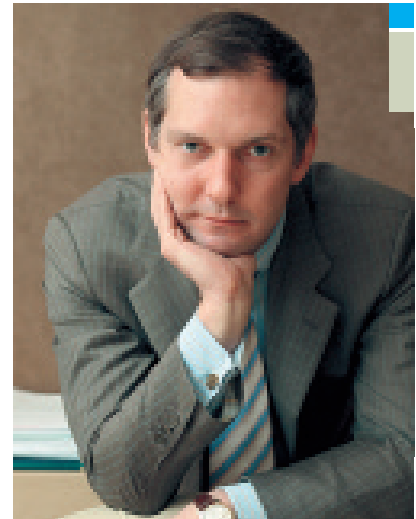
64.8% from 2005 and amounted to USD 24,287 per tonne. The highest price for nickel was in December 2006 and totaled USD 35,635 per tonne and it continued its growth in 2007. The average copper price for the year grew by 82.7% from 2005 and during the reporting year the highest price for copper was recorded in May 2006 with a historic record of USD 8,788 per tonne.

In the palladium market the prices grew continuously. The average price for palladium for the year increased by 58.4% from 2005. In May 2006, the price hit a four-year record high of USD 404 per ounce. In 2006, the average price for platinum increased by 27.4% from 2005 and amounted USD 1,143 per ounce. The price per ounce increased by 16% over the reporting year having reached a historic record of USD 1,390 per ounce in November 2006.

The favorable 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 up to USD 11,550 million, which translates into 61% increase in revenue in 2006.

In 2006, the physical sales of nickel amounted to 257 thousand tonnes, and copper sales – to 424 thousand tonnes. In 2006, sales of palladium and platinum produced by the Group in Russia amounted to 3,220 thousand ounces, and 750 thousand ounces respectively.

Whereas revenue surged in 2006, the cost of metal sales increases by only 5% to USD 3,158 million. The cash operating cost structure virtually did not change in 2006.



Due to the significant increase of revenue from metal sales in 2006 net cash generated by operating activities nearly doubled and amounted to USD 5,647 million. The cash generated by the Group in 2006 will be used to finance the capital expenditure program, to participate in new promising projects and the payment of dividends.

Stability of operating activities

In summarizing the 2006 results, I would like to emphasize the stability of the Group's operating indicators. During the reporting year the Group achieved the production targets for nickel, copper, palladium and platinum. In 2006, the nickel output totaled 244 thousand tonnes, copper – 425 thousand tonnes, palladium – 3,164 thousand ounces and platinum – 752 thousand ounces. In 2007, the Group projects to produce 270 – 275 thousand tonnes of nickel, 404 – 409 thousand tonnes of copper, 3 – 3.05 million ounces of palladium and 700 – 710 thousand ounces of platinum. These production volumes do not include the results of operational activities of Stillwater Mining Company.

Securing energy supplies and transportation links

Operating under extreme weather conditions in the Taimyr Peninsula, above the Arctic Circle, the Group is continuously committed to ensure its own stable and reliable energy supplies and secure transportation links.

In order to secure reliable energy supplies for the Group's operations in the Taimyr Peninsula the Group purchased 100% of OJSC Taimyreneergo's shares at an open auction in July 2006.

In May 2007, in order to complete the consolidation of the Group's energy assets in the Norilsk industrial district, the Group purchased the remaining 49% of OJSC Norilsk Taimyr Energy Company from RAO UES of Russia.

As a result of this acquisition the Group has now secured the continuous supply of heat and electricity power for the Norilsk industrial district.

During the reporting year the construction project at the Pelyatka gas condensate deposit continued. The gas produced is used by the Group as a raw material input for power and heat generating purposes, as well as for the Group's production needs.

I would like to draw your attention to the fact that in accordance with a decision of the Board of Directors dated 15 May 2007, the energy companies within the Norilsk industrial region, which participate in the energy and power supply of the region are not intended to be spun-off from MMC Norilsk Nickel.

In compliance with the concept for the creation of the Group's own optimal transportation system, the Group will switch to transporting goods in the Group's own vessels. In 2006, the Group put into operation its first owned ice-breaking cargo ship. The Group signed a contract for the construction of four more vessels of the same design. Therefore, by 2009 the Group will have built-up its own fleet of five diesel-electric cargo ships and will have completely stop using the services of atomic-powered ice-breakers on the North Sea routes.

In 2006, the Group continued to develop the organizational structure of the Murmansk transportation branch whose main task will be to manage the Group's own fleet of ice-breaking cargo ships, to construct the transshipment terminal and subsequently perform transshipments in its own transshipment terminal.

Leadership in social responsibility

The relationship between the Company's management and its employees are based upon social partnership principles. The Group provides its employees with a competitive level of compensation; however taking into consideration the pay increases in the Russian mining industry the Company's management took a decision to accelerate the increase of the employees' real income in 2007.

One of the key priorities for the Group is the creation of a safe working environment and ensuring safety and health protection. The Group puts much effort into preventing industrial accidents. The Group strives to minimize the negative impact of the production environment on the employee's health. The Group pays much attention to and encourages a healthy lifestyle for its employees and their families.

Being one of the largest Russian industrial companies MMC Norilsk Nickel coordinates its activities with the main guidelines of the Government in relation social and economic policies. Many of the Group's social programs have been recognized as the best in the Russian Federation and comply with the goals and targets defined in such priority national programs as "Health", "Education", "Affordable and comfortable housing".

Paying much attention to the training and improvement of employees' qualification the Group actively uses innovative methods and approaches which will allow for successful progress by the employees in this direction. We are very pleased that the Government is fully aware of this work. In February 2006, according to the results of the Russian national competition "Russian Organization of High Social Efficiency" organized by the Russian Government, MMC Norilsk Nickel was recognized as the winner in the category "Staff qualifications, staff training and development system" nomination.

The efficiency of the environmental protection activities

One of the key principles of the Group's environmental approach includes the search and use of production technologies and technical solutions in both the mining and metallurgical processes, helping to reduce the impact of the Group's production on the environmental activities. A key goal undertaken by the Group is to reduce harmful emission of pollutants into the atmosphere and improve the environmental situation in the Taimyr and Kola Peninsulas. In particular, the new Production Development Strategy, approved by the Board of Directors, provides for a set of initiatives aimed at addressing these environmental problems.

In accordance with the key provisions of the Group's Environmental Policy and Environmental Management Program, which sets out its environmental goals and objectives, the Group performed work during 2006 aimed at:

- the reduction of pollutant discharges into the atmosphere;
- decreasing effluent discharge to water bodies; and
- improvement of waste disposal sites.

In November 2006, the Group was awarded a diploma as a "Leader in environmental protection in Russia" by the Second All-Russia Ecological Conference "New Priorities of the National Environmental Policy in the Real Sector of the Economy" held in Moscow, for its outstanding environment protection activity.

Conclusions

MMC Norilsk Nickel is proud that it holds the leading position amongst the Russian non-government public companies by the total value of its credit ratings. In August 2006, Standard & Poors increased the Company's long-term credit rating to the investment BBB-grade, which was confirmed in March 2007. In October 2006, Moody's Investors Service increased the Group's corporate rating by two grades up to the investment Baa2 grade.

These ratings reflect the recognition of the Group's unique mineral resource base, the stable financial performance, as well as MMC Norilsk Nickel's leadership in the base and precious metal markets of the world.

The Group's future plans are very ambitious and the Group continues to work actively on the ongoing projects and in parallel thinks about new directions, opportunities and activities. We have the professional team of managers able to set aggressive goals and achieve high results. I am sure there is an interesting joint working relationship ahead.

On behalf of the management of MMC Norilsk Nickel and me personally, I would like to thank the Group's employees for self-sacrificing work and the investment community for their support and trust.

General Director –
Chairman of the Management Board
D.S. Morozov

4 June 2007