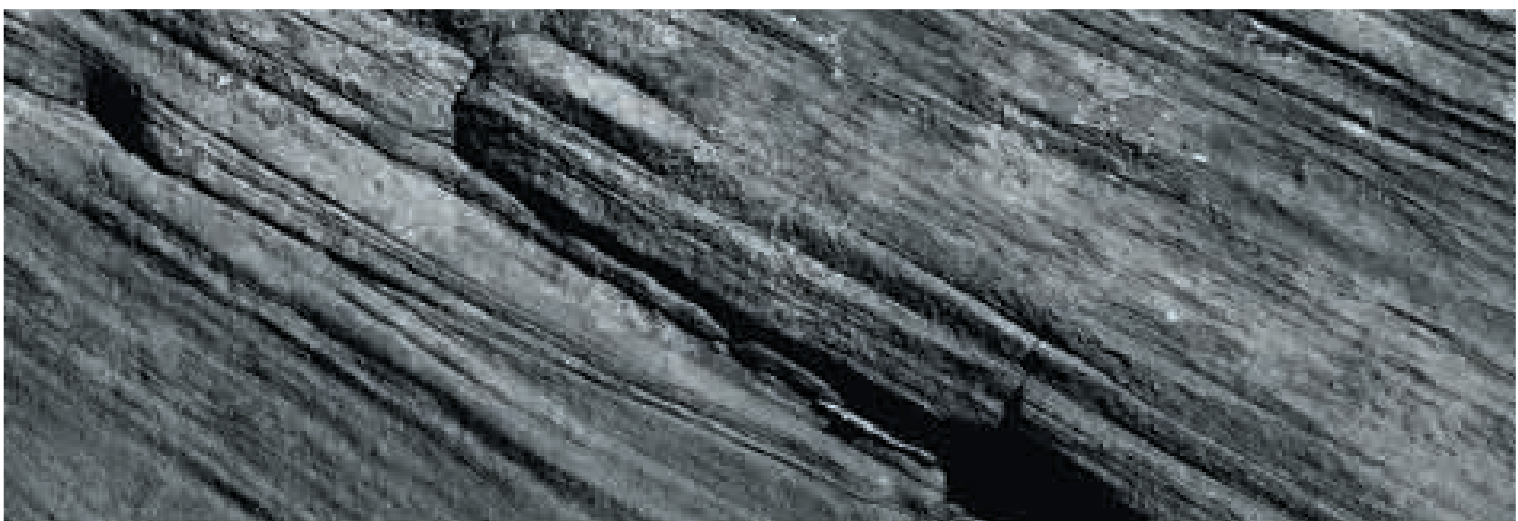
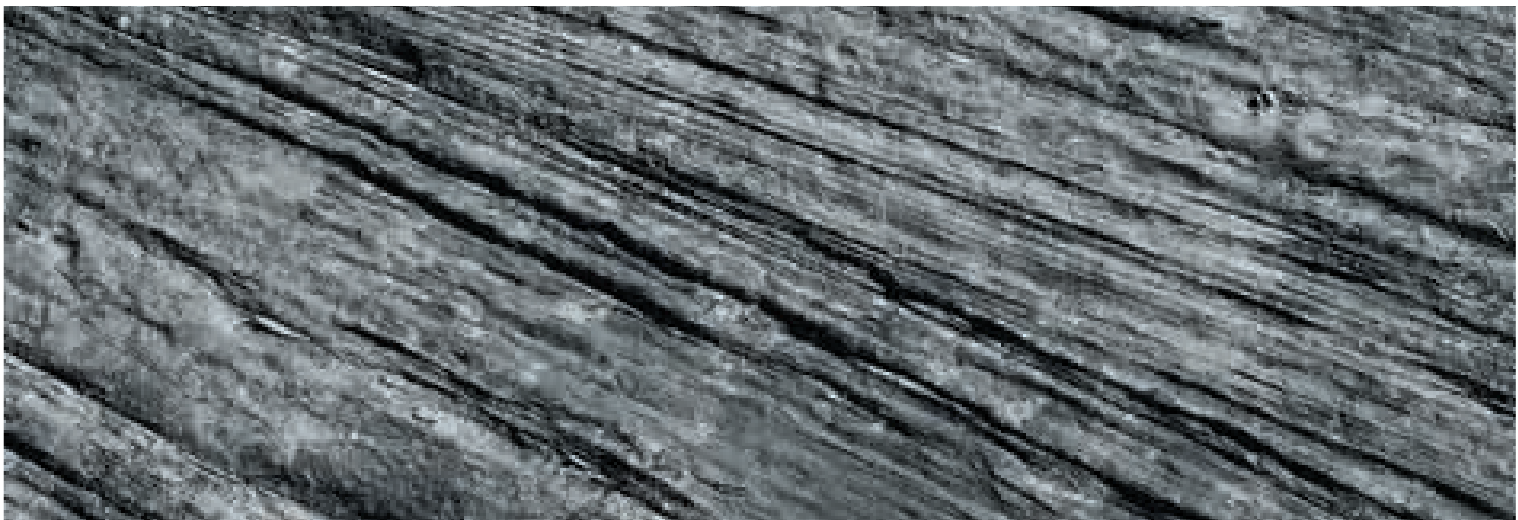
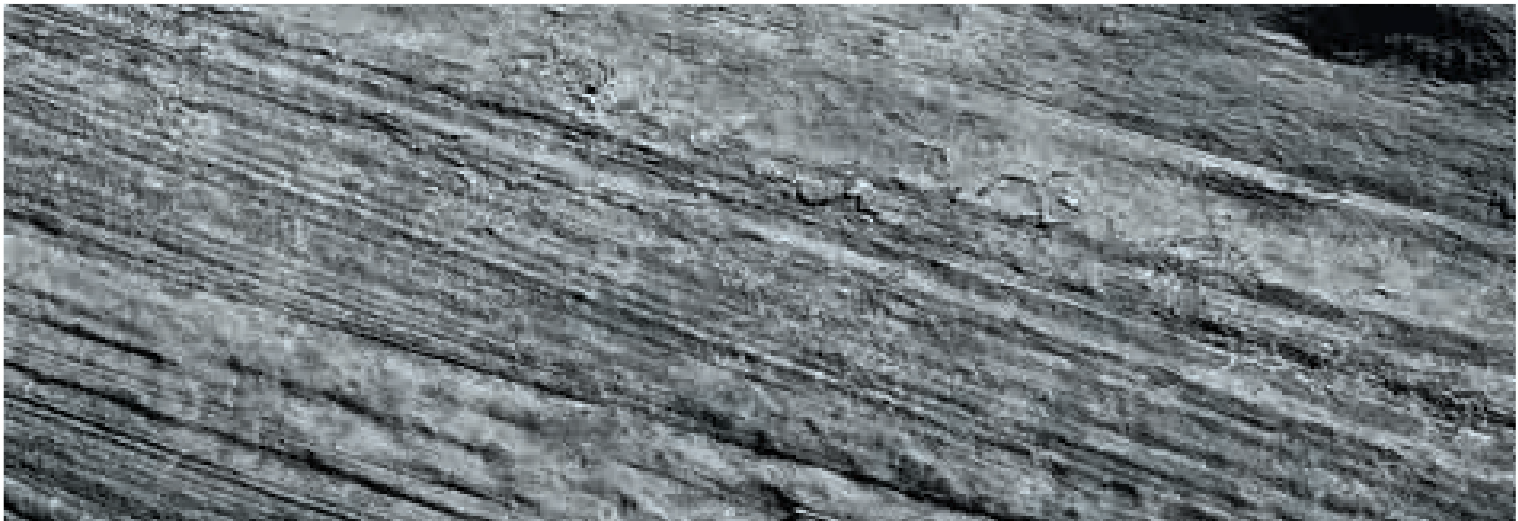


Review
of sales performance
and market developments

4

[chapter]



Review of sales performance and market developments



+ Review of sales performance

The Group's main competitive advantages in the metals market include:

- focus on end users;
- sustained quality of products;
- quality management system compliant with ISO 9001:2000 and ISO 14001:2004;
- international distribution network;
- stable production and delivery of goods.

In 2006, all the metals produced by MMC Norilsk Nickel were sold through the Group's own distribution network (please refer to the description of the Sales business unit in the section Management structure reform).



Sales of metals mined by MMC Norilsk Nickel

Products	Sales		
	2006	2005	2004
Nickel ('000 tonnes)	257	244	250
Copper ('000 tonnes)	424	450	451
Palladium ⁽¹⁾ ('000 ounces)	3,220	3,231	–
Platinum ⁽¹⁾ ('000 ounces)	750	758	–

Note:

(1) Until 2005 the information on the sales of PGM produced by the Group in Russia was subject to state secrecy laws. As a result of changes to the state secrecy laws made in 2005, the Group is now allowed to disclose the current information on PGM.

Nickel

In 2006, the Group sold 257 thousand tonnes of nickel. The growth in sales volumes was 5.3%, which was mainly due to increased demand for nickel, and was met through a reduction of the Group's current inventory levels.

Copper

In 2006, copper sales amounted to 424 thousand tonnes. Sales decreased by 5.8%, which resulted from a lower copper output in 2006, due to a reduction in the processing of copper scrap.

Palladium and platinum

Despite the difficult market conditions, the Sales business unit successfully achieved its metal sales targets for 2006. The quantitative sales volume of palladium and platinum amounted to 3,220 and 750 thousand ounces respectively in 2006.

Stillwater Mining Company Sales

In 2006, palladium sales of Stillwater Mining Company amounted to 648 thousand ounces including mine production and other operations.

In the first quarter of 2006, Stillwater Mining Company completed the sale of the palladium received in the 2003 MMC Norilsk Nickel transaction, which resulted in a significant reduction of palladium sales for 2006.

In 2006, platinum sales of Stillwater Mining Company amounted to 326 thousand ounces.

Sales of metals by Stillwater Mining Company ('000 ounces)

Products	Sales		
	2006	2005	2004
Palladium	648	933	850
MMC Norilsk Nickel inventory transaction as part of the purchase consideration in 2003	63	439	375
Platinum	326	216	202

Review of market developments

Nickel

Nickel is the main product of MMC Norilsk Nickel. This metal is corrosive-resistant and retains its mechanical and physical characteristics in alloys under extreme temperature conditions.

Nickel is mostly used in the production of stainless steel (about two thirds of global consumption in 2006). In addition, nickel improves steel's resistance to corrosive and aggressive environments. The combination of these characteristics makes stainless steel an essential material in many industries and in consumer goods manufacturing.

Other important nickel applications include special alloys, electroplating, rechargeable batteries, and various uses in the chemical industry.

Demand

In 2006, nickel consumption increased significantly in Europe and Asia, especially in China. The growth in nickel consumption was mainly due to record growth in stainless steel production globally by 14% from 2005. It accompanied a growth of the share of nickel containing austenitic steel grades, despite the forecasted replacement of this grade with nickel-free ferrite grades.

In recent years, nickel consumption has been shifting from the industrial countries of Europe and North America to the fast developing Asia-Pacific economies, especially China.

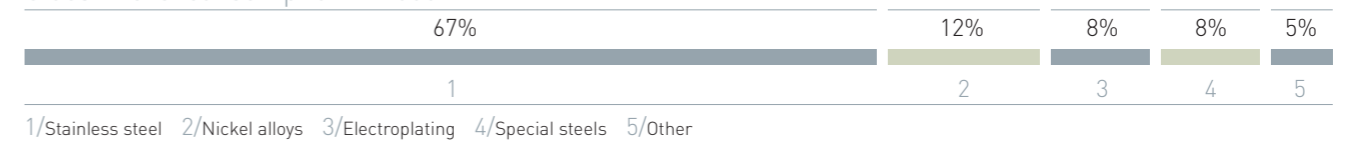
The rapid development of the Chinese economy bred a record demand for stainless steel in the region. In 2006, output grew to 5.3 million tonnes (42% as compared to 2005). Nickel consumption exceeded 234 thousand tonnes. The extensive increase of stainless steel consumption by China in 2006 contributed to the recovery of the European stainless steel production, partially oriented on exports to China, which resumed growth as compared to 2005.

Europe remains the most important region for the Group, as it is the main market for nickel sales. In 2006, Europe demonstrated 13% growth in stainless steel production, which resulted in the increased demand for nickel.

Nickel has high growth potential. The high level of investment in the oil and gas sector, and the production of non-traditional energy resources, such as ethanol, will form a steady basis for demand for high quality (with high nickel content) stainless steel grades for some time.

Asia, despite an upsurge of nickel consumption in stainless steel production, has the potential to increase consumption in the future. As noted above, in 2006, stainless steel production in China exceeded 5 million tonnes, with production facilities capable of producing 7 million tonnes. Before 2010, production facilities are forecast to be extended to 11 million tonnes per year.

Global nickel consumption in 2006



Source: MMC Norilsk Nickel, 2007

Global nickel demand ('000 tonnes)



Source: CRU, 2007

The use of nickel in areas other than stainless steel production opens immense product sale opportunities for the Group. Vigorous development of hybrid car production, and thus the use of nickel in nickel-metal hydride accumulators, opens another opportunity, especially for such high-tech nickel products as carbonyl nickel powder.

High growth in the liquefied natural gas (LNG) production market generates demand for superalloys and other alloys with high nickel content, necessary for LNG storage tank production. The demand for commercial aircraft will also remain high: all the facilities are already booked through the end of 2007.

Supply

The technical problems and strikes in the global mining industry that occurred in 2006 led to significant losses in primary nickel production, which, coupled with a rigorous growth of demand from stainless steel producers, resulted in a nickel market deficit of 30 thousand tonnes by the end of the year.

The Group expects that the high load rate of the existing production facilities and the careful policies pursued by producers in increasing output, together with stable industrial demand, will contribute to the sustained high level of global prices.

Nickel prices in 2006

In 2006, the average annual LME price of nickel increased by 64.8% compared with 2005, and amounted to USD 24,287 per tonne, which is another record.

Average annual nickel prices (US Dollars per tonne)

	2006	2005	2004
Nickel	24,287	14,733	13,852

Source: London Metal Exchange

Global nickel production ('000 tonnes)

2004	1,261
2005	1,281
2006	1,354

Source: CRU, 2007

Nickel prices at the London Metal Exchange in 2006 (US Dollars per tonne)



Source: London Metal Exchange

Copper

Copper is valued for its good electrical conductivity. About three fourths of the global copper output is used in various electricity applications. Copper is used in many areas, from heavy industry and construction cable production, to thin wire production for use in electric motor and transformer winding. Both pure copper and copper alloys, such as bronze and brass, are used in the production of different products with valuable physical characteristics. The most important of these copper containing products includes copper pipes widely used in water supply and heating systems, as well as in air conditioners.

Demand

Against a background of global economic stability in 2006, a steady growth in copper demand was observed, which served as the main reason for the rise in copper prices to record heights.

According to Brook Hunt, in 2006, global copper consumption amounted to 17.5 million tonnes, with growth rates rising to 4.4%. Europe saw the highest growth in

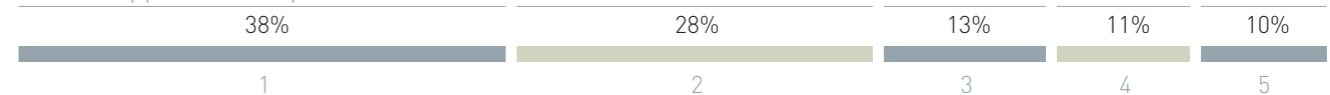
demand (predominantly due to Germany and Italy, where copper rod and wire production grew), and Japan and India also experienced growth in demand. The USA experienced a decline in demand (where new house construction fell); visible consumption in China also fell. The reduction of consumption was partially explained by the replacement of copper with other cheaper materials in construction and household equipment. At the same time, consumption by the electrical engineering and electronic industries continued to grow.

During the last several years, copper demand stayed high due to industrialization and electrification in Asian countries, especially China. The growth of disposable income leads to increased consumption of electronic devices. For this reason, at early stages of industrialization, the growth of demand for electric power traditionally outpaces the GDP growth. The developing markets also have a need to improve electric power availability in the rural areas in order to remove the inequity between the urban and rural population and

limit the migration of rural residents to urban areas. For several years, Asian copper consumption grew manifold and today accounts for half of the global copper consumption.

In 2006, Chinese demand for copper demonstrated moderate growth after the period from 2000 to 2005, when it grew by 16% per year, although the statistical picture of the Chinese copper market was skewed by the fact that the state's strategic copper reserve was being depleted and the share of copper produced from scrap was increasing. However, an overall decrease of copper consumption is observed in the country, resulting from price growth and the development of substitute materials. Data are available on copper substituted by aluminum in air conditioner pipe production, and on the wider use of aluminum and plastic in decorative materials.

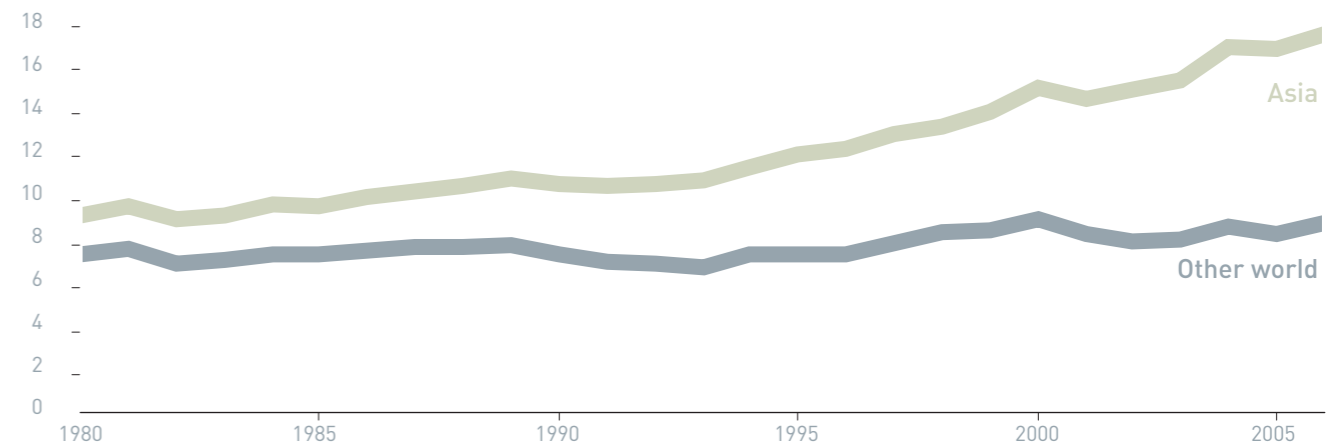
Global copper consumption in 2006



1/Construction 2/Electronics 3/Machine building 4/Transport 5/Consumer goods

Source: Brook Hunt, 2007

Global copper consumption (million tonnes)



Source: WBMS, 2006



To assess the long-term effect of the period of high prices observed in 2006, more time is needed, but generally it can be said that the copper market is continuing to grow. The most densely populated developing countries of the world are passing through the industrialization and electrification stage, which will support the demand for copper in years to come. Many of these countries continue to experience deficits in electric power, and in countries with the lowest income levels (as defined by the World Bank), more than 60% of population have no access to electricity, which means a significant potential for growth.

Supply

According to Brook Hunt, in 2006, global refined copper production amounted to slightly more than 17.5 million tonnes, with growth rates (5.9%) exceeding last year's figure (4.1%). Production decline in Chile and the USA was offset by growth in China, India and Japan. A significant growth in scrap metal processing was also observed (13%).

Russian copper production grew by 0.5% to 939 thousand tonnes. MMC Norilsk Nickel remained the leading copper producer in the country, with a market share of 45.3%.

Copper prices in 2006

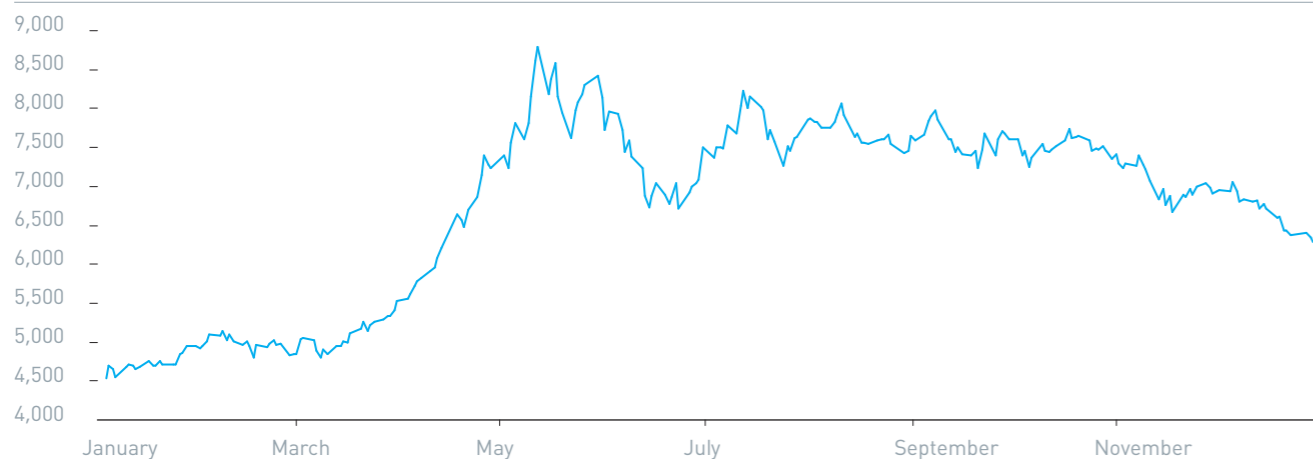
The fourth year of copper production lagging behind the growth in copper consumption, combined with increased activity in the speculative capital market from investment funds which wanted to benefit from this favorable situation, led to an upsurge of copper prices at the LME in the first half of 2006, reaching a record USD 8,788 per tonne in May.

Average annual copper prices (US Dollars per tonne)

	2006	2005	2004
Copper	6,731	3,684	2,868

Source: London Metal Exchange

Copper prices at the London Metal Exchange in 2006 (US Dollars per tonne)



Source: London Metal Exchange

By the end of the year, market deficit reduction contributed to the price going down to USD 6,300 per tonne. The average annual copper price increased by 82.7% from 2005 and amounted to USD 6,731 per tonne. According to estimates, the year ended with a small surplus (40 thousand tonnes), which was significantly lower than the one expected at the beginning of the year (200-300 thousand tonnes). The growth of global exchanges' stockpiles, especially manifest in the second half of the year, was 59% for the year (from 154 to 245 thousand tonnes), with the LME stockpiles growing more than twice (from 89 to 183 thousand tonnes). Total copper stock remained at an historically low level (somewhat more than 5 days of global consumption).

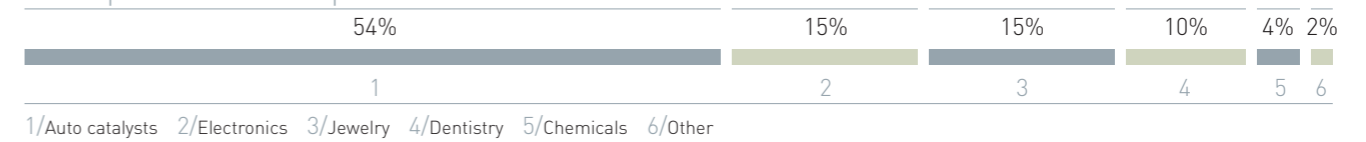
Platinum group of metals

For several years, PGMs experienced some of the fastest growth, and 2006 was no exception.

The principal application of PGMs (and the highest demand growth) is connected with auto catalyst manufacturing. The catalysts are a component of motor cars which help to reduce pollutants in exhaust emissions. The key substances to be reduced include carbon oxide, nitrogen oxides and unburned hydrocarbons. Virtually all auto catalysts produced today use platinum or palladium. Platinum is the principal metal used in diesel engine catalysts. Rhodium is another PGM produced by MMC Norilsk Nickel which is also used in certain types of auto catalysts in combination with platinum and palladium.

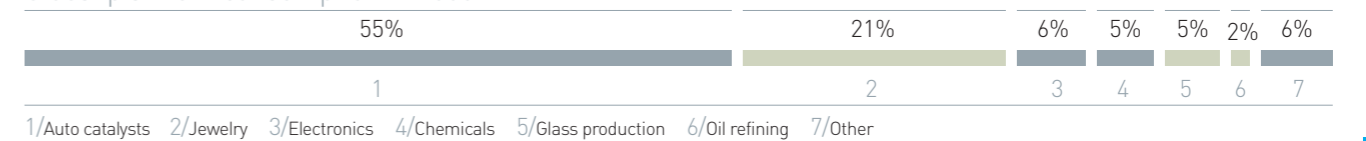
The adoption of more stringent engine exhaust requirements contributed considerably to an increase in demand for platinum in 2006. According to most estimates, demand for platinum for auto catalysts increased by 15% from 2005. The main consumer of platinum was Europe, which was the first in the world to adopt the Euro IV emissions standard. The European platinum consumption growth trend was propped up by the growth of the share of diesel cars, which today account for more than 50% of all cars produced, and by the extended application of particle filters in diesel passenger cars, (which contain platinum), as well as catalysts for diesel exhaust oxidation. In 2006, platinum auto catalysts were widely used in the production of larger diesel cars and trucks.

Global palladium consumption in 2006



Source: GFMS, 2006

Global platinum consumption in 2006



Source: GFMS, 2006

In the USA, platinum is not used so widely in catalysts because consumers mainly prefer cars with petrol engines. Nevertheless, the USA has adopted more stringent pollutant standards for exhausts (Tier II), and this is gradually increasing the need to use platinum based catalysts in truck manufacturing. This led to a considerable growth of platinum demand in this region in 2006.

Palladium also grew due to increased demand for auto catalysts in 2006. Though European manufacturers increasingly prefer diesel engines, and palladium consumption declined somewhat in this region, the growth in North America and Japan largely offset this decline. In response to growing platinum prices, auto catalyst manufacturers in these two regions are replacing platinum with palladium for petrol engine cars. According to experts, in 2006, palladium use in auto catalysts grew 7% overall. Thus, palladium made an important step to restoring its market share which was lost after an upsurge of prices in 2000 – 2001.

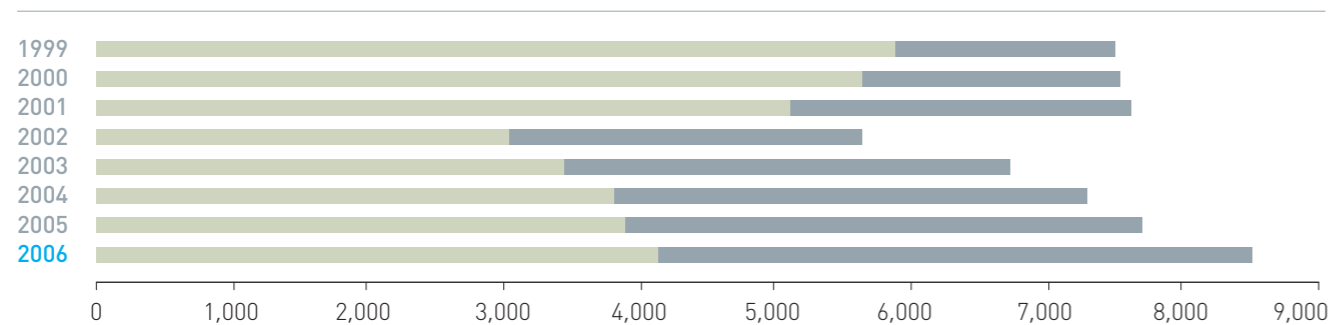
The jewelry industry, another one of the main consumers of platinum, has not demonstrated such impressive results. The growth of platinum prices and strong competition from other precious metals reduced platinum demand in the jewelry industry in all the key markets. A reduction by 11% was insufficient in this market segment to offset growth in other segments, and the overall market growth for the last year is estimated to be approximately 6%.

Palladium demonstrated outstanding performance in winning over the jewelry industry. In 2003, the jewelry industry used only 5% of the palladium produced, while by 2006, the share of this market had grown threefold to 15%. The basis for this success was built by China, which experienced strong growth for two years, while in 2006 the demand for palladium from the Chinese jewelry industry – for white gold and jewelry alloy production – slowed down. This is most likely explained by the fact that jewelers used palladium stock accumulated in 2005, rather than by

a decrease in consumer demand. High platinum prices supported demand for palladium at the previous level, (as it is cheaper than platinum), and Chinese jewelers are making efforts to expand interest in palladium, from provincial and small towns to Beijing and Shanghai.

The use of palladium in the jewelry industry in North America is becoming more popular. However, in 2006, the positive effect of this in the region was offset by the reduction of palladium use in coin production and the sale of palladium by small investors striving to realize their gains during period of high prices for the metal.

Use of palladium and platinum in auto catalysts ('000 ounces)



Source: Johnson Matthey, 2006

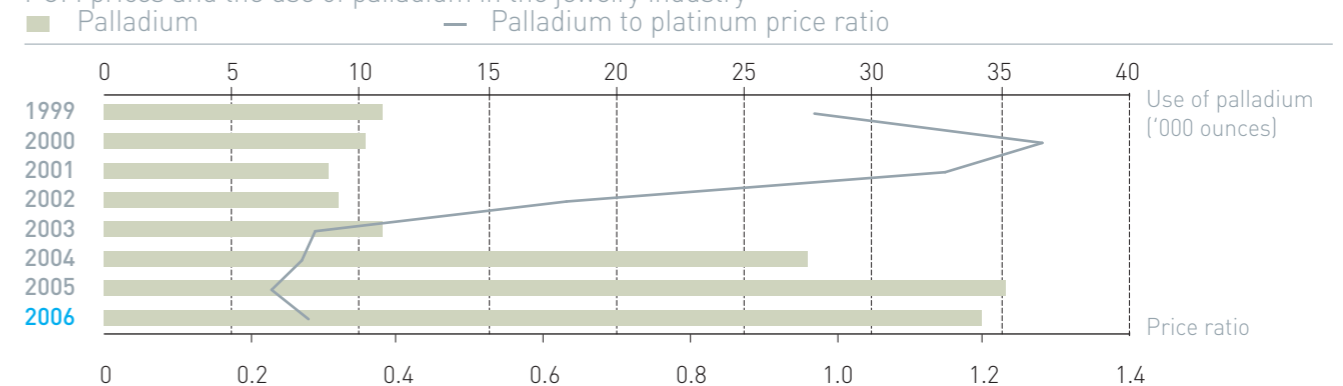
The PGM demand outlook is optimistic. The introduction of more stringent emission standards in industrialized countries remains a factor contributing to the long-term growth of demand for all PGMs, whereas the existing difference between platinum and palladium prices – a record USD 800 per ounce in 2006 – will further induce manufacturers to use more palladium. In 2006, the first palladium catalyst for diesel engine cars entered the European market, which will become another factor in the growth in demand for palladium. The growing use of fuel with low sulfur content (palladium based catalysts have problems operating on high sulfur fuels) is another plus.

In developing economies, the number of cars will inevitably grow, and more stringent exhaust standards will be introduced. China is introducing the same toxic standards for exhausts as Europe, although somewhat later. In 2006, more than 60 million motor cars were produced globally that use PGM-based catalysts.

Looking forward, it may be assumed that PGMs will play an important role in the realization of another growing environmental technology – hydrogen fuel element production. In this fuel, hydrogen and oxygen are mixed in the presence of a catalyst to produce electric power, producing water as an exhaust. Platinum catalysts

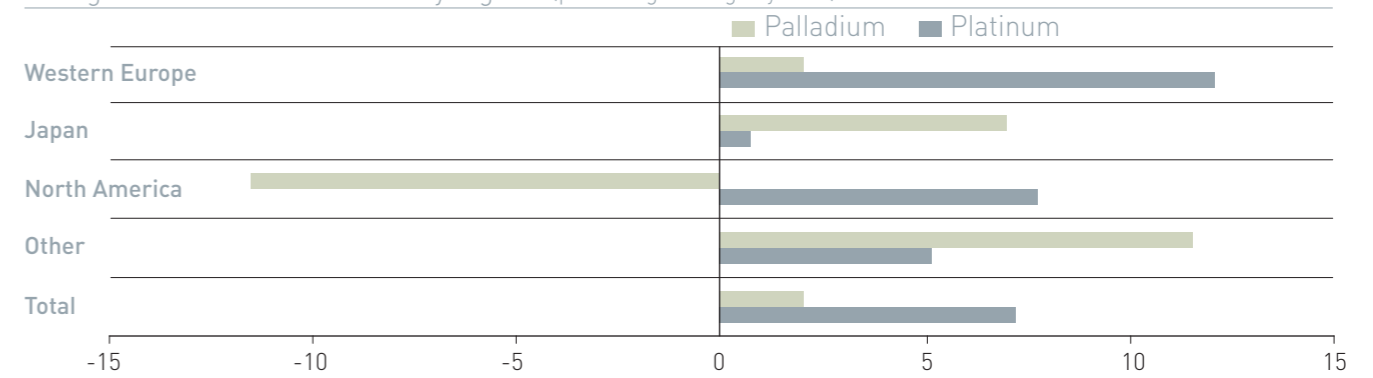
are used in some of today's leading fuel element production technologies. Palladium is not applicable for these purposes (as when it is combined with hydrogen, a violent chemical reaction results), but the metal can be used in hydrogen cleansing and storage – areas which will gain importance as hydrogen fuel systems develop. MMC Norilsk Nickel invests considerably in research and development related to PGM applications in these areas (see more detailed information in State-of-the-art technologies and innovations section).

PGM prices and the use of palladium in the jewelry industry



Source: GFMS, 2006 and MMC Norilsk Nickel

Change of PGM demand in 2006 by regions (percentage change by 2005)



Source: Johnson Matthey, 2006 and MMC Norilsk Nickel

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Platinum prices in 2006

In 2006, the average annual platinum price at the London Platinum and Palladium Market increased by 27.4% from 2005, and amounted to USD 1,143 per ounce.

The platinum market was balanced during the year. However, information background declaring a multi-year deficit, in conjunction with investment activity, ensured that platinum prices stayed at historically high levels. Platinum prices increased by 16% during the year (from USD 980 per ounce at the beginning of the year to USD 1,117 per ounce in December). During the first half of the year, platinum prices grew dynamically to reach a record USD 1,335 per ounce in May. This was encouraged by intensive purchases of physical metals, and investment fund interest.

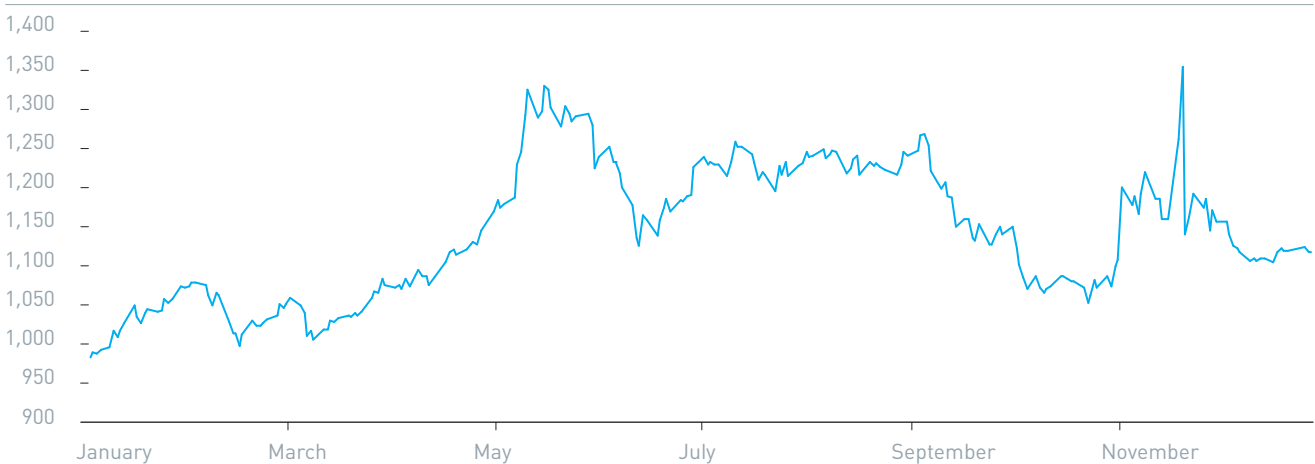
By the end of October, the price went down to USD 1,050 per ounce as a result of the funds selling some physical metal. After the decrease the price went up and hit new record in November – USD 1,390 per ounce, than went down again to USD 1,117 per ounce at the end of the year.

Average annual platinum prices (US Dollars per ounce)

	2006	2005	2004
Platinum	1,143	897	846

Source: London Platinum and Palladium Market

Platinum prices on London Platinum and Palladium Market in 2006 (US Dollars per ounce)



Source: London Platinum and Palladium Market