



# NORILSK NICKEL

ANNUAL REPORT

2006



# Disclaimer



The annual report of MMC Norilsk Nickel (hereinafter "Annual Report") has been prepared using information available to Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel (hereinafter, "MMC Norilsk Nickel" or the "Company") and its subsidiaries (hereinafter, the "Group") when the report was being prepared.

This Annual Report may contain certain forward-looking statements concerning operations, economic performance and financial conditions, the results of the operations and business of the Group, and its plans, strategies and expectations, as well as the trends in commodity prices, production and demand, expected costs, growth opportunities and the productive lives of operations, estimates of reserves or similar factors, the economic outlook for the industry and markets, the start and completion of certain exploration and production projects, and the closure or divestment of certain operations or facilities (including associated costs).

The words "intend", "aim", "project", "anticipate", "estimate", "plan", "believes", "expects", "may", "should", "will", "continue", or similar expressions, usually identify such forward-looking statements.

By their very nature, forward-looking statements involve inherent risk and uncertainties, both general and specific. There are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. In light of these risks, uncertainties and assumptions, the Company cautions that actual results may differ materially from any future results expressed or implied by these forward-looking statements, which are based on the information available during the writing of this Annual Report.

The Group does not make any guarantees or representations that the results anticipated by these forward-looking statements will be achieved. These forward-looking statements represent, in each case, only one of many possible scenarios, and should not be viewed as the most likely or standard scenario.

Other factors that may affect the actual construction or production commencement dates, costs or production output and anticipated lives of operations may include the ability to conduct production profitably; the impact of foreign currency exchange rates on the market prices of the commodities produced; the actions of the governmental authorities in the Russian Federation and other jurisdictions where the Group is exploring, developing or exploiting assets, including changes in tax, environmental and other regulations, as well as political uncertainty. This list of important factors is not exhaustive. When relying on forward-looking statements, the foregoing factors should be carefully considered, especially in light of the political, economic, social and legal environment in which the Group operates.

Except as required by applicable laws, the Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, or of future events.



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# Overview of OJSC MMC Norilsk Nickel

The key production units of the Group in 2006 included:

- the Polar Division (hereinafter, "Taimyr Peninsula"), which is located above the Arctic Circle on the 69th parallel. Its entities are connected to other regions of the Russian Federation via the Yenisey river and the Northern Sea Route, as well as by air;
- OJSC Kola Mining and Metallurgical Company (hereinafter, "Kola Peninsula"), which is the largest industrial producer in the Murmansk region and is fully integrated into the transport infrastructure of the Northwestern Federal District of the Russian Federation.

In 2003, the Group acquired 55.4% of Stillwater Mining Company, which is located in Montana, in the United States of America, and is the only producer of platinum group metals (hereinafter, "PGM") in the USA.

In 2006, the Group completed the spin-off of its gold mining assets. As a result of the spin-off, OJSC Polyus Gold was formed. It received 100% of the shares of CJSC Polus, which consolidated all the gold mining assets of the Group.

In 2006, the Group began its cooperation with Rio Tinto and BHP Billiton in geological exploration in a number of regions of the Russian Federation to ensure the growth and diversification of the Group's resource base, as well as, gaining the best international experience.

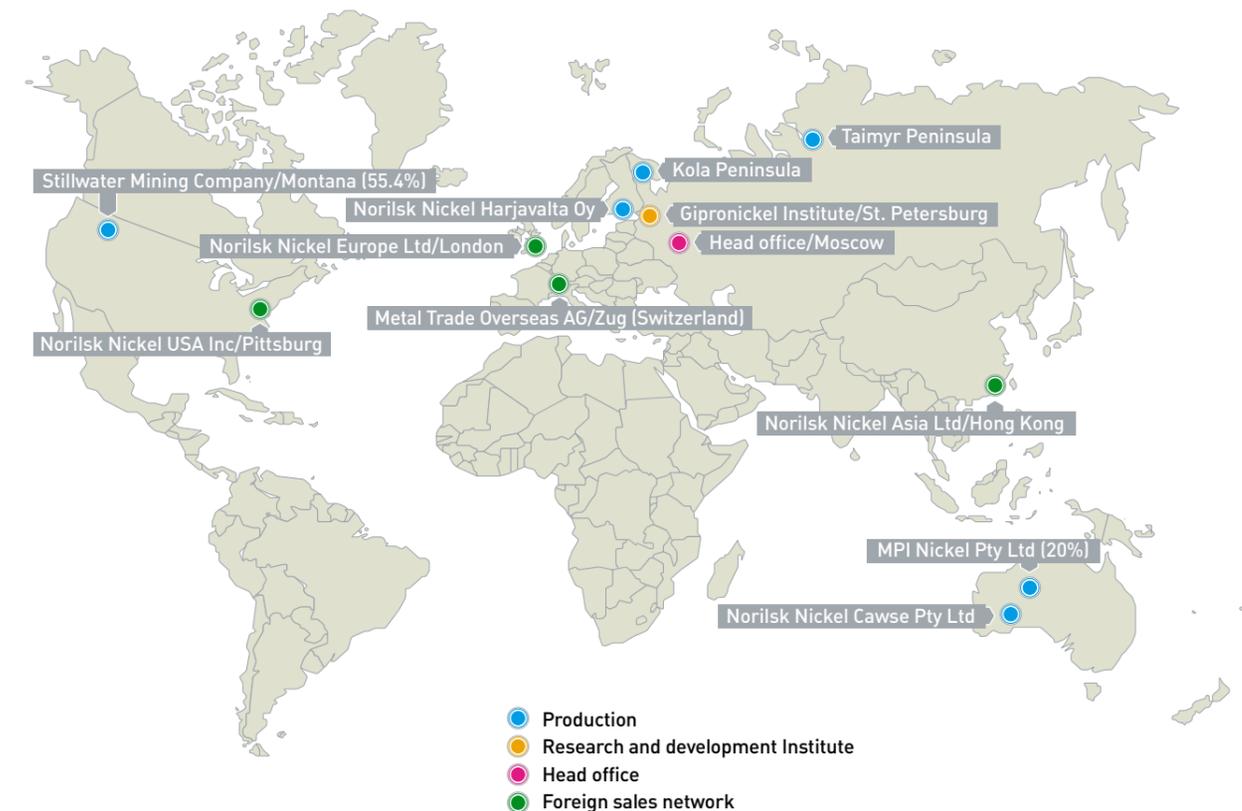
In March 2007, the Group completed the transaction to acquire OM Group's Nickel Business. As a result, the Group obtained operating assets in Finland and Australia that will allow the Group to expand its production activities globally, strengthen its leadership in the mining industry, and expand its product line with new products.

It is the Group's intention to spin-off its power assets in 2007 and distribute the shares of the newly established power holding company amongst the existing shareholders of the Group on a pro rata basis. The newly established power holding company is expected to include all the electric power assets of the Group which do not supply power to the Taimyr Peninsula.

The shares of the Group are traded in Russia on the Moscow Interbank Currency Exchange (MICEX) and in the Russian Trading System (RTS). The ADRs for the Group's shares are traded over the counter (OTC) in the United States, in the International Order Book (IOB) of the London Stock Exchange, and in the Freiverkehr Berlin-Bremen Stock Exchange.

In determining its development strategy and its current operational strategy, the Group is focused on adhering to the principles of social and environmental responsibility, which is essential for sustainable and effective business development.

## Key assets of the Group



MMC Norilsk Nickel is the world's leading producer of nickel and palladium, and one of the largest global producers of platinum and copper. In addition to this, the Group also produces a variety of by-products, such as cobalt, rhodium, silver, gold, iridium and ruthenium, etc.

The Group is involved in prospecting, exploration, extraction, refining and metallurgical processing of minerals, and production, marketing and sale of base and precious metals.



# CORPORATE MISSION

MMC Norilsk Nickel aims to strengthen its leadership position in the global mining and metals industry and the role of a responsible producer and supplier of base and precious metals through:

effective use of unique mineral resources and stability of operating costs



growth in prospecting, exploration and development of world class mineral deposits



support of sustainable development in the regions in which the Company operates



# STRATEGIC OBJECTIVES

- 1.1 effective use of the mineral resources and improved capacity utilization of the Company's mining and processing facilities
- 1.2 modernization of production facilities in ore beneficiation and metallurgy in order to ensure the most effective processing of mined ore and better metals recovery
- 1.3 sustaining the stable level of costs based on strong skills of continuous improvement in operations, development and implementation of effective technical solutions
- 1.4 strengthening independence in terms of secure supply of low-cost services and resources, including energy supply, transportation and logistics services
- 1.5 further improvements in corporate governance through restructuring of assets and optimization of management processes

- 2.1 active participation in prospecting, geological investigation and exploration of new promising world-class mineral deposits both in Russia and abroad
- 2.2 creation of strategic alliances, leveraging best practices in prospecting, mining and production of base and precious metals
- 2.3 growth of the existing business through strategic acquisitions and establishing partnerships in prospective sectors of the mining industry

- 3.1 personnel development, creating proper environment for professional growth of highly skilled professionals, ensuring safe labor environment, competitive staff remuneration and social benefits in accordance with scope and quality of their work
- 3.2 compliance with both Russian and international environmental standards, implementation of technologies allowing to comply with the limitations imposed on pollutant emissions, implementation of socially advantageous environmental protection projects on the regional, national and international level
- 3.3 implementation of projects in social and economic development of communities in cooperation with the regional and municipal authorities

# Operating and IFRS financial highlights

## Operating highlights for the year ended 31 December

	2006	2005	2004	2003	2002
<b>Production of MMC Norilsk Nickel</b>					
Nickel <sup>(1)</sup> ('000 tonnes)	244	243	243	239	218
Copper <sup>(1)</sup> ('000 tonnes)	425	452	447	451	450
Palladium <sup>(2,3)</sup> ('000 ounces)	3,164	3,133	–	–	–
Platinum <sup>(2,3)</sup> ('000 ounces)	752	751	–	–	–
Gold <sup>(2)</sup> ('000 ounces)	154	151	135	136	126
<b>Production of Stillwater Mining Company</b>					
Palladium ('000 ounces)	463	428	439	226 <sup>(4)</sup>	–
Platinum ('000 ounces)	138	126	130	67 <sup>(4)</sup>	–
<b>Sales of MMC Norilsk Nickel</b>					
Nickel <sup>(5)</sup> ('000 tonnes)	257	244	250	308	225
Copper ('000 tonnes)	424	450	451	467	442
Palladium <sup>(3)</sup> ('000 ounces)	3,220	3,231	–	–	–
Platinum <sup>(3)</sup> ('000 ounces)	750	758	–	–	–
Gold <sup>(2)</sup> ('000 ounces)	153	162	135	147	209
<b>Sales of Stillwater Mining Company</b>					
Palladium ('000 ounces)	648 <sup>(4)</sup>	933 <sup>(4)</sup>	850 <sup>(4)</sup>	223 <sup>(4)</sup>	–
Platinum ('000 ounces)	326	216	202	64 <sup>(4)</sup>	–

### Notes:

(1) Own production of metals by the Group including material purchased from third parties, including:  
• nickel: 2004 – 2 thousand tonnes, 2003 – 1 thousand tonnes;  
• copper: 2005 – 26 thousand tonnes, 2004 – 35 thousand tonnes, 2003 – 49 thousand tonnes, 2002 – 24 thousand tonnes.

(2) Here and below in the Annual Report the measure of weight for precious metals including palladium, platinum and gold is troy ounce.

(3) Until 2005 the information on PGM sales and volumes of production 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 current information on PGM.

(4) These data represent the production or sales volumes of Stillwater Mining Company since the date of acquisition of its shares by the Group (23 June 2003).

(5) These sales volumes are exclusive of the sale of metals purchased from the third parties.

(6) Including the sale of 877 thousand ounces of palladium transferred by the Group to Stillwater Mining Company as a consideration for its shares in 2003: 2006 – 63 thousand ounces, 2005 – 439 thousand ounces, 2004 – 375 thousand ounces.

## Consolidated IFRS financial highlights of the Group for the year ended 31 December<sup>(1)</sup> (US Dollars million)

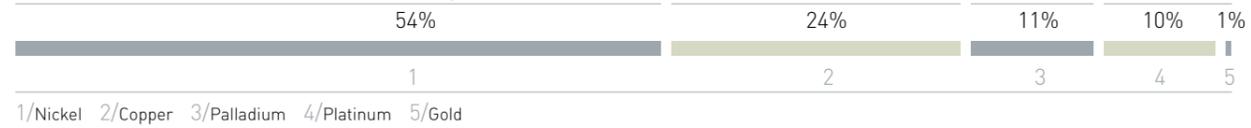
	2006	2005	2004	2003	2002
Metal sales	11,550	7,169	6,591	4,897	3,063
Gross profit on metal sales	8,392	4,175	3,653	2,135	1,331
Gross profit margin, %	73	58	55	44	43
Profit for the year from continuing operations	4,972	2,278	1,865	741	573
Net profit margin, %	43	32	28	15	19
Earnings per share (US Dollars per share)	26.5	11.3	8.9	3.5	2.7
Dividends per share <sup>(2)</sup> (US Dollars per share)	6.7	3.5	2.5	1.4	0.7
Weighted average number of ordinary shares in issue during the year	188,767,177	201,242,833	210,642,516	210,642,516	210,642,516
Cash and cash equivalents	2,178	922	1,333	950	423
Investments in securities and other financial assets	2,719	824	1,434	297	130
Property, plant and equipment	8,134	7,145	7,852	6,927	6,094
Total assets	16,279	11,432	13,632	10,914	9,451
Short-term borrowings	158	357	552	438	675
Long-term borrowings	632	635	657	169	147
Total liabilities	3,143	2,860	2,989	2,628	2,379
Share capital and reserves	13,136	11,397	10,643	8,286	7,072

### Note:

(1) The consolidated annual financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements of the Group are prepared excluding the gold mining assets of Polus Group to present the financials more illustrative.

(2) 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.

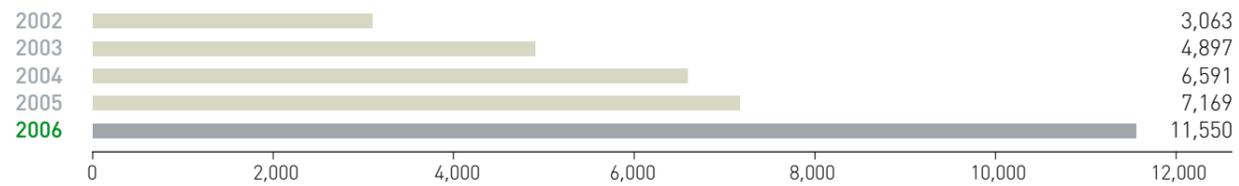
IFRS metal sales distribution in 2006 by metal



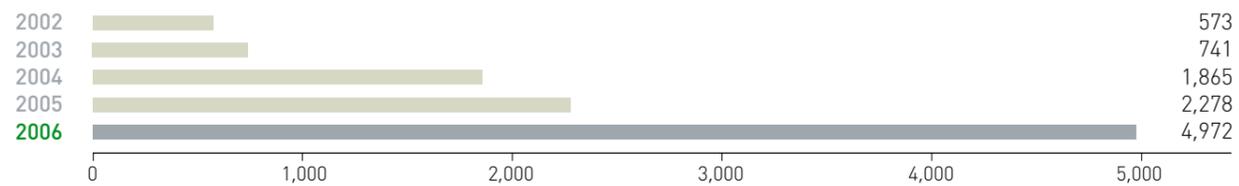
IFRS metal sales distribution in 2006 by geography



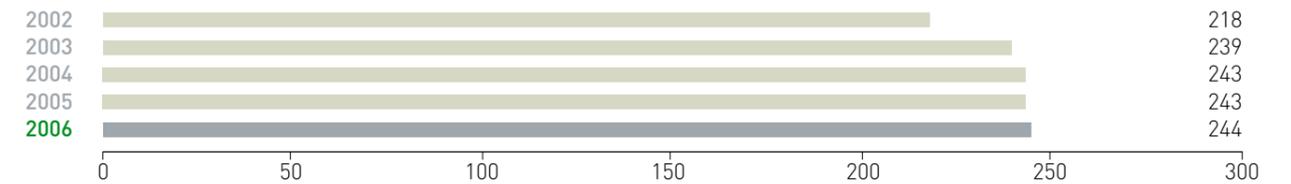
IFRS metal sales (US Dollars million)



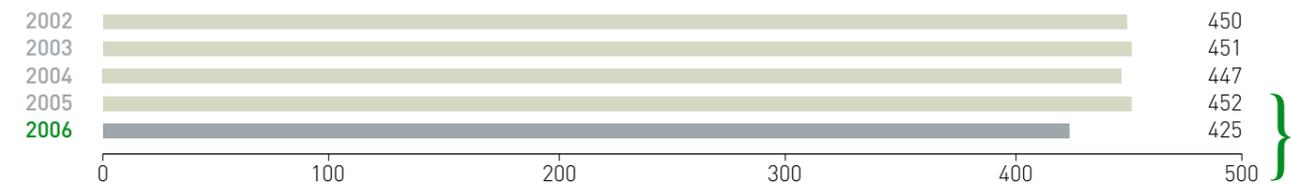
IFRS profit from continuing operations (US Dollars million)



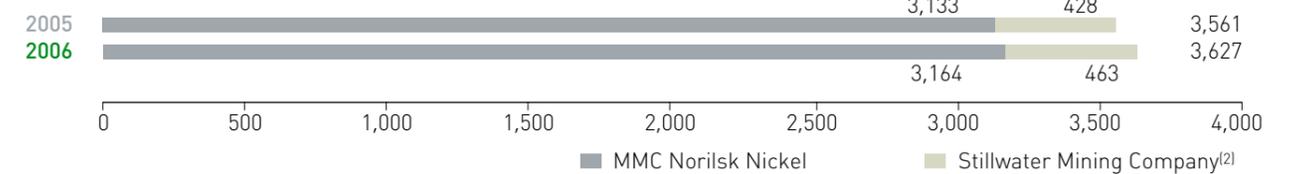
Volume of nickel production ('000 tonnes)



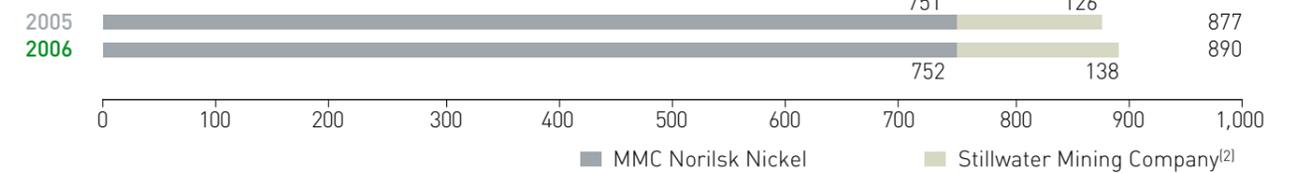
Volume of copper production ('000 tonnes)



Volume of palladium production<sup>(1)</sup> ('000 ounces)



Volume of platinum production<sup>(1)</sup> ('000 ounces)



Notes:

(1) Until 2005 the information on the volumes 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 current production information on PGM.

(2) The production of palladium and platinum by Stillwater Mining Company is presented in the aggregate.

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# 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 2.1<sup>1</sup>) 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 4.6<sup>1</sup>) 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.



## Letter from the General Director – Chairman of the Management Board

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.

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

### 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 Taimyrenergo'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.

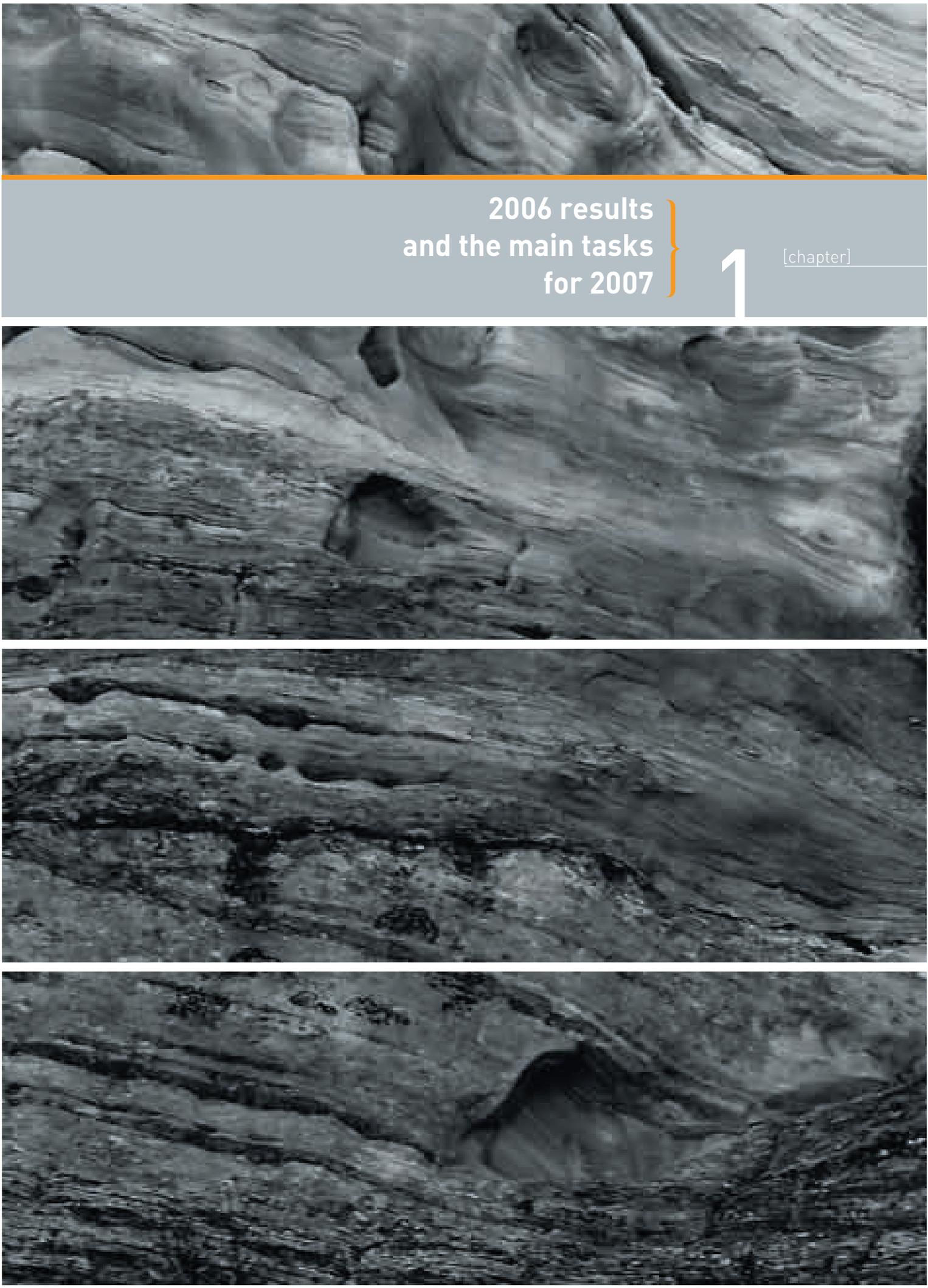
These ratings reflect the recognition of the Group's unique mineral resource base, the stable financial performance, as well as MMC Norilsk Nickel's leadership in the base and precious metal markets of the world.

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

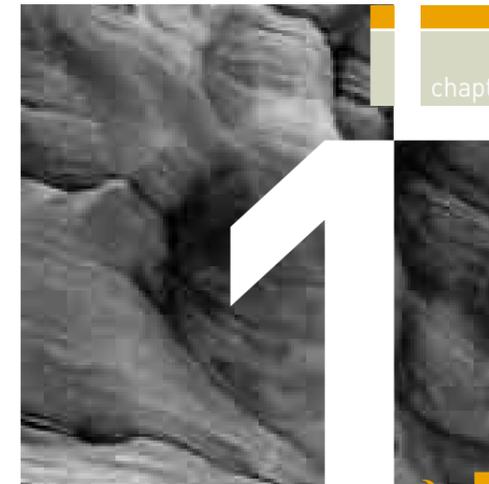


2006 results  
and the main tasks  
for 2007

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[chapter]

# 2006 results and the main tasks for 2007



## Results of 2006

## Main tasks for 2007

### 1. Effective use of unique mineral resources and stability of operating costs

The Board of Directors of the Company adopted the Production Development Strategy aimed at mineral and resource base development, optimal utilization of production facilities and operational efficiency improvement of the existing assets of the Group.

The following ore production facilities were constructed and commissioned on the Taimyr Peninsula:

- at the Oktyabrsky mine – the first launch complex of the reconstruction project at the depth of –650 meters with capacity of 1.1 million tonnes of rich ore per year; the third launch complex of the cuprous ore extraction project with capacity of 600,000 tonnes of cuprous ore per year;
- at the Komsomolsky mine – the second and the third launch complexes of the project for the development of rich and cuprous ore reserves with the effective production capacity 330,000 tonnes of cuprous ore per year; the first launch complex of disseminated ores development project with the capacity of 300,000 tonnes per year.

Implement the key projects within the Company's Production Development Strategy. Continue the construction of the following start-up facilities of the production entities on the Taimyr Peninsula:

- at the Oktyabrsky mine – to develop the cuprous ore production and replace the depleting rich ore production facilities;
- at the Taimyrsky mine – to increase the rich ore production and replace the depleting facilities;
- at the Komsomolsky mine – within the projects for opening and extraction of flank reserves of rich and cuprous ore and development of the priority segment of disseminated ores;
- at the Skalisty mine – to strip the reserves and prepare for the development of the Talnakh rich ores deposit and initiate works to open the deep sections at the Oktyabrsky deposit;
- at the Zapolyarny mine – within the project for the extension of disseminated ore mining.

Continue work to modernize the skip winding facilities at the Komsomolsky mine in order to improve the mine hoisting capacity.



Results of 2006

The Group continued the construction of the Severny-Gluboky underground mine on the Kola Peninsula with the annual production facility of 6 million tonnes of disseminated ore. In 2006 and 2007, the effective annual capacity of the mine is 1 million tonnes of ore (the first launch complex). According to the mine project and construction schedule the second launch complex with the capacity of 2.5 million tonnes of ore is to be commissioned in 2008.

The Group initiated the following projects to upgrade the concentration facilities on the Taimyr Peninsula:

- testing of more sophisticated concentration technologies for rich and cuprous ores is under way;
- the project for Norilsk Concentrator modernization was developed providing for the extension of ore processing capacity up to 8.2 million tonnes and of stored pyrrhotite concentrate processing up to 1.5 million tonnes annually.

Pre-project work at the Nadezhda Metallurgical Plant was done for the flash smelter capacity expansion project.

The following works continued under the metallurgical production modernization program on the Kola Peninsula:

- pilot-plant testing of the copper and nickel concentrate briquetting technology was successfully completed;
- the technology testing of copper and nickel concentrate smelting in the two zones Vanukov furnace was completed. The initial data for designing an industrial furnace were prepared on the basis of the test results.

Upon removal of the secrecy status from the data on the PGM production and reserves, the data was supplemented with the information on the PGM reserves on the Taimyr Peninsula.

The first icebreaking cargo carrier was put into operation for the purposes of cargo transportation via the North Sea Route. The tests performed indicated that the actual technical features of the ship exceeded its projected specifications.

The construction of the Pelyatka gas condensate deposit continued to satisfy the long-term needs of the Norilsk industrial district.

The consolidation of power generation assets on the Taimyr Peninsula was completed, 100% shares of OJSC Taimyrenergo were purchased from RAO UES of Russia.

Main tasks for 2007

Commission the following production facilities:

- for rich ore production at the Taimyrsky mines – for 1.4 million tonnes (including replacement of the decommissioned capacity of 900,000 tonnes) and at the Skalisty mine – 200,000 tonnes;
- for cuprous and disseminated ore production at the Komsomolsky mine – 500,000 tonnes.

Refurbish the technological line of Nadezhda Metallurgical Plant and reconstruct flash smelter No. 2 in 2008 to ensure the line's nickel concentrate processing capacity increase from 1.0 million to 1.2 million tonnes annually.

Design the reconstructed metallurgical complex at the Kola Peninsula based on the construction of the two zones Vanukov furnace at the refining site in Monchegorsk city.

Develop a prospective technology of rich and cuprous ores concentration, prepare technological specifications for the modernization for the Talnakh Concentrator providing for a capacity increase up to 10.5 million tonnes of ore per annum.

Maintain a stable level of production costs.

Implement a program for the sulphur dioxide utilization to reduce emissions and to ensure compliance with limits set by the regional environmental authorities.

Conduct an independent audit of mineral and resource base including all ore reserves on the Taimyr and Kola Peninsulas.

Continue the program to construct four ice breaking cargo carriers that will form the base of the Group's new transport and logistics system.

Continue development of the Pelyatka gas condensate field, design the pipelines for the gas transportation from the deposit to Norilsk city.

Purchase 49% of OJSC Norilsk Taimyr Energy Company from RAO UES of Russia.

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Results of 2006

2. Growth in prospecting exploration and development of world class mineral deposits, and strategic acquisitions

A joint venture agreement with Rio Tinto was signed and operations of geological prospecting and development of prospective deposits started in the southern areas of the Siberian and the Far Eastern Federal Districts of the Russian Federation.

An alliance agreement was signed with BHP Billiton for geological exploration in western Siberia and the northwestern regions of Russia.

The Group acquired OM Group's Nickel Business which ensures:

- annual nickel output growth by 35,000 – 40,000 tonnes;
- access to the best practice operational skills and new technologies;
- expansion of the existing product line to include nickel salts and briquettes.

3. Support of sustainable development in the regions in which the Company operates

A joined program named The Future of the North funded by the Group and the charity foundation of V. Potanin was initiated. The program aims at supporting promising students to start their carrier at the Group's entities in the Norilsk industrial district.

Capital repairs of housing facilities and reconstruction of social infrastructure in Norilsk city was performed as part of the Concept of Housing Facilities Management that was developed by the Group in cooperation with the Norilsk city administration.

The Group continued supporting residential settlements of the Far North indigenous peoples, implemented measures aimed at the preservation and restoration of cultural traditions of the Far North peoples and protection of the unique nature of the Taimyr Peninsula.

Main tasks for 2007

Rehabilitation of mineral resources for the purposes of the Group's perspective development in the following areas of its productive deposits:

- increase of copper and nickel ore reserves and resources on the Taimyr Peninsula (Maslovskoye occurrence, Chernogorskoye deposit) and the Kola Peninsula (Vuruchuaivench ore occurrence, Allarechenck site, etc.);
- allot new targets for prospect appraisal on the Taimyr and Kola Peninsulas.

Create and prepare for the development of the mineral and resource base of the core and new types of minerals, including by conducting joint geological exploration with the large international partner companies:

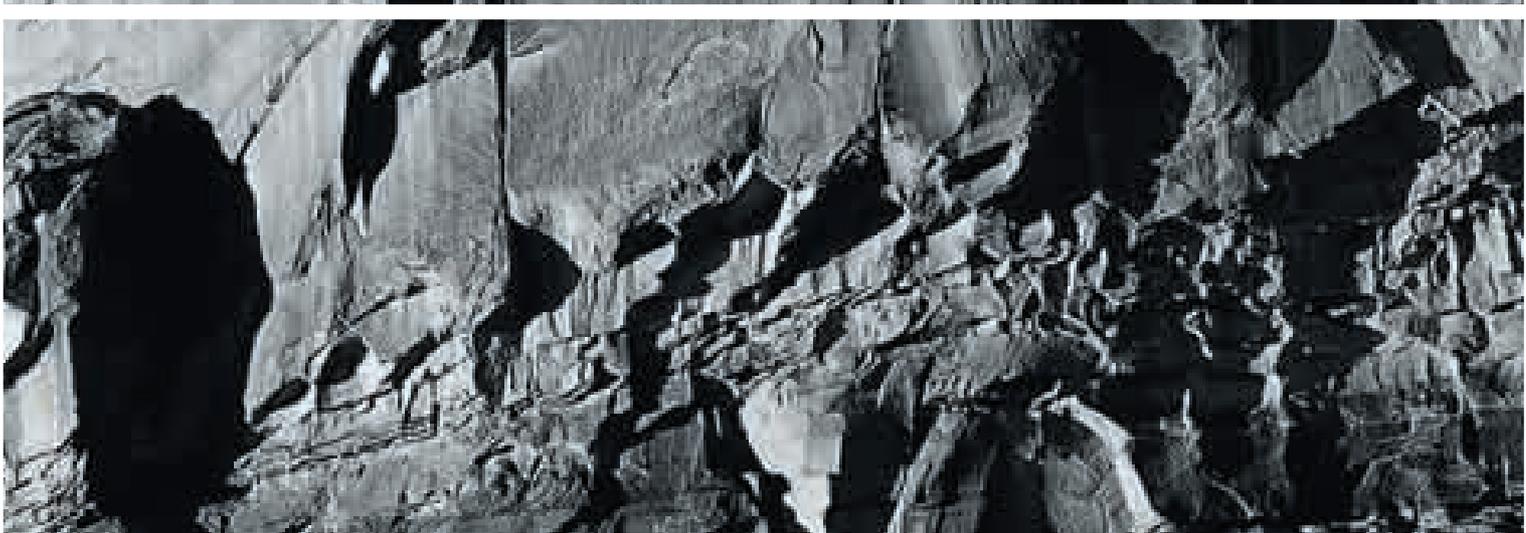
- conduct prospect appraisal and exploration in the Krasnoyarsk region (Kingash ore deposit, Tungus site), Chita region, Arhangelsk region (Severo-Timansk site), and Amur region, with an assessment of the reserves and resources.

Conduct operational exploration at the mining entities in order to ensure ample high-quality reserves for the current and prospective projected extraction.

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Risk factors } 2 [chapter]





# Risk factors



Outlined below are the main risk factors that may affect the Group's operations and financials. Risks outlined below may have a significant effect on the operations, sales, profits, assets, liquidity and the capital resources of the Group. All estimates and projections presented in this Annual Report should be considered in the context of these risks. In addition, certain risks which at present are regarded as insignificant may eventually become material.

## Market risks

Prices for the metals produced by the Group as well as global demand depend largely on the growth rate of the global economy. There are a number of factors affecting metal prices which are beyond the control of the Group, including:

- economic and political situation in the world and in specific regions;
- global and regional supply and demand expectations;
- purchase or sale of surface stock by central banks and other large holders;
- use of new technologies;
- regulations and actions of the Russian and foreign governments to regulate the market, including the establishment of export quotas;
- foreign exchange rates;
- inflation and interest rates.

A possible significant decrease in global prices for metals produced by the Group may lead to decreased profitability or loss-making production and/or exploration work performed by the Group, and may have a material negative effect on the Group's activities, the results of operations and its financial position.



## Production

The main operations of MMC Norilsk Nickel are conducted in the remote areas of the Far North, some of which have severe climates which mean that complex technical issues in the conduct of both geologic exploration and mining work must be addressed. To work in the difficult environment of the regions of the Far North with severe climates, the Group uses state-of-the-art mining and transport equipment and technologies. However, Norilsk Nickel may be unable to overcome difficulties related to weather and climate while maintaining commercially acceptable costs, which may have a material negative effect on the production of the Group. Major accidents involving energy supply systems, mines, concentrators or metallurgical plants may have a negative impact on the financial results of MMC Norilsk Nickel.



### Mineral resources and ore reserves

MMC Norilsk Nickel, as any mining company, is dependent on its mineral resources and ore reserves. It should be noted that any estimate of the mineral resources and ore reserves of any mining company is inherently uncertain, and depends on statistical conclusions based on limited drilling work and other analysis, which may eventually prove to be inaccurate. The estimates and classification of mineral resources and ore reserves are also affected by such factors as changes in metal prices, increased costs of production, or a lowered metal cut-off grade. The estimation of mineral resources and ore reserves involves professional judgment which is based on expertise, experience and industry practices, and is subject to considerable uncertainty.

The management of MMC Norilsk Nickel believes that its estimation of mineral resources and ore reserves is correct. However, if the quantity and quality of the explored ore reserves is unconfirmed, a decrease in efficiency of production due to the appreciation and increased labor intensity of the mining work is probable.

### Health and safety

Operations of MMC Norilsk Nickel, as well as other mining companies, are exposed to hazards and risks inherent in the exploration, development and extraction of mineral resources, which may inflict damage to individuals, property and the environment.

The risk factors connected with open pit mining conducted by the Group include:

- inundation;
- quarry bank and wall sloughing;
- accidents connected with the operation of mining and transportation equipment in the quarry;
- accidents connected with the preparation and execution of large-scale blasting work in the quarry;
- suspension of production due to weather conditions; and
- risks related to the reclamation of mineralized waste water such as the pollution of subterranean waters and water flows.

Underground mining work is usually more expensive than open pit mining, more dangerous, and requires the use of ventilation systems. Other hazardous factors in underground mining include:

- underground fires and explosions (including those caused by inflammable gas);
- releases of gas and toxic agents;
- geothermal events;
- sinkholes and ground depression;
- other accidents resulting from drilling and blasting work, and from the removal and transportation of mined rock from the mine.

MMC Norilsk Nickel may face any of the above risks. An accident resulting from any of these hazardous factors may lead to the suspension of production, increased production costs, injuries and damage to property, and liabilities for the Group.

### Environment

MMC Norilsk Nickel is subject to comprehensive environmental control and regulation in Russia. The Group's operations involve:

- use of agents harmful for the environment;
- emission of waste and pollutants into the environment;
- disturbance of lands;
- potential damage to flora and fauna; and
- other factors hazardous for the environment.

Currently, environmental legislation in Russia and other countries are changing. MMC Norilsk Nickel regularly reviews its obligations to reduce pollution of the environment.

New laws and regulations, the imposition of more stringent requirements in licenses, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licenses, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease operations, or pay fees, fines, or make other payments for pollution or other breaches of environmental standards. All this may have a material negative effect on the Group's financial position.

### National currency exchange rate and currency control

A large portion of the Group's sales is in US Dollars, but some are in Euro as well. Thus, changes in the national currency (Russian Rouble) exchange rate against the US Dollar and Euro have an effect on the Group's financial results.

Despite considerable liberalization of the Russian legislation on foreign currency regulation and foreign currency control, the effective Russian legislation authorizes the Russian Government and the Central Bank of Russia ("CBR") to regulate the area of foreign currency control, including foreign securities transactions and the borrowings of Russian companies in foreign currency.

The foreign currency regulations of the Government and the CBR also impose certain limitations on investments by Russian companies outside Russia. Currently, the Rouble is not convertible outside the Russian Federation and the CIS, and the ability of companies operating in Russia to convert Roubles into other currencies may be contingent on the existence of a special account and/or be subject to obligatory reservation, although such limitations may be lifted as early as 2007. Due to the limited development of the foreign currency market in Russia, the Group may face difficulties in converting Roubles into other currencies.

The limited ability of MMC Norilsk Nickel to convert currencies or transfer funds may lead to the inability to conclude the necessary commercial transactions (or lead to the increased cost of such transactions), which may have a material negative effect on the Group's operations.

### Labor regulations

The Group's operations are regulated by a number of legislative acts on labor and social issues. Changes in legislation in these areas, particularly those affecting tax and insurance payments related to social insurance and pensions, may have adverse effects on production costs and, consequently, the Group's financial results.

### Mergers and acquisitions

The Group develops through the acquisition of companies in Russia and abroad, among other methods. These activities carry significant risks that relate to the ability of the Group's management to efficiently integrate the acquired company, as well as the expected economy of costs and the synergies of the acquisition.



Review  
of financial performance  
in 2006

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[chapter]

# Review of financial performance for 2006



+ MMC Norilsk Nickel and its subsidiaries 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)

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

### 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.

### 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.

### Adjusted<sup>(1)</sup> average selling prices of metals (excluding Polus Group and Stillwater Mining Company)

Metal	2006	2005	% change
Nickel (US Dollars per tonne) <sup>(1)</sup>	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
<b>MMC Norilsk Nickel</b>			
Nickel ('000 tonnes) <sup>(1)</sup>	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)
<b>Stillwater Mining Company</b>			
Palladium ('000 ounces)	648 <sup>(2)</sup>	933 <sup>(3)</sup>	(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.

**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.

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

	2006	% of Total	2005	% of Total	% change
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)
<b>Cost of metal sales</b>	<b>3,158</b>	<b>100</b>	<b>2,994</b>	<b>100</b>	<b>5</b>

**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.

**Cost of metal sales**

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 million 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		2005		% change
	Group	% of Total	Group	% of Total	
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
<b>Total cash operating costs</b>	<b>3,210</b>	<b>100</b>	<b>2,743</b>	<b>100</b>	<b>17</b>
<b>Revenue from sales of by-products</b>	<b>(672)</b>		<b>(333)</b>		<b>102</b>
<b>Total cash operating costs</b>	<b>2,538</b>		<b>2,410</b>		<b>5</b>

**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 Taimyrenego 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 Taimyrenego 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 launch complex at Severny Glubokoy Mine in the Kola Peninsula;
- the launch complex of OJSC Taimyrgaz;
- the resource base and enrichment facilities in the Taimyr Peninsula; and
- purchase of OJSC Taimyrenego 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**

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.

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

Metal	Taimyr Peninsula			Kola Peninsula		
	2006	2005	% change	2006	2005	% change
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 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 to the reduction in the volume of copper produced due to 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.

**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.

**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.

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

	2006	% to Total	2005	% to Total	% change
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)
<b>Selling, general and administrative expenses</b>	<b>1,090</b>	<b>100</b>	<b>841</b>	<b>100</b>	<b>30</b>

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

	2006	% of Total	2005	% of Total	% change
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
<b>Other net operating expenses</b>	<b>278</b>	<b>100</b>	<b>156</b>	<b>100</b>	<b>78</b>

### 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 appreciation against the US Dollar during 2006.

### 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 bor-

rowings 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
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	-
<b>Total finance costs</b>	<b>21</b>	<b>121</b>	<b>(83)</b>

### 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.

### Income tax

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%.

### Income tax (US Dollars million)

	2006	2005	% change
Current tax	1,893	911	108
Deferred tax	(88)	(73)	(21)
<b>Total income tax expense</b>	<b>1,805</b>	<b>838</b>	<b>115</b>

### 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.

### 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)

	2006	% of Total	2005	% of Total	% change
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8,134		7,145		
Intangible assets	73		44		
Investments in associates	208		95		
Investments in securities and other financial assets	2,615		690		
Other non-current assets	44		94		
Non-current assets of disposal group	-		1,109		
	<b>11,074</b>	<b>68</b>	<b>9,177</b>	<b>62</b>	<b>21</b>
<b>Current assets</b>					
Inventories	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	2,178		922		
Current assets of disposal group	-		2,189		
	<b>5,205</b>	<b>32</b>	<b>5,553</b>	<b>38</b>	<b>(6)</b>
<b>Total assets</b>	<b>16,279</b>	<b>100</b>	<b>14,730</b>	<b>100</b>	<b>11</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>	<b>13,136</b>	<b>81</b>	<b>11,397</b>	<b>77</b>	<b>15</b>
<b>Non-current liabilities</b>					
Long-term borrowings	632		635		
Employee benefit obligations	57		56		
Environmental obligations	322		269		
Deferred tax liabilities	881		543		
Non-current liabilities of disposal group	-		236		
	<b>1,892</b>	<b>12</b>	<b>1,739</b>	<b>12</b>	<b>9</b>
<b>Current liabilities</b>					
Short-term borrowings	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	-		237		
	<b>1,251</b>	<b>7</b>	<b>1,594</b>	<b>11</b>	<b>(22)</b>
<b>Total equity and liabilities</b>	<b>16,279</b>	<b>100</b>	<b>14,730</b>	<b>100</b>	<b>11</b>

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.

**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 Taimyrenego and the effect of translation to the presentation currency.

**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.

**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.

**Assets/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.

**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).

**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.

**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.

**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.

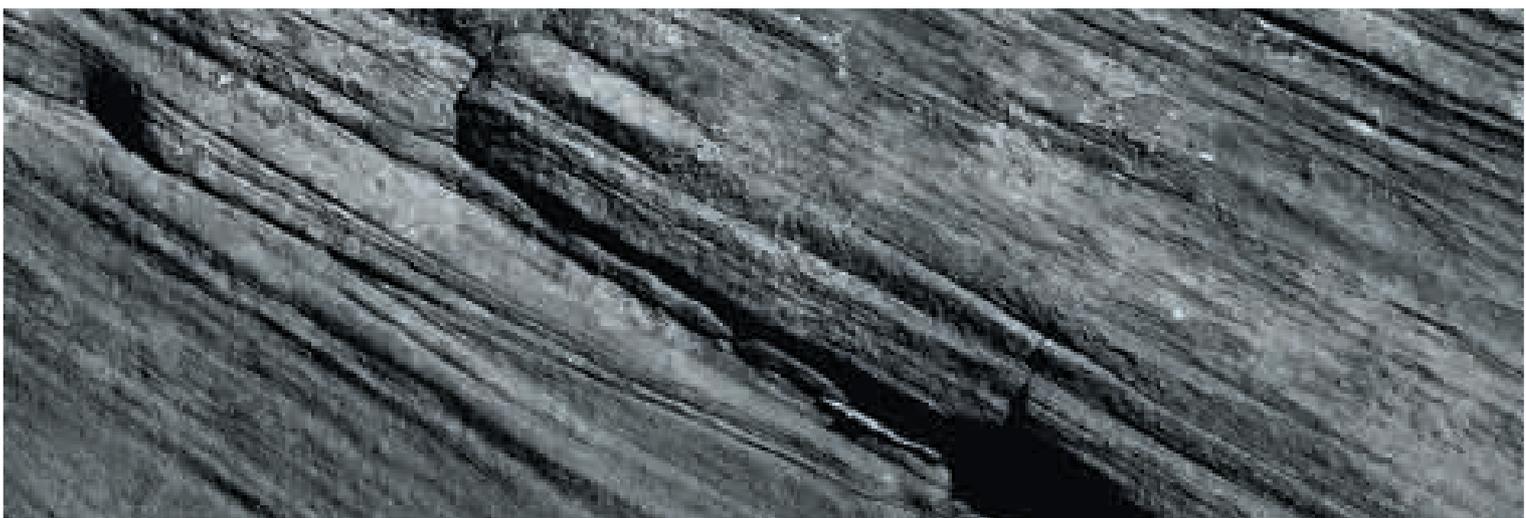
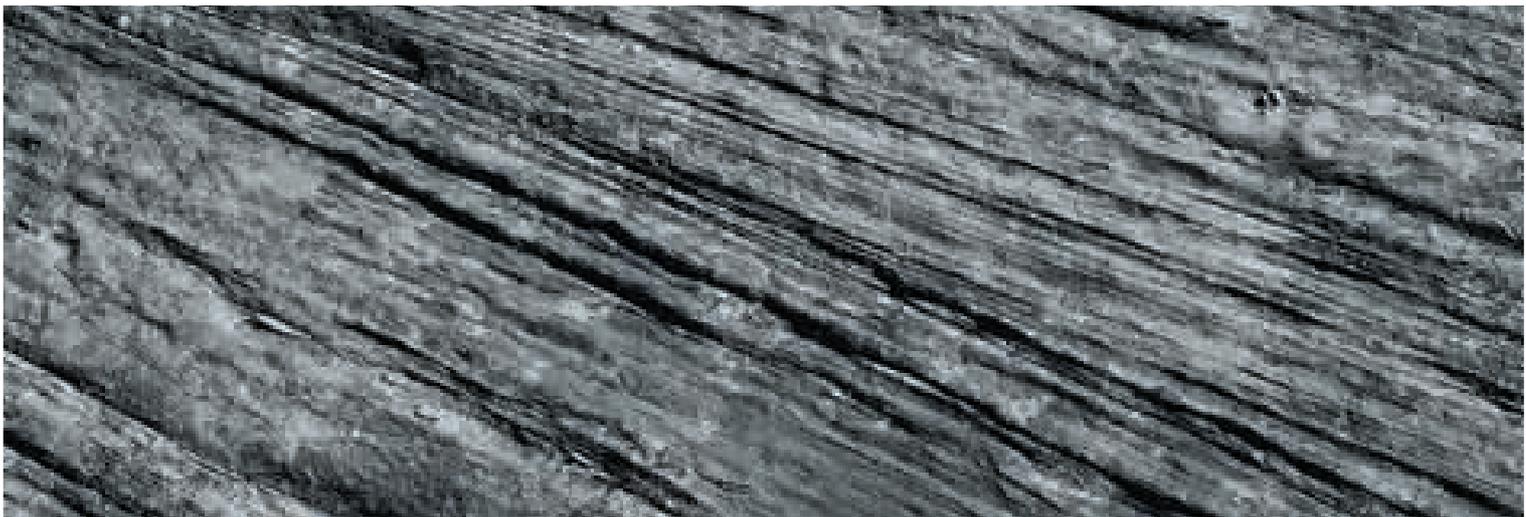
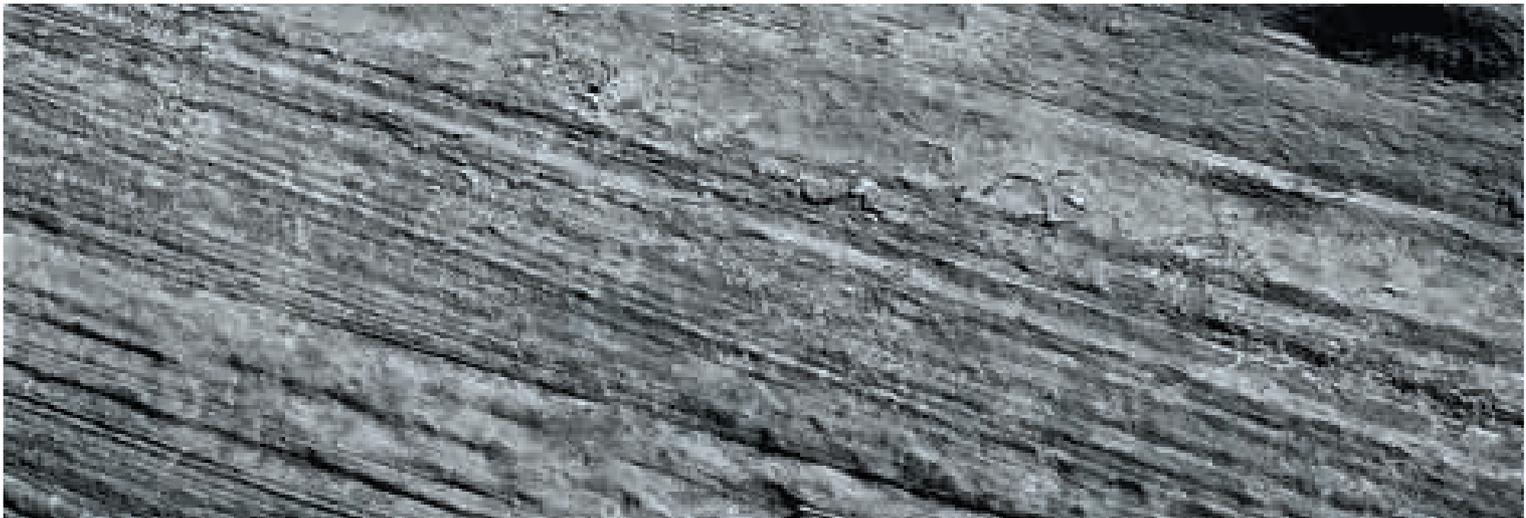
As at 31 December 2006, short-term borrowings (including current portion of long-term borrowings and overdrafts) amounted to USD 158 million compared to USD 357 million as at 31 December 2005. This decrease was mainly due to the material growth of own cash generated by operations to a level sufficient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



Review  
of sales performance  
and market developments

4

[chapter]



CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2006  
(US Dollars million)

	2006	2005
Net cash generated from operating activities	5,647	2,961
Net cash generated from/(used in) investing activities	378	(1,427)
Net cash used in financing activities	(4,909)	(1,873)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,116</b>	<b>(339)</b>
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	-	(28)
<b>Cash and cash equivalents at end of the year</b>	<b>2,178</b>	<b>922</b>

#### 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.

#### 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.

#### Net cash generated 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.

#### 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 MMC Norilsk Nickel for the year 2006 prepared in accordance with IFRS is available in Consolidated financial statements for the year ended 31 December 2006 section.

## 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 <sup>(1)</sup> ('000 ounces)	3,220	3,231	-
Platinum <sup>(1)</sup> ('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
<b>Palladium</b>	<b>648</b>	<b>933</b>	<b>850</b>
MMC Norilsk Nickel inventory transaction as part of the purchase consideration in 2003	63	439	375
<b>Platinum</b>	<b>326</b>	<b>216</b>	<b>202</b>

**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.

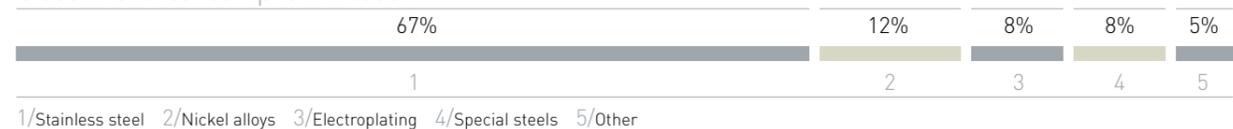
The rapid development of the Chinese economy bred a record demand for stainless steel in the region. In 2006, output grew to 5.3 million tonnes (42% as compared to 2005). Nickel consumption exceeded 234 thousand tonnes. The extensive increase of stainless steel consumption by China in 2006 contributed 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**

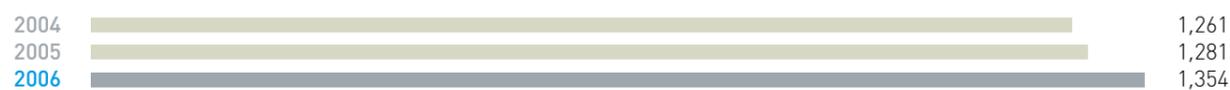
In 2006, the average annual LME price of nickel increased by 64.8% compared with 2005, and amounted to USD 24,287 per tonne, which is another record.

Average annual nickel prices (US Dollars per tonne)

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

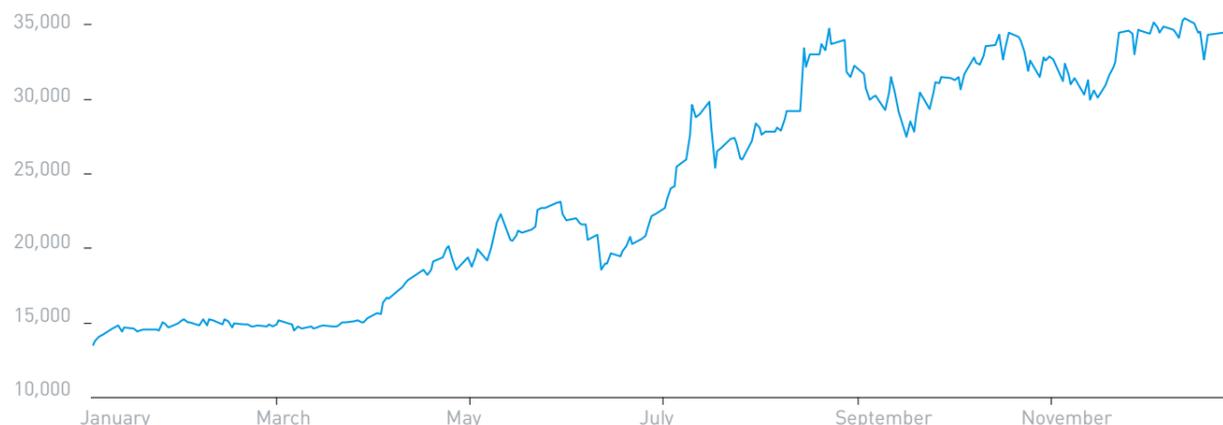
Source: London Metal Exchange

Global nickel production ('000 tonnes)



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

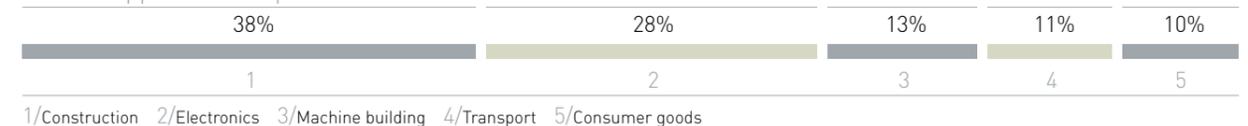
demand (predominantly due to Germany and Italy, where copper rod and wire production grew), and Japan and India also experienced growth in demand. The USA experienced a decline in demand (where new house construction fell); visible consumption in China also fell. The reduction of consumption was partially 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.

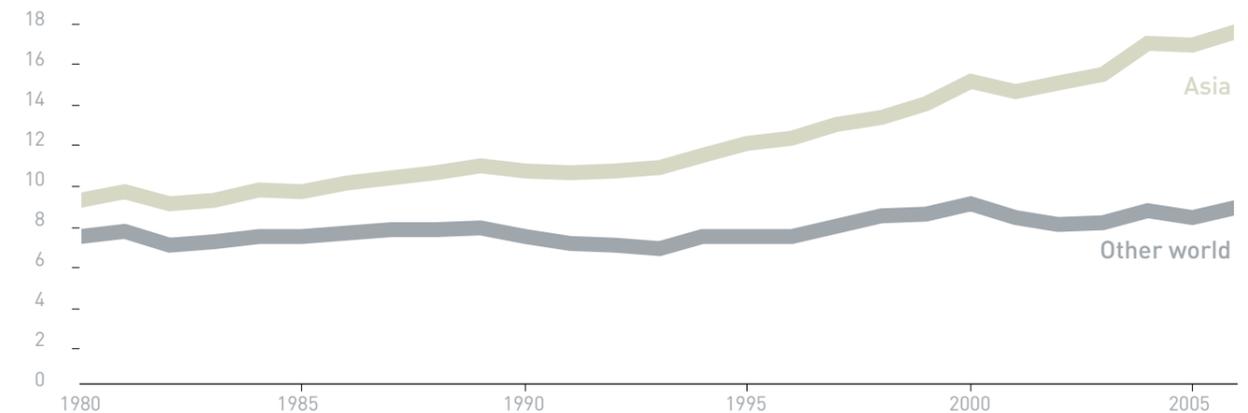
In 2006, Chinese demand for copper demonstrated moderate growth after the period from 2000 to 2005, when it grew by 16% per year, although the statistical picture of the Chinese copper market was skewed by the fact that the state's strategic copper reserve was being depleted and the share of copper produced 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



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**

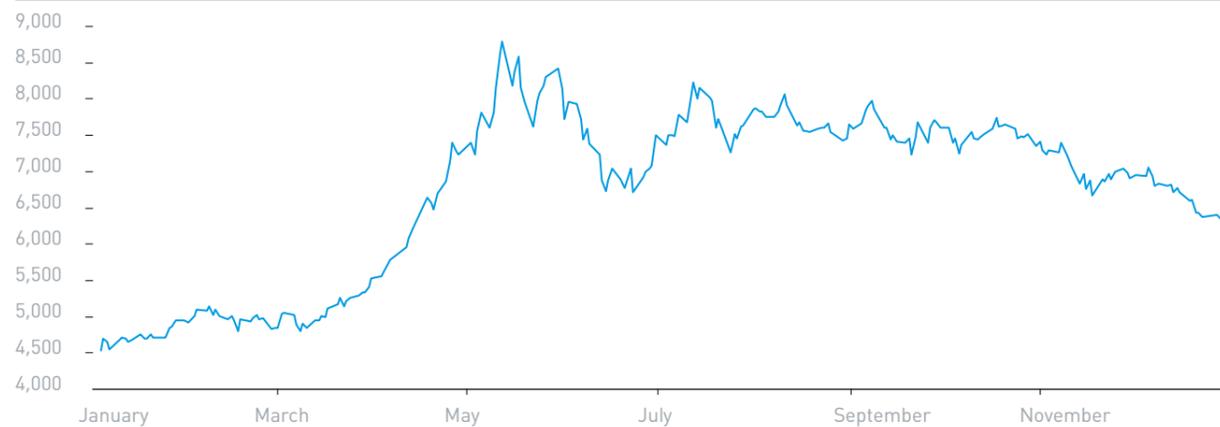
The fourth year of copper production lagging behind the growth in copper consumption, combined with increased activity in the speculative capital market from investment funds which wanted to benefit from this favorable situation, led to an upsurge of copper prices at the LME in the first half of 2006,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

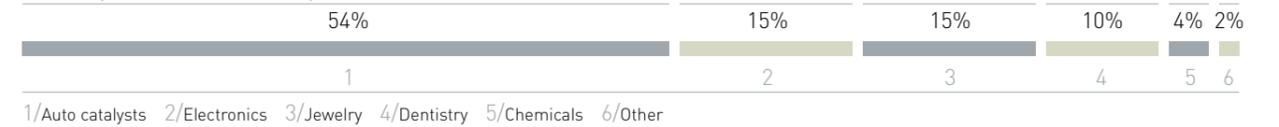
**Platinum group of metals**

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.

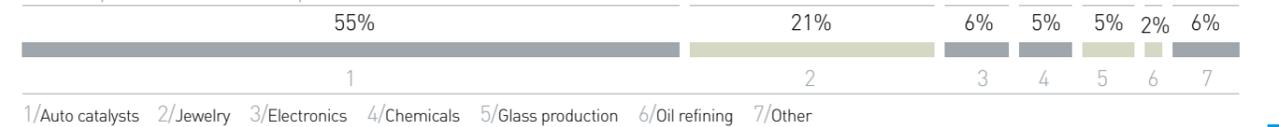
The adoption of more stringent engine exhaust requirements contributed considerably to an increase in demand for platinum in 2006. According to most estimates, demand for platinum for auto catalysts increased by 15% from 2005. The main consumer of platinum was Europe, which was the first in the world 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.

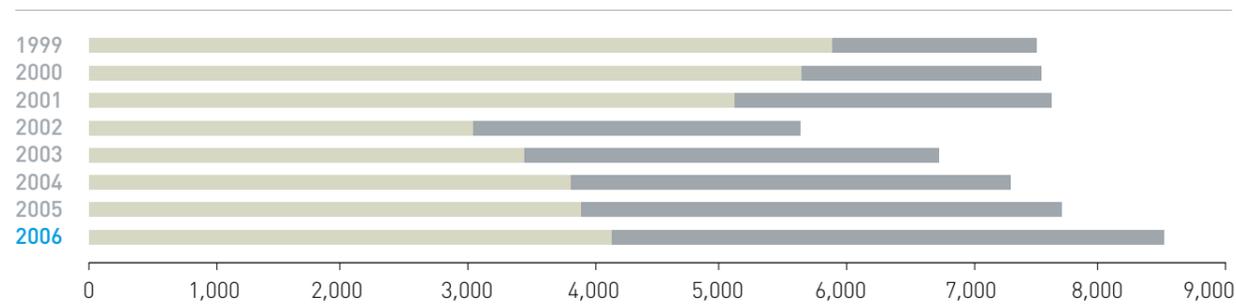
The jewelry industry, another one of the main consumers of platinum, has not demonstrated such impressive results. The growth of platinum prices and strong competition from other precious metals reduced platinum demand in the jewelry industry in all the key markets. A reduction by 11% was insufficient 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

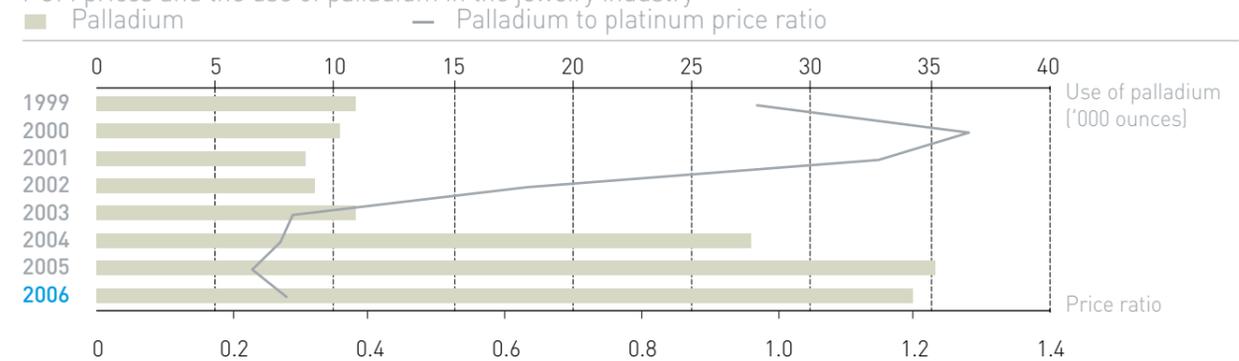
The PGM demand outlook is optimistic. The introduction of more stringent emission standards in industrialized countries remains a factor contributing to the long-term growth of demand for all PGMs, whereas the existing difference between platinum and palladium prices – a record USD 800 per ounce in 2006 – 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

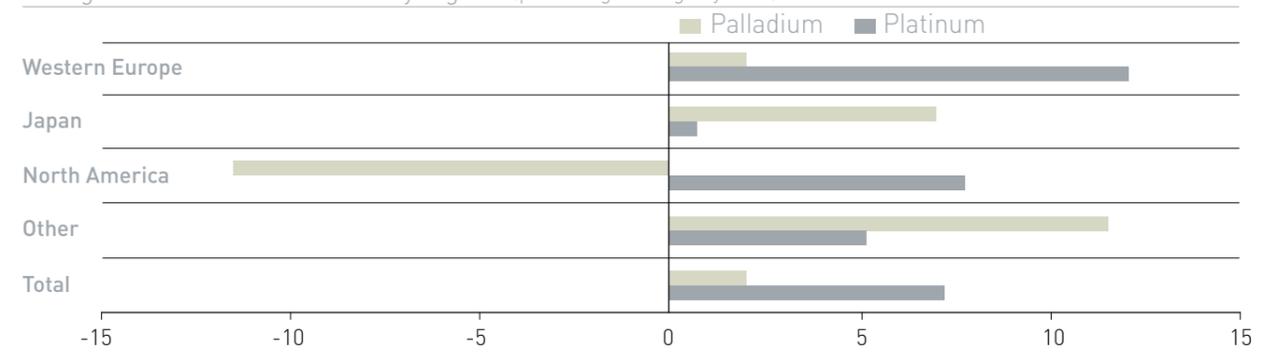
are used in some of today's leading fuel element production technologies. Palladium is not applicable for these purposes (as when it is combined with hydrogen, a violent chemical reaction results), but the metal can be used in hydrogen cleansing and storage – areas which will gain importance as hydrogen 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



**Palladium Demand**

In 2006, industrial demand for palladium, without taking into account industrial consumer stocks, grew by 2.8% from 2005 and totaled 6,848 thousand ounces. The highest growth of palladium demand came from Asian catalyst manufacturers – they accounted for virtually all growth in 2006. Japan’s manufacturers accounted for half of the growth, and China’s for a fourth. In Western European countries and North America, palladium consumption in the automotive industry remained at last year’s level.

Growth of demand for palladium was also observed in the electronics industry (for the first time in the last six years), where the rates of palladium replacement by basic metals, primarily nickel, slowed down significantly. The outlook for palladium consumption growth in this segment is positive.

In 2005, the demand for palladium in China for the jewelry industry was significantly higher than the consumption rate, due to the accumulation of metal in the value chain. In 2006, an expected decline in demand from the Chinese jewelry industry took place, as a result of the formation of current stock in this segment.

**Supply**

In 2006, global palladium production grew by 6%. Primary metal production increased by 3.5% to more than 7,299 thousand ounces. Growth of palladium production in South Africa amounted to 144.7 thousand ounces, and in Russia and North America to 32.1 thousand ounces each. Secondary metal production grew by 46% (289.4 thousand ounces). North American companies traditionally accounted for the highest share, contributing 180 thousand ounces of this amount. The remaining growth was provided by European and Japanese companies. Secondary palladium production in other countries is not expected to go up for several years, due to the late start in the use of palladium catalysts in motor cars.

The production of palladium exceeded consumption for the first time in several years. In 2006, the estimated surplus amounted to more than 300 thousand ounces, due to the significant growth of supply from mining and processing (secondary metal) companies. According to expert estimates, palladium stock in Swiss depositories grew by more than 2,412 thousand ounces in 2006, to exceed 8,360 thousand ounces.

**Palladium prices in 2006**

In 2006, the average annual price at the London Platinum and Palladium Market grew by 58.4% from 2005 and amounted to USD 320 per ounce.

Palladium price growth in the year followed the growth of other precious metal prices at 30% during the year (from USD 261 per ounce at the beginning of the year, to USD 340 in December). In May, palladium prices hit a record of USD 404 per ounce, which was due to a record high level of long positions of investment funds.

Average annual palladium prices (US Dollars per ounce)

	2006	2005	2004
Palladium	320	202	230

Source: London Platinum and Palladium Market

**Platinum Demand**

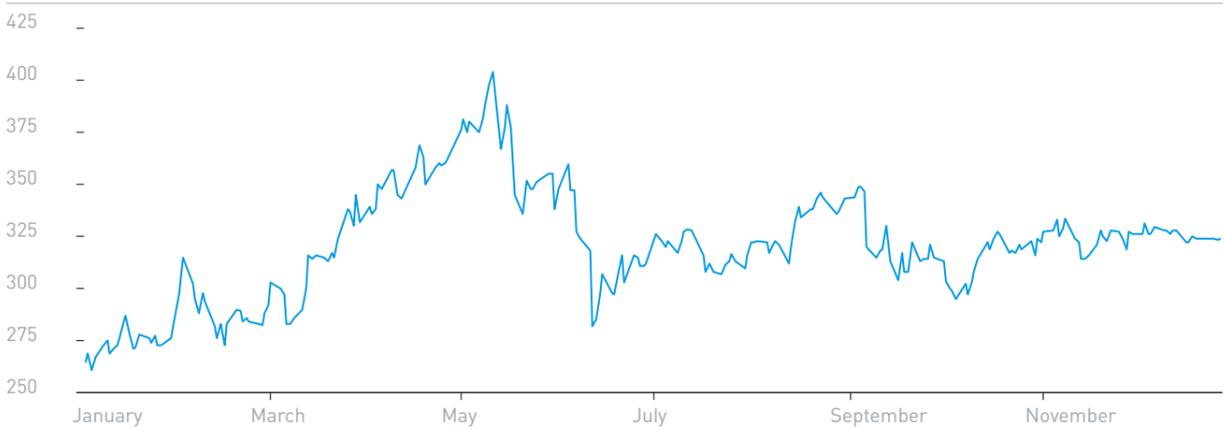
In addition to the growth of platinum consumption in auto catalyst manufacturing, there was also growth in other industries, such as oil refining, and the electronics and chemical industries.

The fall in the jeweler industry’s use of platinum was due to high prices. The high and unstable prices of the first half of the year had a negative effect on metal purchases for the jewelry industry in all the regions of the world, particularly China. The stock of metal in work-in-process decreased, while the reprocessing of used and unsold platinum jewelry increased.

**Supply**

In 2006, global platinum supply increased by 5.7% (430 thousand ounces). Primary metal production grew by 400 thousand ounces. A considerable portion of this growth was thanks to production increases by Anglo Platinum, the improved productivity of the existing mines, the expansion of production at the Kroondal mine, and the release of PGM from work-in-process. Platinum production growth is also explained by the start of operations of new mines in the Eastern Bushveld Complex in South Africa. Production in Russia, North America and Zimbabwe stayed at the same level as the previous year. Secondary metal production experienced insignificant growth (by 22 thousand ounces).

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



Source: London Platinum and Palladium Market



Description  
of key operating assets

5

[chapter]



Description  
of key operating assets



chapter

5



# Description of key operating assets

## 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.

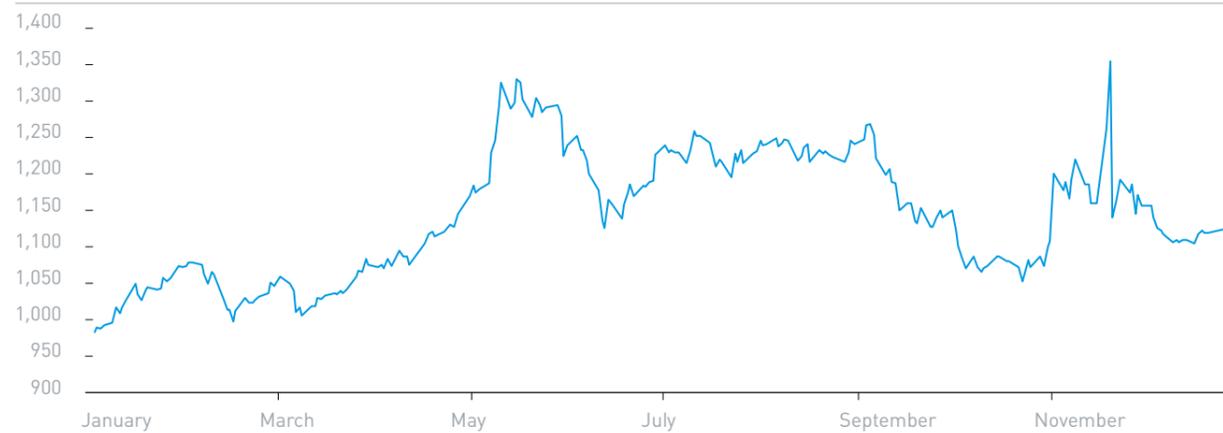
By the end of October, the price went down to USD 1,050 per ounce as a result of the funds selling some physical metal. After the decrease the price went up and hit new record in November – USD 1,390 per ounce, than went down again to USD 1,117 per ounce at the end of the year.

Average annual platinum prices (US Dollars per ounce)

	2006	2005	2004
Platinum	1,143	897	846

Source: London Platinum and Palladium Market

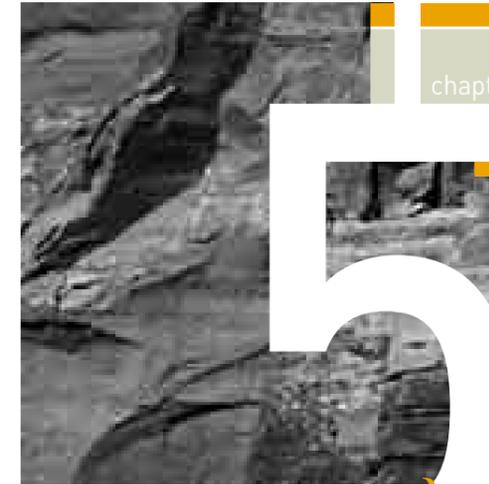
Platinum prices on London Platinum and Palladium Market in 2006 (US Dollars per ounce)



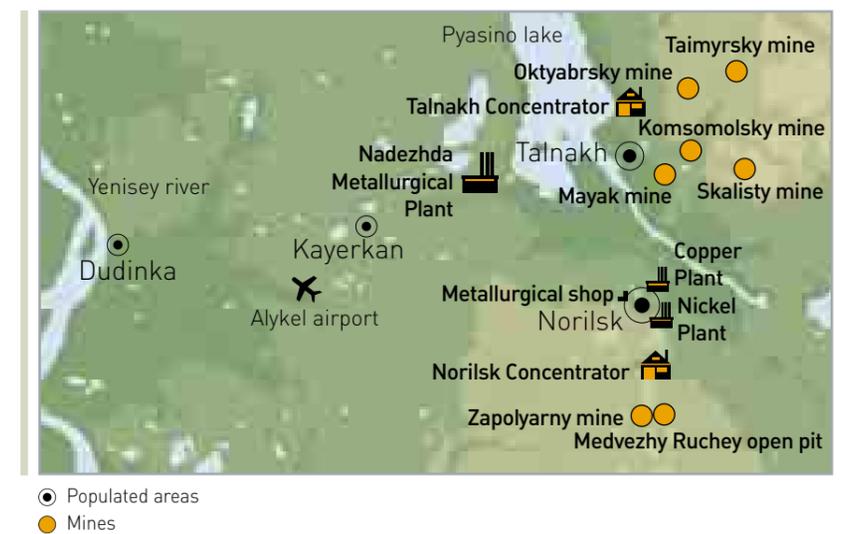
Source: London Platinum and Palladium Market

## Taimyr Peninsula

Seven Taimyr Peninsula mines produce sulphide copper-nickel ores at the Oktyabrsky, Talnakh and Norilsk-1 deposits. Ores mined have different contents of nickel, copper, platinum, palladium, cobalt, gold and other useful components.



The key operating assets of Taimyr Peninsula



Taimyr Peninsula mining assets

Deposit/mine	Type of mine	Types of ore extracted <sup>(1)</sup>
<b>Oktyabrsky deposit</b>		Copper and nickel sulphides
Oktyabrsky mine	Underground	Rich, cuprous and disseminated
Taimyrsky mine	Underground	Rich
<b>Talnakh deposit</b>		Copper and nickel sulphides
Talnakh mining department		
Komsomolsky mine <sup>(2)</sup>	Underground	Cuprous and disseminated
Mayak mine	Underground	Disseminated
Skalistsy mine	Underground	Rich
<b>Norilsk-1 deposit</b>		Copper and nickel sulphides
Medvezhy Ruchey mine	Open pit	Disseminated
Zapolyarny mine	Underground	Disseminated

Notes:

(1) Rich ores have a higher content of base and precious metals.  
Cuprous ores have a higher content of copper in relation to nickel.  
Disseminated ores have a lower content of all metals.

(2) Komsomolsky mine operates the Talnakh deposit and Western part of the Oktyabrsky deposit.

Ore is enriched at the Norilsk and Talnakh Concentrators. The Talnakh Concentrator processes rich ores mined at the Talnakh and Oktyabrsky deposits to produce nickel, copper and pyrrhotite concentrates. The Norilsk Concentrator processes the entire volume of disseminated ores, cuprous ores from the Talnakh and Oktyabrsky deposits, and stored pyrrhotite concentrate to produce nickel and copper concentrates.

In the Taimyr Peninsula, the Group operates the Nadezhda Metallurgical Plant, Nickel and Copper Plants.

The Nadezhda Metallurgical Plant processes all nickel and pyrrhotite concentrates produced by the Talnakh Concentrator, some of the nickel concentrates from Norilsk Concentrator (about 15%), and all copper concentrate from the high-grade

matte separation area of the Nickel Plant roasting shop to produce high-grade matte, copper anodes and elementary sulphur.

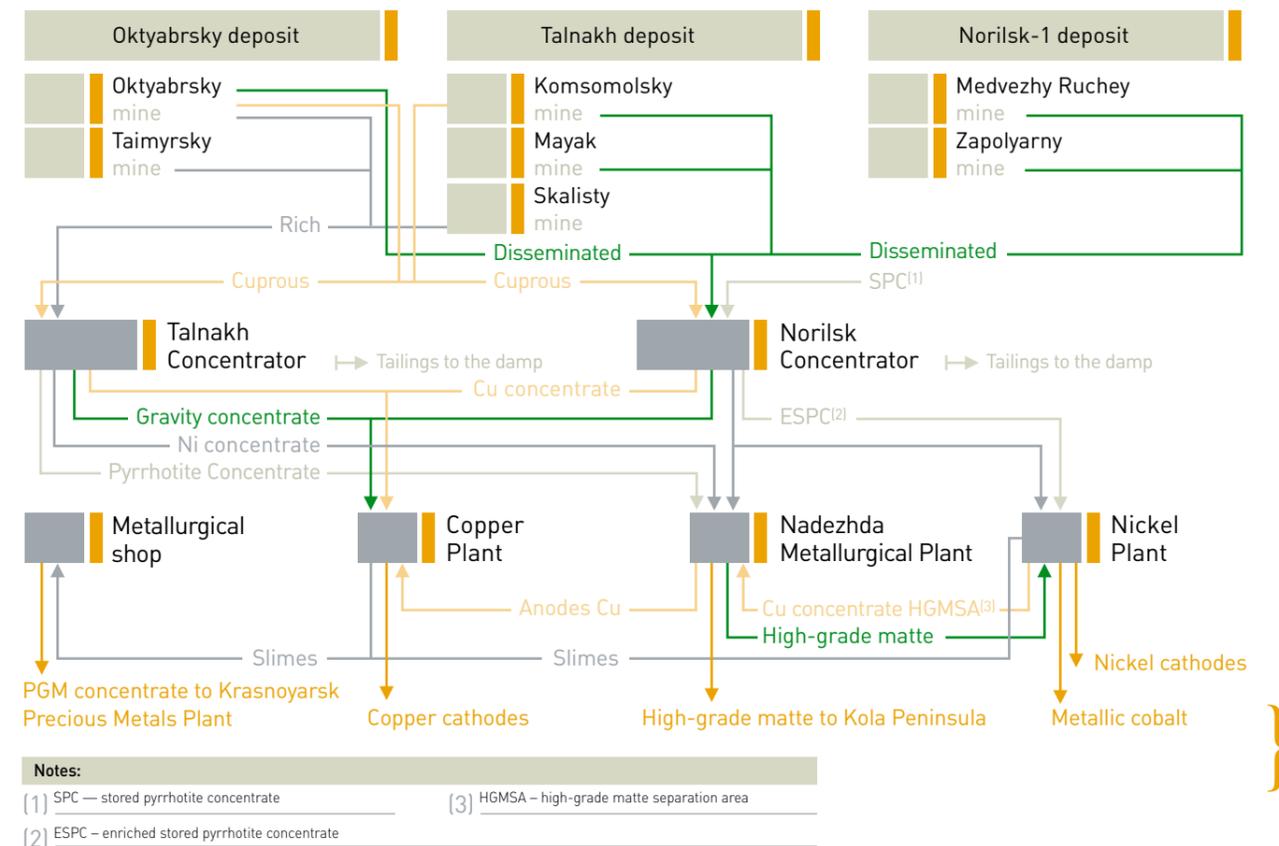
The Nickel Plant processes the major part of nickel concentrate generated by the Norilsk Concentrator (about 85%), all enriched stored pyrrhotite concentrate, and some high-grade matte from the Nadezhda Metallurgical Plant, to produce nickel cathodes and cobalt.

The Copper Plant processes the entire volume of copper concentrates produced by the Norilsk and Talnakh Concentrators and copper anodes from the Nadezhda Metallurgical Plant to produce copper cathodes, elementary sulphur and sulphuric acid. The Metallurgical shop, which is a division of the Copper Plant, recycles sludge from the copper electrolysis

and nickel electrolysis shops to produce precious metal concentrates, metallic silver, selenium and tellurium.

The Group has outsourced the refining of the precious metals concentrates from the Taimyr Peninsula under tolling agreements to an independent precious metals refinery – Krasnoyarsk Non-Ferrous Metals Plant.

Map of production at the Taimyr Peninsula



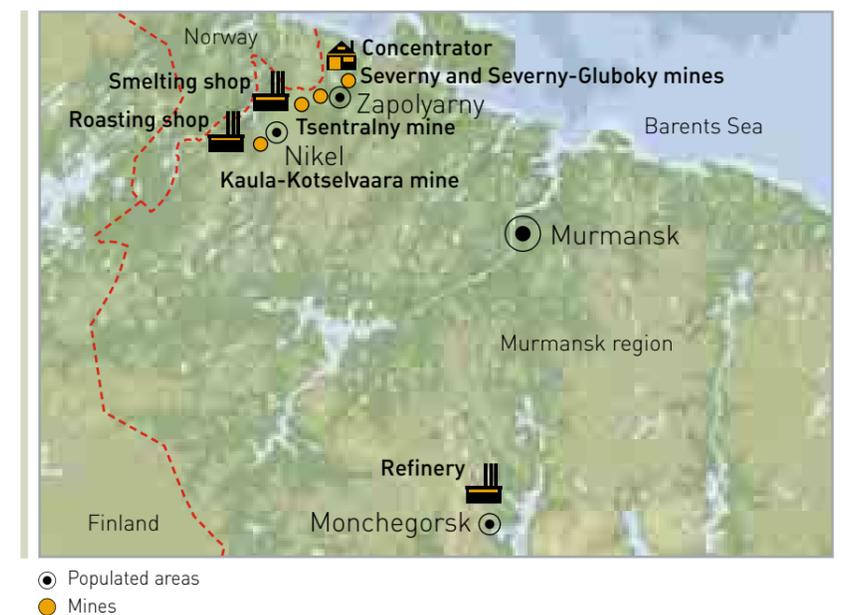
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Kola Peninsula

In the Kola Peninsula, four mines extract sulphide disseminated ores containing nickel, copper and other useful components from the Zhdanovskoye, Zapolyaroye, Kotselvaara and Semiletka deposits.

The key operating assets of Kola Peninsula



Kola Peninsula mining assets

Deposit/mine	Type of mine	Types of ore extracted
<b>Zhdanovskoye deposit</b>		Copper and nickel sulphides
Tsentralny mine	Open pit	Disseminated
Severny Gluboky mine <sup>(1)</sup>	Underground	Disseminated
<b>Zapolyarnoye deposit</b>		Copper and nickel sulphides
Severny mine	Underground	Disseminated
<b>Kotselvaara and Semiletka deposits</b>		Copper and nickel sulphides
Kaula-Kotselvaara mine	Underground	Disseminated

**Note:**  
(1) In 2005, Severny was merged with Severny-Gluboky mine.

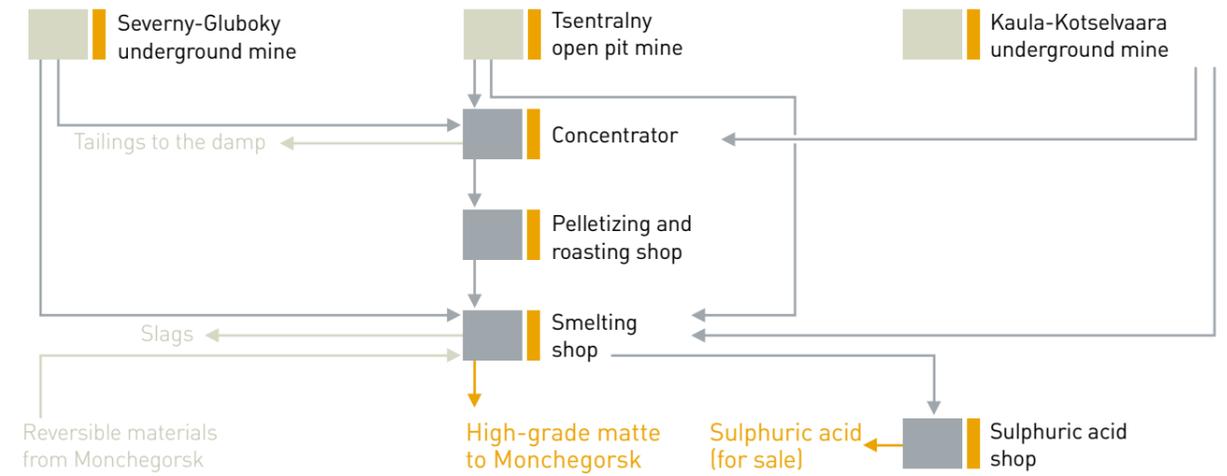
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The extracted ore is processed at the Concentrator, producing the collective copper and nickel concentrate. In 2006, the Concentrator's Roasting shop was merged into the Smelting shop, creating a Roasting section. The Concentrator produces copper and nickel concentrate that is further transferred to the Roasting section of the Smelting shop for further processing purposes.

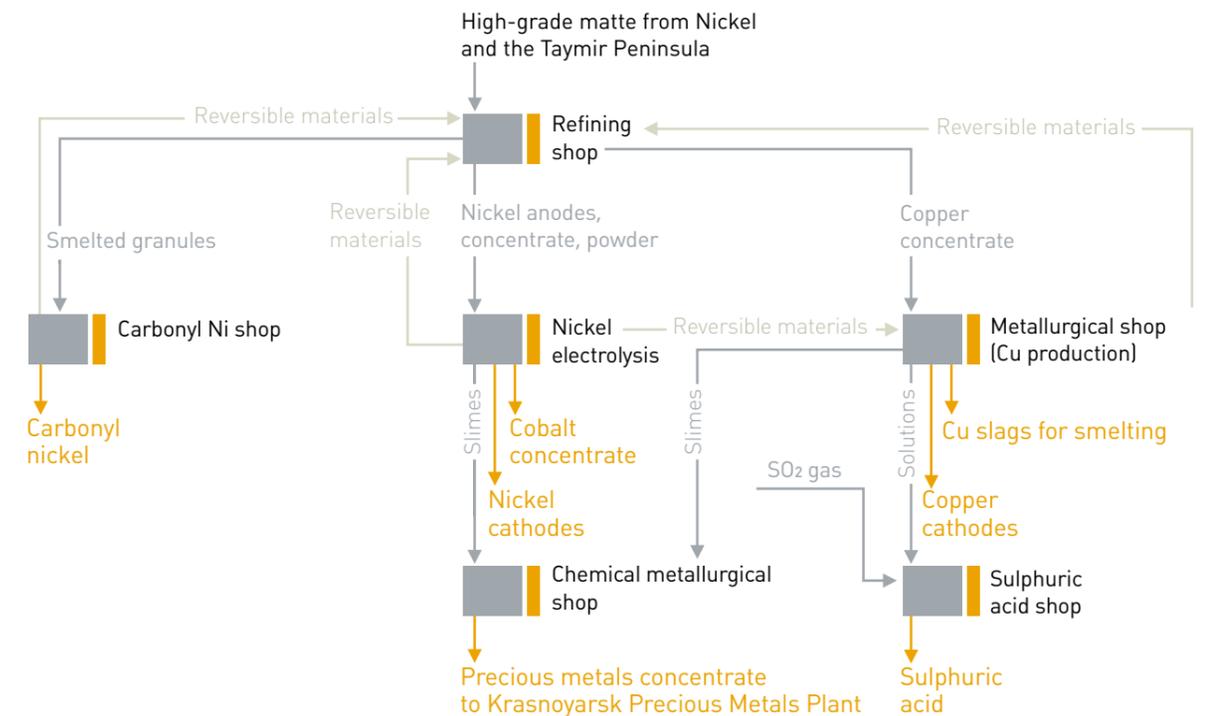
Kola Peninsula's refining capacities at Monchegorsk process both Kola Peninsula high-grade matte and that received from the Taymir Peninsula. The key products are nickel and copper cathodes, carbonyl nickel, cobalt concentrate, precious metals concentrates, and sulphuric acid.

The Group has outsourced the refining of the precious metals concentrates from the Kola Peninsula under tolling agreements to an independent precious metals refinery – Krasnoyarsk Precious Metals Plant.

Technological map of production in the towns of Nickel and Zapolyarny at Kola Peninsula



Technological map of production in the city of Monchegorsk at Kola Peninsula



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### Stillwater Mining Company (USA)

In 2003, the Group became the owner of 55.4% stake in Stillwater Mining Company – the only producer of platinum group metals in North America. Stillwater Mining mines the J-M Reef deposit in Montana, USA. Stillwater Mine and East Boulder Mine extract sulphide ores containing mainly palladium and platinum.

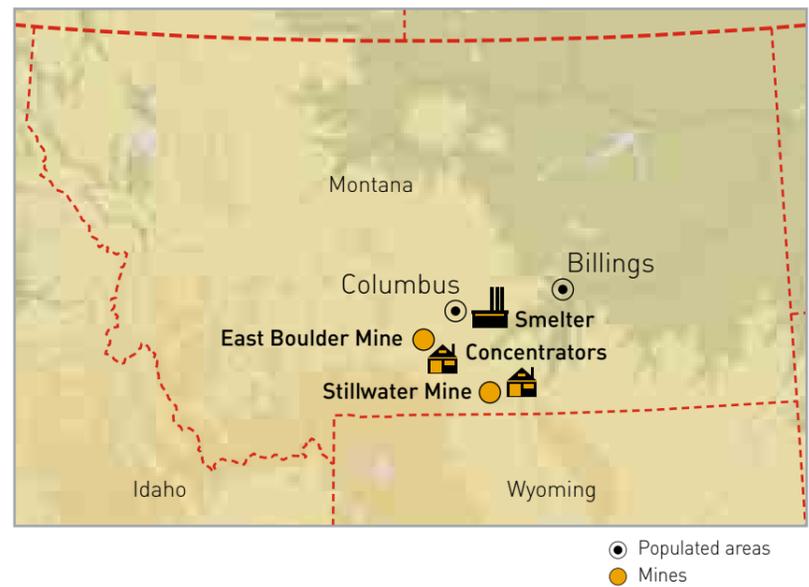
The extracted ore is enriched at two concentrators located close to the mines.

Stillwater Mining Company processes concentrate produced by the concentrators at its smelter in Columbus, Montana. Granulate matte with a 1.5% PGM content is delivered for further processing to the Stillwater base metals refinery located near the smelter, where it is upgraded to a PGM-rich filter cake.

The precious metal refinery of PGM filter cake produced by Stillwater Mining has been outsourced to independent precious metal refineries in New Jersey and California, USA.

In addition, since 1997, Stillwater Mining Company processes secondary PGM (mainly from recycled autocatalysts).

The key operating assets of Stillwater Mining Company



### Nickel Business

In March 2007, the Group finalized the acquisition of OMG's Nickel Business. As a result of this, the Group obtained the following assets:

- Norilsk Nickel Cawse Pty. Ltd. (Western Australia) – extraction and processing of nickel laterite ore;
- Norilsk Nickel Harjavalta Oy (Finland) – nickel refining plant;
- 20% stake in MPI Nickel Pty. Ltd., operating Black Swan and Silver Swan nickel mines in Western Australia and the Honeymoon Well development project;
- 11.1% stake (ordinary shares and convertible debt) in Talvivaaran Kaivososakeyhtio (biological heap-leaching project, Kainuu, Finland).

### Norilsk Nickel Cawse (Australia)

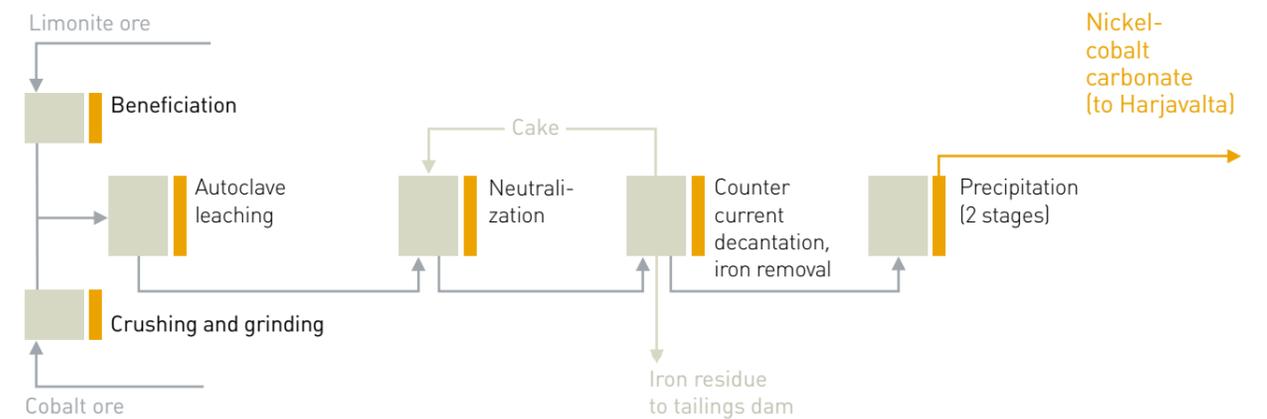
Norilsk Nickel Cawse is one of three first-generation nickel laterite projects, located 50 kilometers off Kalgoorlie, Western Australia. The Cawse project, which includes the open pit mine and ore leaching facility, was designed and built by a joint venture of Kvaerner Davy and Minproc Engineers for Centaur Mining and Exploration Ltd., and put into operation in 1998.

The company produces nickel carbonate (damp powder containing about 48% nickel and 3% cobalt) that is transported for further processing to Norilsk Nickel Harjavalta, Finland. The company uses traditional production and concentration technologies combined with high pressure acid leaching (HPAL technology), and as a result, recovery from ore to nickel carbonate is approximately 91%.

Norilsk Nickel Cawse



Map of production at Norilsk Nickel Cawse





Mineral resources  
and ore reserves

6

[chapter]



# Mineral resources and ore reserves

## Norilsk Nickel Harjavalta (Finland)

Norilsk Nickel Harjavalta is the only nickel refining plant in Finland. It started its production in 1959, and its capacity was subsequently increased in 1995 and 2002. The plant processes the ore delivered from the Australian Norilsk Nickel Cawse, Silver Swan and Black Swan mines, as well as semi-finished products which contain nickel received from third party suppliers. Norilsk Nickel Harjavalta's nickel production capacity is 60 thousand tonnes per year. The technology applied for these purposes – sulphuric-acid leaching of nickel semi-finished products – allows continuous metal extraction levels of over 98% to be achieved, the best results in the mining sector. Norilsk Nickel Harjavalta produces nickel cathodes, briquettes and salts.

Norilsk Nickel Harjavalta



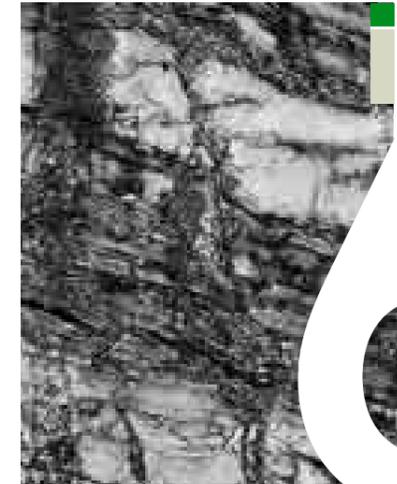
● Populated areas

## Taimyr Peninsula and Kola Peninsula

Data on mineral resources and ore reserves as of 31 December 2006 are based on the results of the independent audit performed by Micon International Co. Limited (Micon). The audit was conducted in accordance with the principles of the Joint Ore Reserves Committee (JORC) Code of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia.

For the first time in the Group's history the independent audit covered mineral resources and ore reserves of all metals in all the deposits comprising the mineral base of MMC Norilsk Nickel in the Taimyr and Kola Peninsulas.

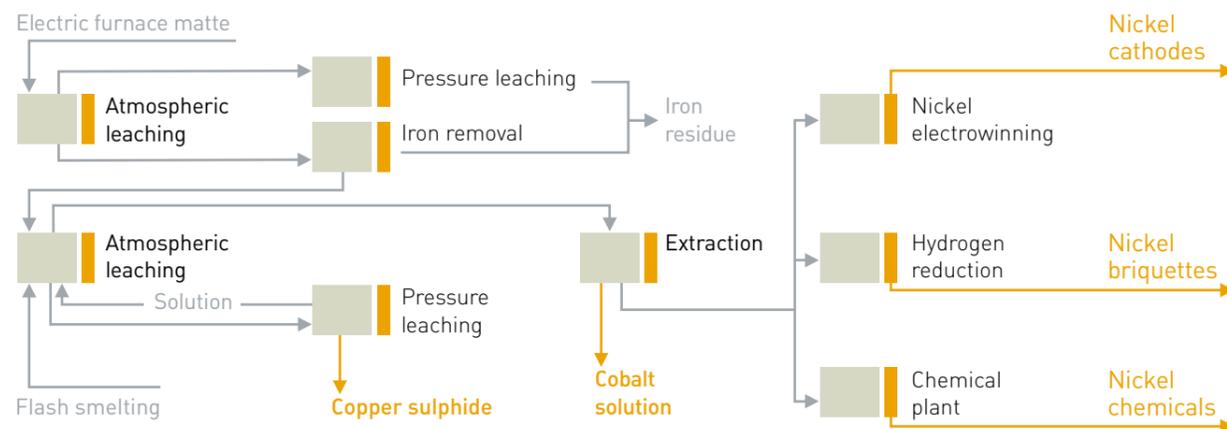
Proved and probable ore reserves of the deposits of the Taimyr and Kola Peninsulas contain over 6 million tonnes of nickel and over 9 million tonnes of copper. Additional measured and indicated mineral resources in the Taimyr Peninsula and the Kola Peninsula deposits contain more than 10 million tonnes of nickel and more than 16 million tonnes of copper. Proved and probable ore reserves in the Taimyr Peninsula deposits also contain over 63 million ounces of palladium and over 16 million ounces of platinum at a combined grade of 7.54 grams per tonne. Measured and indicated mineral resources in the Taimyr Peninsula deposits contain almost 140 million ounces of palladium and over 40 million ounces of platinum.



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Map of production at Norilsk Nickel Harjavalta



Compared to the 31 December 2004 data, the reserves of the Taimyr Peninsula deposits remain essentially unchanged at the end of 2006, with mined ore being replaced. Despite intensive mining in 2005-2006 the Group was able to sustain these levels due to additional exploration at the operating mines and the inclusion of economic disseminated ore in the production plan.

Minerals resources and ore reserves of Taimyr  
and Kola Peninsulas as of 31 December 2006

Region / Category			Ore Tonnage 000't	Metal Grade						Contained Metal					
Deposit	Ore Type			Ni %	Cu %	Pd g/t	Pt g/t	Au g/t	6PGM g/t	Ni 000't	Cu 000't	Pd 000'oz	Pt 000'oz	Au 000'oz	6PGM 000'oz
<b>Taimyr Peninsula</b>															
<b>Proved ore reserves</b>															
Talnakh ore field															
	Rich		49,211	2.91	4.13	7.41	1.57	0.24	9.44	1,429	2,035	11,723	2,484	385	14,943
	Cuprous		15,733	1.19	5.05	11.92	2.85	0.65	14.93	188	794	6,031	1,441	327	7,549
	Disseminated		30,652	0.49	0.89	3.97	1.45	0.25	5.63	149	274	3,909	1,427	245	5,541
Total Talnakh ore field – combined ore types			95,596	1.85	3.25	7.05	1.74	0.31	9.13	1,766	3,103	21,663	5,352	957	28,033
Norilsk-1 deposit (Disseminated ore)			42,518	0.35	0.49	4.30	1.76	0.18	6.34	147	210	5,879	2,412	251	8,682
<b>Probable ore reserves</b>															
Talnakh ore field															
	Rich		96,512	2.64	2.93	5.15	1.02	0.16	6.69	2,549	2,826	15,982	3,149	509	20,723
	Cuprous		68,514	0.82	3.56	7.39	1.89	0.60	9.49	565	2,439	16,267	4,157	1,327	20,902
	Disseminated		1,932	0.41	0.66	2.24	0.67	0.21	3.11	8	13	139	42	13	193
Total Talnakh ore field – combined ore types			166,958	1.87	3.16	6.03	1.37	0.34	7.78	3,122	5,278	32,388	7,348	1,849	41,818
Norilsk-1 deposit (Disseminated ore)			23,602	0.28	0.37	4.32	1.78	0.20	6.42	66	86	3,279	1,349	155	4,875
<b>Total proved and probable ore reserves</b>			<b>328,674</b>	<b>1.55</b>	<b>2.64</b>	<b>5.98</b>	<b>1.56</b>	<b>0.30</b>	<b>7.90</b>	<b>5,102</b>	<b>8,676</b>	<b>63,211</b>	<b>16,463</b>	<b>3,211</b>	<b>83,408</b>
<b>Measured and indicated mineral resources</b>															
Talnakh ore field															
	Rich		20,470	4.23	5.83	12.95	2.54	0.51	15.90	866	1,194	8,524	1,673	336	10,468
	Cuprous		797	0.87	2.77	7.81	2.56	0.51	10.63	7	22	200	66	13	273
	Disseminated		1,367,312	0.52	1.03	2.89	0.84	0.19	3.91	7,066	14,149	127,143	36,745	8,241	171,606
Total Talnakh ore field - combined ore types			1,388,579	0.57	1.11	3.04	0.86	0.19	4.08	7,939	15,365	135,867	38,484	8,590	182,347
Norilsk-1 deposit (Disseminated ore)			25,525	0.34	0.46	4.21	1.66	0.15	6.26	86	115	3,452	1,359	126	5,133
<b>Total measured and indicated mineral resources</b>			<b>1,414,104</b>	<b>0.57</b>	<b>1.09</b>	<b>3.06</b>	<b>0.88</b>	<b>0.19</b>	<b>4.12</b>	<b>8,024</b>	<b>15,481</b>	<b>139,319</b>	<b>39,842</b>	<b>8,716</b>	<b>187,480</b>
<b>Total inferred mineral resources</b>			<b>473,635</b>	<b>0.90</b>	<b>1.86</b>	<b>4.45</b>	<b>1.13</b>	<b>0.27</b>	<b>5.81</b>	<b>4,265</b>	<b>8,812</b>	<b>67,702</b>	<b>17,255</b>	<b>4,044</b>	<b>88,561</b>
<b>Kola Peninsula (Disseminated ore)</b>															
Proved ore reserves (Operating mines)			76,214	0.65	0.30	0.04	0.03	0.01	0.07	497	229	87	65	26	163
Probable ore reserves (Operating mines)			60,813	0.75	0.36	0.04	0.03	0.01	0.09	456	220	77	68	25	160
<b>Total proved and probable ore reserves</b>			<b>137,027</b>	<b>0.70</b>	<b>0.33</b>	<b>0.04</b>	<b>0.03</b>	<b>0.01</b>	<b>0.07</b>	<b>953</b>	<b>449</b>	<b>164</b>	<b>133</b>	<b>51</b>	<b>323</b>
<b>Measured and indicated mineral resources</b>															
Operating mines			348,988	0.50	0.21	0.04	0.02	0.01	0.06	1,730	729	430	208	77	655
Undeveloped deposits			148,094	0.59	0.30	0.05	0.03	0.02	0.09	877	445	215	137	93	387
<b>Total measured and indicated mineral resources</b>			<b>497,082</b>	<b>0.52</b>	<b>0.24</b>	<b>0.04</b>	<b>0.02</b>	<b>0.01</b>	<b>0.06</b>	<b>2,607</b>	<b>1,174</b>	<b>645</b>	<b>345</b>	<b>170</b>	<b>1,042</b>
<b>Total inferred mineral resources</b>			<b>220,648</b>	<b>0.51</b>	<b>0.24</b>	<b>0.04</b>	<b>0.02</b>	<b>0.01</b>	<b>0.06</b>	<b>1,134</b>	<b>522</b>	<b>283</b>	<b>158</b>	<b>74</b>	<b>467</b>

Similar to earlier audits in 2003 and 2005, Micon completed a comprehensive review of information related to the mineral resources and reserves of the deposits of the Taimyr and Kola Peninsulas. The review involved exploration and mine geological information, and included site visits to individual mines, analytical laboratories, and staff interviews. Micon specifically examined:

- drilling techniques and equipment;
- drill core logging and mapping;
- sampling, sample preparation and assay methods;
- databases (selective inspection);
- assay quality control data.

Micon reviewed the methods used to calculate and classify mineral resources and ore reserves. They confirmed that the geological and assay data collected at both Taimyr and Kola Peninsulas are of a high quality and that the mineral reserve calculations prepared by the Group provide a reasonable estimate of the mineral reserves. No material differences were found between the results obtained by Micon and the internal estimates of MMC Norilsk Nickel. Micon restated mineral reserves for the Taimyr and Kola deposits following the guidelines of the JORC Code and these are found in the accompanying table.

**Notes:**

(1) Mineral resources and ore reserves of the deposits of the Taimyr Peninsula and Kola Peninsula were classified according to the Australasian Code for Reporting of Mineral Resources and Ore Reserves ("JORC Code") developed by the Australasian Joint Ore Reserves Committee ("JORC") formed by the The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia.

(2) The classification of the reserves in accordance with JORC principles have been prepared by the following competent person: Stanley C Bartlett, PGeo, Managing Director of Micon International Co Limited.

(3) Reserves are based on the current 2007-2020 detailed mine production plan and the base case conceptual mine plan extending to the life of mine end. The life of mine is based on economically mineable ore in the A, B and C1 Russian categories at the end of a given calendar year.

(4) In the Kola Peninsula the audit included Zhdanovskoe, Zapoliarnoe, Kotselvaara-Kammikivi and Semiletka deposits.

(5) Sub-total and total figures may be different to the sum of individual numbers due to rounding.

(6) 6PGM figures include platinum, palladium, rhodium, ruthenium, osmium and iridium.

(7) Proved and probable ore reserves are not included in mineral resources.

(8) The metal prices used were: nickel – \$14,000/t, copper – \$4,500/t, palladium – \$310/oz, platinum – \$1,000/oz, gold – \$580/oz.

(9) Ore losses applied ranged from 1.6% to 20% and dilution ranged from 6% to 15%. Mining dilution was assumed to have nil grade.

### Mineral resources and ore reserves definition in accordance with the JORC Code

A **"Mineral Resource"** is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for its eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided, in order of increasing geological confidence into Inferred, Indicated and Measured categories.

An **"Inferred Mineral Resource"** is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and has an assumed, but not verified, geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and reliability.

An **"Indicated Mineral Resource"** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

A **"Measured Mineral Resource"** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

An **"Ore Reserve"** is the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

A **"Probable Ore Reserve"** is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A **"Proved Ore Reserve"** is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

### Stillwater Mining Company

Data on ore reserves of Stillwater Mining Company are provided here as of 31 December 2006 in accordance with Industry Guide No. 7 as approved by the US Securities and Exchange Commission.

Ore reserves of Stillwater Mining Company are located in the J-M Reef deposit in the Beartooth Mountain Range in the south central area of the US state of Montana.

As of 31 December 2006 the proven reserves of Stillwater Mining Company totaled approximately 4.8 million tons<sup>1</sup> of ore with palladium and platinum contents of 0.57 ounces per ton<sup>1</sup>, containing a total of 2.7 million ounces of palladium and platinum<sup>2</sup>. This represents a 16% increase in the tonnage of proven ore reserves as compared to the reserves at 31 December 2005.

As of 31 December 2006, the proven and probable reserves of Stillwater Mining Company totaled approximately 42.4 million tons<sup>1</sup> of ore with palladium and platinum contents of 0.54 ounces per ton<sup>1</sup> and a total of 23 million ounces of palladium and platinum<sup>2</sup>. This is 1% less than the ore tonnage of proven and probable reserves of ore at 31 December 2005.

The ore reserves of Stillwater Mining Company changed compared to year end 2005 for the following reasons:

- increased amount of primary development and drilling in 2006;
- reclassification of part of the probable ore reserves to proven ore reserves.

### Ore reserves of the J-M Reef deposit (Montana) as of 31 December 2006

	Ore Tonnage ( <sup>1</sup> 000 tons)	Metal grade (Pd+Pt) (oz/ ton)	Contained Metal (Pd+Pt) ( <sup>1</sup> 000 oz)
<b>Stillwater mine</b>			
Proven reserves	2,775	0.66	1,818
Probable reserves	15,539	0.63	9,749
<b>Total Stillwater mine proven and probable reserves</b>	<b>18,314</b>	<b>0.63</b>	<b>11,567</b>
<b>East Boulder mine</b>			
Proven reserves	2,011	0.45	902
Probable reserves	22,116	0.48	10,579
<b>Total East Boulder mine proven and probable reserves</b>	<b>24,127</b>	<b>0.48</b>	<b>11,481</b>
<b>Total Stillwater Mining Company reserves</b>			
Proven reserves	4,786	0.57	2,721
Probable reserves	37,656	0.54	20,327
<b>Total Stillwater Mining Company proven and probable reserves</b>	<b>42,442</b>	<b>0.54</b>	<b>23,048</b>

#### Notes:

(1) Ton (or short ton) is the weight measure used in the USA reporting. It equals 907.18 kg.

(2) Expressed as palladium plus platinum in-situ ounces at a ratio of approximately 3.56 parts Pd to 1 part Pt.

(3) In calculating ore reserves Stillwater Mining Company has used the trailing 12 quarter combined average PGM market price of USD 410.00 per ounce, which consists of USD 250.39 per ounce for palladium and USD 961.27 per ounce for platinum.

(4) Average mining and processing losses of approximately 12.8% must be deducted to arrive at the estimated recoverable ounces.



Geological  
exploration

7 [chapter]



Geological  
exploration



chapter

7

### Definitions of mineral resources and ore reserves in accordance with Industry Guide No. 7, approved by the U.S. Securities and Exchange Commission (SEC)

“Reserves” are defined as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

“Proven reserves” are defined as reserves for which:

- (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and
- (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

“Probable reserves” are defined as reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

More details on the ore reserves and mineral resources of Stillwater Mining Company are provided in the Stillwater Mining Company 2006 annual report.

### Gas and gas condensate reserves

The Group currently extracts hydrocarbons (natural gas and gas condensate) at the following four deposits in the Taimyr Peninsula:

- Pelyatka;
- Severo-Soleninskoye;
- Yuzhno-Soleninskoye; and
- Messoyakhskoye.

The gas produced is sold to Norilskenergo, a Group’s branch, as raw material for power and heat generation purposes as well as for the Group’s production needs.

Pelyatka deposit is the largest of all gas condensate deposits developed by the Group. The construction and development of the deposit facilities is currently under way. That includes more than 200 complex technological facilities at various stages on the production chain, from gas and condensate extraction to its preparation for shipment to the customers. The development site occupies more than 22 hectares of land. The length of pipeline for gas and gas products transportation is more than 180 kilometers.

The production volume at the Pelyatka gas condensate deposit in 2006 totalled 664 million cubic meters of gas and 32,000 tonnes of condensate.

During the reporting period the Group designed and developed a flat wellbore-end for the drilling of wells, the construction of the first producing well with a flat wellbore-end was completed and exploration and design works to construct the Pelyatka – Dudinka gas and gas condensate pipeline were initiated.

The following activities are planned to be performed in 2007 at the Pelyatka deposit:

- complete the construction of the launch complex and put it into operation;
- drill four producing wells;
- initiate exploration and design works to construct a gas condensate and natural gas liquids processing plant;
- complete exploration and design works to construct Pelyatka – Dudinka gas and gas condensate pipeline.

The total production volume at the gas and gas condensate deposits of OJSC Norilskgasprom in 2006 was 2.9 billion cubic meters of gas and 5,700 tonnes of condensate.

### Gas and gas condensate reserves as of 31 December 2006<sup>(1)</sup>

Deposit	Deposit type	Reserves (A+B+C1) <sup>(2)</sup>	
		Gas (bln. cu. m.)	Condensate (’000 tonnes)
Pelyatka	Gas condensate	255	12,279
Severo-Soleninskoye	Gas condensate	58	995
Yuzhno-Soleninskoye	Gas condensate	19	417
Messoyakhskoye	Gas	8	–
<b>Total reserves</b>		<b>340</b>	<b>13,691</b>

#### Notes:

(1) According to the Group’s data.

(2) Reserves categories established by the State Reserves Committee of the Russian Federation.

# Geological exploration

+

In 2006, the Group continued to focus on the increase and diversification of its mineral resource base, as well as on gaining the best international experience in mineral exploration. Mineral exploration was carried out in copper-porphyry-gold, molybdenum porphyry and skarn deposits in Siberia and the Far East, as well as in nickel deposits in Southern Siberia.

### Bystrinskoye deposit

Bystrinskoye deposit is located in the southeast part of Chita region close to northeast China.

Copper-gold skarn and gold-copper-porphyry mineralization has been explored since 2005 and drilling has been completed to generally 300 meters and locally to 500 meters depth.

An independent audit of copper, iron, silver and gold reserves and resources was carried out by Micon International Co. Ltd. (Micon) according to the JORC Code standards, and covered Upper Ildikan, Bystrinskoe-2, Yuzhno Rodstvenniy and Little Copper Kettle areas of the Bystrinskoe deposit. These studies have shown that the deposits can be mined by open pit methods. At the end of December 2006, Bystrinskoe reserves and resources were also approved by the State Reserves Committee (Gosudarstvennaia Komissia Po Zapasam) of Russian Federation (GKZ).

Although further feasibility studies are needed, the Company hopes that Bystrinskoe will be the first step in establishing a new copper industry in Chita Region. Nearby perspective areas of Kultuma, Lugokan, Sretenskaya, Kurunzulay are currently being explored and may be developed to become additional raw material suppliers to the project.



Subject to the results of the relevant feasibility studies, the Company expects the Bystrinskoe project to become a significant copper producer, with annual capacity in the order of 10 million tonnes of ore.

### Kingash Nickel Project

Kingash is located in Krasnoyarsk Region of southern Siberia, approximately 200 kilometers off Krasnoyarsk, a significant industrial and transportation center.

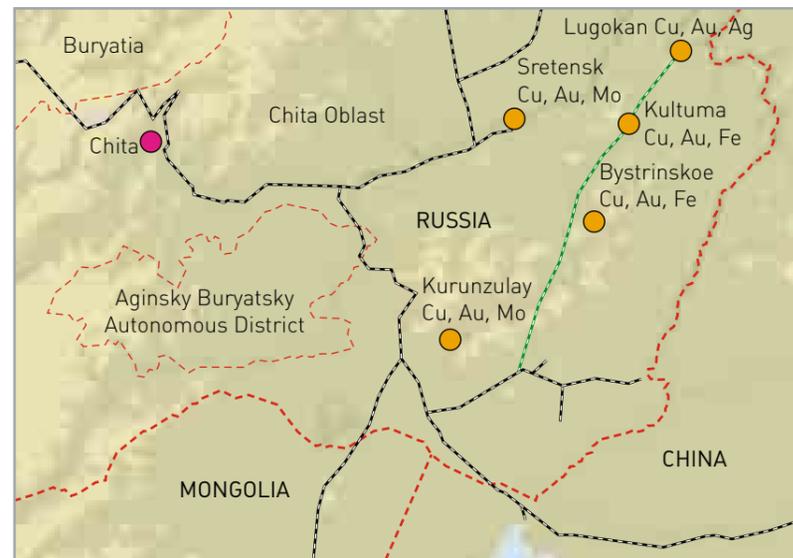
Exploration over the last year has identified this area as one of few remaining under-explored nickel sulphide belts in the world with excellent potential for large tonnage nickel-copper-PGM deposits amenable to open pit mining. There is also good potential for smaller associated massive sulphide bodies (rich ores).

In 2006, work focused on the Upper Kingash and Kuyev areas, where drilling has indicated thicknesses of 100-200 meters with grades ranging for nickel 0.3-0.6%; copper 0.1-0.3%; platinum, palladium and gold – 0.4-1.0 grams per tonne. Resource definition drilling began here. Exploration also extended to the north-western part of the Kingash area.

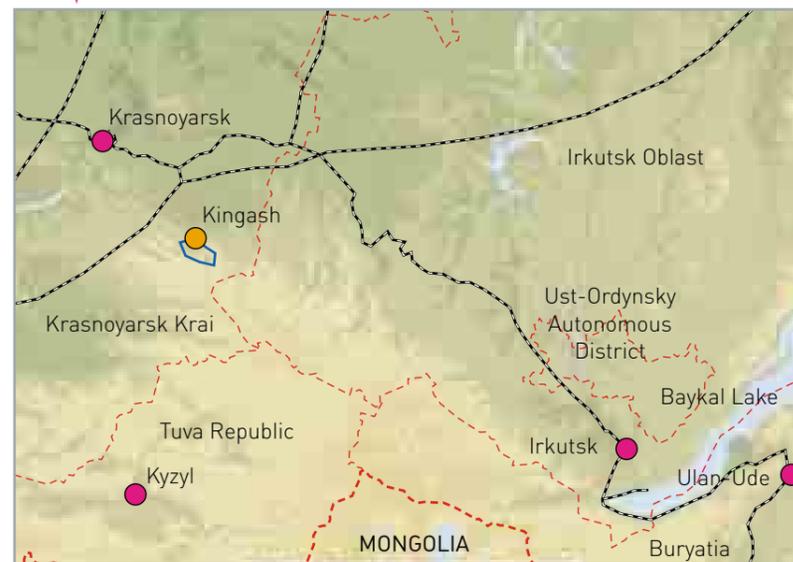
In 2007, the Group plans to:

- define the resources and reserves of the Upper Kingash and Kuyev deposits according to GKZ and JORC requirements;
- begin drilling at Kuskansky area;
- fly a helicopter electromagnetic survey (AeroTEM) to search for high grade (rich) deposits;
- extend exploration southeast throughout the license areas.

### Bystrinskoye deposit



### Kingash Nickel Project



- Populated areas
- Deposits

### International cooperation

On 27 January 2006, a joint venture agreement was signed between the Group and Rio Tinto, one of the largest global mining companies. The joint venture is focused on:

- finding of potentially attractive geological exploration projects in the agreed Russian regions;
- further analysis of such projects and related mineral exploration; and
- organization of development of such deposits, provided that they prove lucrative for both partners.

Project identification and analysis are coordinated by OOO RioNor-Geologorazvedka (MMC Norilsk Nickel – 51% and Rio Tinto – 49%), established by the partners. Any future development will be conducted by separate entities, where 50% + 1 shares will be controlled by MMC Norilsk Nickel, and 50%-1 shares – by Rio Tinto.

Currently OOO RioNor-Geologorazvedka is studying potential projects in southern parts of Siberian and the Far East Federal regions of the Russian Federation.

The combination of the natural resources to which the Group has access to and the technical exploration and mining skills of Rio Tinto opens new perspectives for the mining industry ensuring favorable conditions for geological exploration, mineral deposit development and the development of national resources.

On 12 June 2006, the Group signed a cooperation agreement with BHP Billiton – the largest global resource development company. At the initial stage the partners are focused on identifying attractive sites for geological exploration in Western Siberian and the North-Western Regions of the Russian Federation. Upon confirmation of the investment potential of each separate project a local company will be established for further mineral exploration and development of the respective deposit. Such company will be controlled as follows: 50%+1 shares will be held by MMC Norilsk Nickel, and 50%-1 shares by BHP Billiton.

These joint efforts will allow the Group to capitalize on the strengths of each of its joint venture partners with maximum benefit. As the largest Russian mining company MMC Norilsk Nickel has all the appropriate knowledge and experience to successfully operate in the Russian Federation. BHP Billiton contributes its world-class geological exploration technologies and deposit development experience to this alliance.



Production  
development strategy



8

[chapter]





# Production development strategy

In June 2006, the Board of Directors approved the key provisions of the production development strategy for MMC Norilsk Nickel (the Strategy). The Strategy is focused on the development of the existing production assets in the Taimyr and Kola Peninsulas.

## Production development goals

The Strategy is aimed at addressing the following issues:

- ensure sustainable production of base and precious metals;
- enhance efficiency of concentration operations and improve the quality of concentrates which enables a reduction in operating costs associated with metallurgic extraction;
- minimize cost-per-unit of metals output, retain current position in terms of the lowest cost producer among nickel producers;
- reduce negative impact of production operations on the environment and ensure compliance with the environmental legislation in terms of air and water pollution.



## Key provisions of the Production Development Strategy

### Increase in the ore output and metal production

MMC Norilsk Nickel plans to gradually increase the total ore output in the Taimyr and Kola Peninsulas from 21.8 million tonnes in 2006 to 26 million tonnes per year by 2015.

The production in the Taimyr Peninsula is expected to go up from ~14.4 million tonnes per year to 18.5 million tonnes per year by 2015. An optimal plan for the mining work provides for the production of rich and cuprous ores at a level of approximately 7.5 and 5.5 million tonnes per year respectively, and an increase in the production of disseminated ore up to approximately 5.5 million tonnes per year.



The key projects that would enable Taimyr Peninsula's operations to achieve the target of rich ore output at a level of 7.5 million tonnes per year are as follows:

- development of the Skalisty mine with a total output of 3 million tonnes per year;
- reaching lower (subsurface) horizons of the Taimyrsky mine. The project is aimed at increasing the rich ore output to 4 million tonnes of ore per year by 2011.

The increase in the cuprous ore output up to 5.5 million tonnes per year will be enabled by the:

- expansion of cuprous ore mining at the Oktyabrsky mine to 3 million tonnes per year. The depletion of rich ores in the Oktyabrsky deposit is offset by the increase in the production of cuprous ores from newly stripped areas using the existing winding installations;
- expansion of the cuprous ore mining at the Komsomolsky mine to 2.5 million tonnes per year (with the total output of 4.3 million tonnes per year), which is enabled by implementing project of modernizing skip-winding installations.

An optimal production of disseminated ore of 5.5 million tonnes per year will be achieved through the stripping of new mining areas at Komsomolsky, Oktyabrsky and Zapolyarny mines.

The production in the Kola Peninsula will be maintained at the level of 7.5 million tonnes of ore per year. The development of the Severny-Gluboky mine, putting it into operation and reaching the design capacity of 6 million tonnes of ore per year in 2012, completely offset the decommissioning of the open-pit Tsentralnaya mine.

The implementation of the approved mining plan will enable the Group to maintain stable metal production levels and build a solid base upon which MMC Norilsk Nickel plans to increase the production of base and precious metals by upgrading concentration operations using the results of the research and development work that is currently underway and processing of additional volumes of stored materials.

#### Improving concentration operations

To support processing of increased volumes of ores produced in the Taimyr Peninsula, the capacity of the Talnakh Concentrator will be increased from 7 to 10.5 million tonnes of ore per year. The expansion will be accompanied by the plant modernization. Currently improved concentration technology has been tested that provides for an increase of the nickel content and decrease of the sulphur content in the nickel concentrate.

The decrease in the gross weight of nickel concentrates with the retention of metal extraction rates will result in a reduction of the costs of concentrate smelting at the Nadezhda Metallurgical Plant in the Taimyr Peninsula, in addition to the cost savings expected from closing down the smelting shops of the Nickel Plant and will enable a decrease in sulfur content in concentrates transferred to metallurgic shops.

#### Improving metallurgic operations

The Group made a decision to close down the agglomeration and smelting shops of the Nickel Plant and enhance pyrometallurgic facilities of the Nadezhda Metallurgical Plant to enable the processing of all nickel ore in the Taimyr Peninsula. The project implementation will result in the simplification of production facilities configuration by closure of one of the two nickel concentrate smelting sites and reduction of operating costs associated with concentrate smelting together with the decrease in sulfur dioxide emissions.

The program of metallurgic operations modernization at the Kola Peninsula is primarily aimed at the reduction of sulfur dioxide emissions in the Kola Peninsula.

#### Production enhancement program

In addition to the Strategy, in December 2003, the Group started to roll out the Production Optimization Program (the Program) in the Taimyr Peninsula. As part of the project implementation, the Group's management set the following objectives:

- a substantial improvement of the production efficiency based on accelerated identification and implementation of highly effective efforts that do not require significant capital investment;
- building, within the Group, an ongoing production improvement framework through focusing personnel mentality towards ongoing control and reduction of costs at individual workplaces;
- skills development and upgrading of professional qualifications of specialists through their involvement in the Program.

The first phase of the Program consists of delivering projects on identification, assessment and implementation of production improvement ideas which enables to involve management into the optimization process and address numerous production-related issues. A total of more than 350 production improvement ideas were developed at the Copper Plant, Komsomolsky mine, Talnakh and Norilsk Concentrators. The Group will continue the search and elaboration of recommendations at other structural units in the Taimyr Peninsula.

Recommendations developed in the Program are generally cost-efficient and produce immediate effects through cost reduction, increase in output or quality improvement. For example, replacement of wooden bars by woven-glass reinforced ones for electrodes, placing one converter into "cold" reserve, use of infrared scanner for detection of defected current-conducting connections.

Also, the detailed models of plants by shops were designed that provided a clear understanding of maximum capacity of each plant. Based on these models the Group proposed efforts aimed at expansion of production capacities without significant investments and streamlined capital investments at operations level.

In support of continuous production improvement efforts, the Group has in place the continuous production improvement program that forms part of day-to-day operations and provides for:

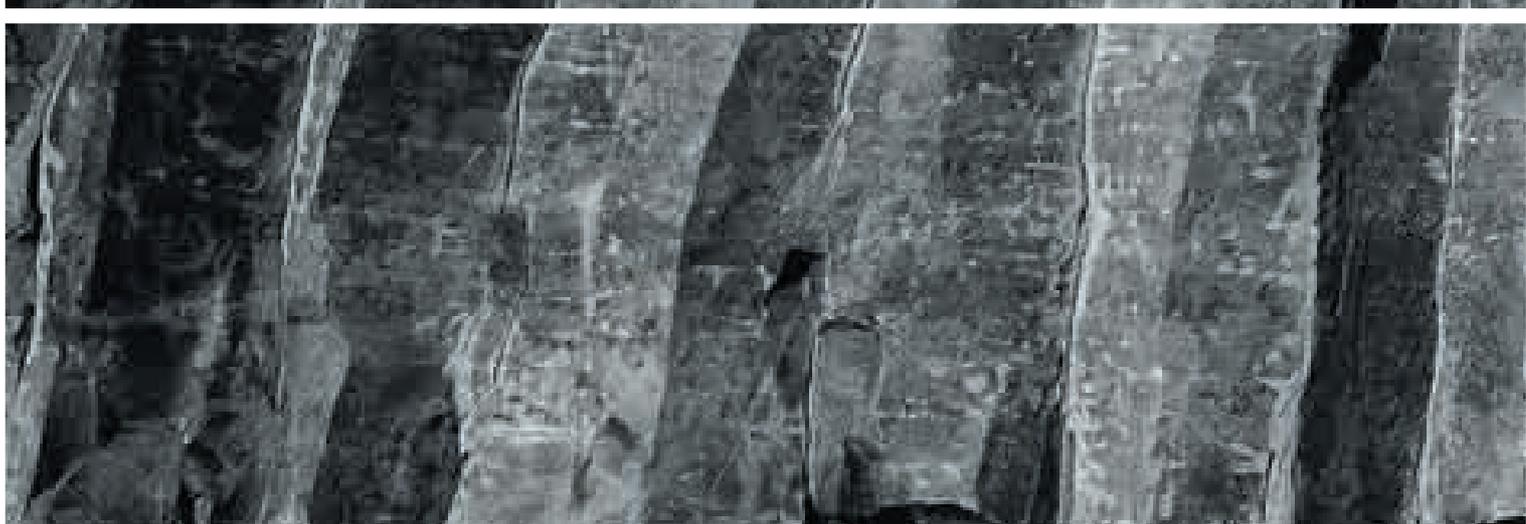
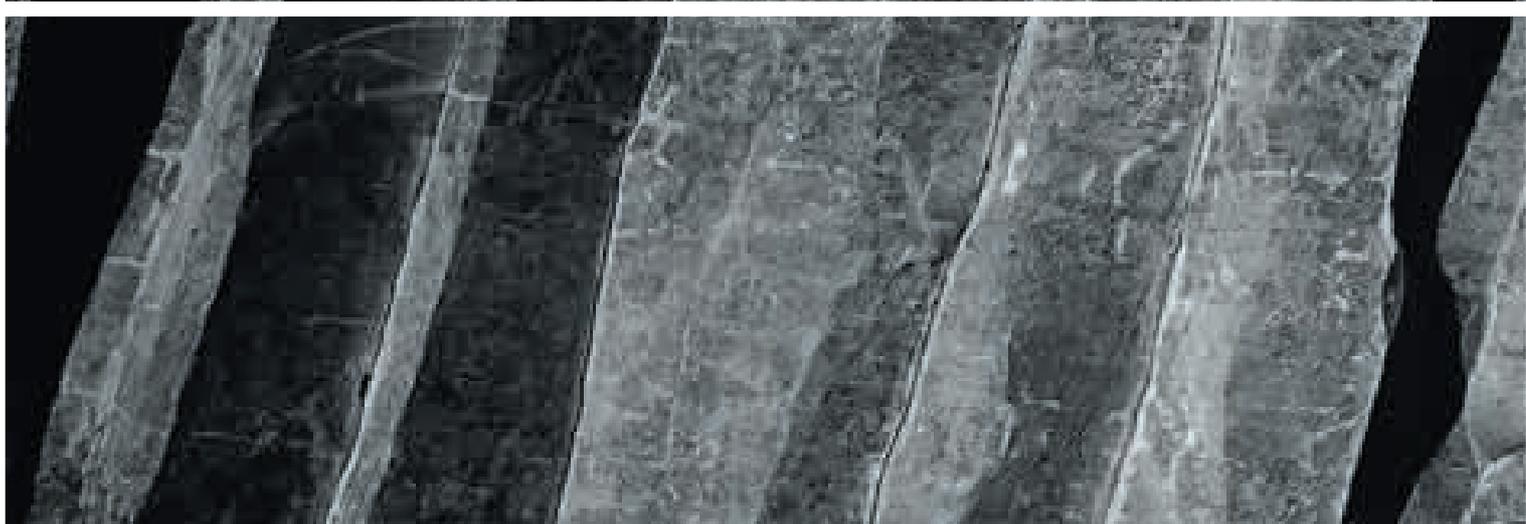
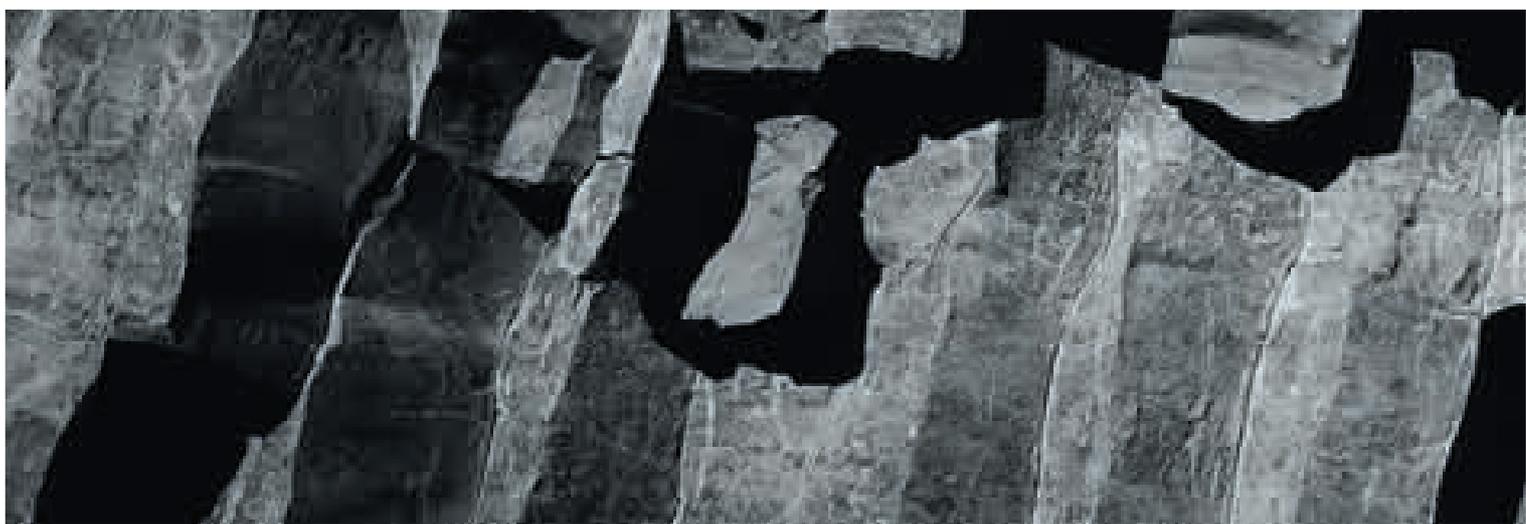
- development of a KPI system for each employee of the Group up to the level of a section foreman;
- setting of aggressive KPI targets for each quarter;
- development of action plans by employees aimed at achievement of established objectives;
- employee compensations and career movements directly dependant on the achievement of KPI targets;
- educating the Group's employees on approaches to structuring and addressing existing challenges and goals.

The continuous production improvement program has been implemented and functions independently at the Copper Plant and is in the process of implementation at Talnakh and Norilsk Concentrators.

Starting from February 2006, efforts aimed at production improvement have been also carried out in the Kola Peninsula. Certain activities related to preparation of production improvement recommendations were carried out at the concentrator plant in Zapolyarny city and a related project at the Severny mine was launched. Currently, the continuous production improvement program is being implemented at the Concentrator in the Kola Peninsula.



Review  
of operating  
performance } 9 [chapter]



# Review of operating performance

## + Mining

Ore was mined in the Taimyr and Kola Peninsulas in 2006 in accordance with the mining plans developed in the Production Development Strategy.

### Taimyr Peninsula

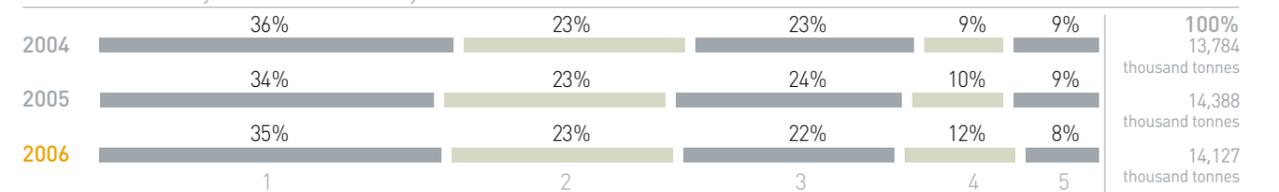
In 2006, the total volume of ore mined in the Taimyr Peninsula was 14,127 thousand tonnes. The composition of the ore extraction in 2006 has changed from the previous year:

- decrease in rich ore mining by 180 thousand tonnes or 2.4% (due to the decommissioning of facilities);
- decrease in cuprous ore mining by 220 thousand tonnes or 6% (due to the launched reconstruction of skip-hoisting installations at the cuprous ore extraction facilities in the Komsomolsky mine);
- increase in disseminated ore mining by 139 thousand tonnes or 4.2%.

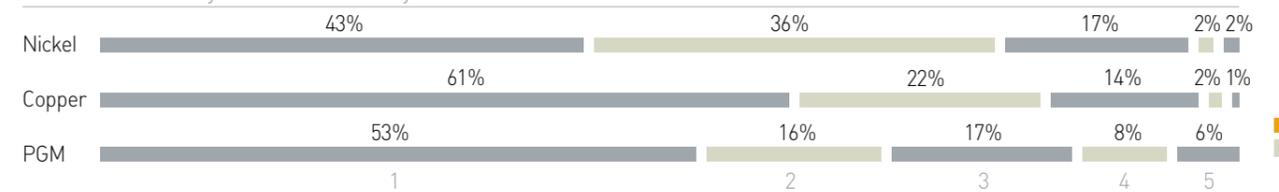


The Oktyabrsky mine is the most productive mine in the Taimyr Peninsula; it accounted for 35% of the total mining output in 2006 and contributed 43% of nickel extraction, 61% of copper extraction and 53% of PGM extraction.

Ore extraction by mine in the Taimyr Peninsula



Metal extracted by mine in the Taimyr Peninsula in 2006



1/Oktyabrsky 2/Taimyrsky 3/Talnakh mining department 4/Medvezhy Ruchey 5/Zapolyarny

In 2006, in line with the Production Development Strategy, the following ore mining facilities were put into operation:

- at the Oktyabrsky mine – the first launch complex of the project for reconstruction of horizon –650 meters with a planned capacity of 1,100 thousand tonnes of rich ore (replacement of the decommissioned facilities); the third launch complex of the project for mining of 600 thousand tonnes of cuprous ore (as a result of which the cuprous ore mining capacity at the Oktyabrsky mine reached 1,800 thousand tonnes per year);
- at the Komsomolsky mine – the second and third launch complexes of the project for developing rich and cuprous ore flank reserves with the total production capacity of 330 thousand tonnes of cuprous ore; the first launch complex to extract disseminated ores with a capacity of 300 thousand tonnes.

In addition to that, feasibility studies, development and modernization work continued at the Oktyabrsky, Taimyrsky, Komsomolsky, Mayak, Skalisty, and Zapolyarny mines in 2006.

The following key projects are expected to be implemented in 2007:

- continuing construction of mining facilities;
- at the Oktyabrsky mine – development of cuprous ore mining and replacement of the decommissioned rich ore mining facilities;
- at the Taimyrsky mine – increasing rich ore mining at the lower levels and replacement of the decommissioned facilities by commissioning of the Bolshoy Gorst<sup>(1)</sup> reserves;
- at the Komsomolsky mine – stripping and extraction of flank reserves of rich and cuprous ore and development of the priority area of disseminated ores;
- at the Skalisty mine – stripping of reserves and preparing for the development of the Talnakh rich ores deposit, initiating work to strip the deep ores of the Oktyabrsky deposit;
- at the Zapolyarny mine – expansion of disseminated ore mining.
- continuing modernization of the skip-hoist facilities at the Komsomolsky mine in order to improve mine hoisting productivity;
- commissioning mining capacity equal to:
- 1,400 thousand tonnes of rich ore at the Taimyrsky mine (including replacement of

the decommissioned capacity of 900 thousand tonnes) and 200 thousand tonnes of rich ore at the Skalisty mine;

- 500 thousand tonnes of cuprous and disseminated ore at the Komsomolsky mine.

### Kola Peninsula

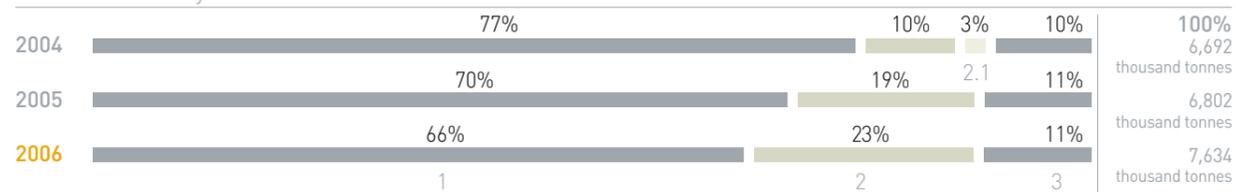
In 2006, the total volume of ore mined by the Kola Peninsula was 7,634 thousand tonnes which is 12.2% higher than the figure for the previous year. The construction of the underground Severny-Gluboky mine (the installation of the first launch complex) with the production capacity of 6 million tonnes of disseminated ore was in progress in 2006. According to the mine project and construction schedule, the second launch complex with the capacity of 2.5 million tonnes is to be commissioned in 2008.

In 2006, the installation of the first launch complex of the Severny-Gluboky mine allowed to offset the reduction of ore mining volume at the Tsentralny open-pit mine, which resulted from the scheduled reduction in production due to reserves depletion, and to slightly increase the metal content in ore (nickel – from 0.69% in 2005 up to 0.70% in 2006, copper – from 0.32% up to 0.33%, respectively).

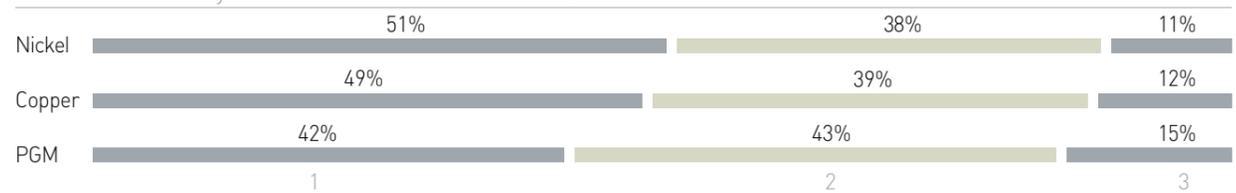
**Note:**

(1) Part of the ore body overlying main reserves by 70-100 meters with the estimated capacity of 600-800 thousand tonnes of rich ore per year.

### Ore extraction by mine in the Kola Peninsula



### Metal extraction by mine in the Kola Peninsula in 2006



1/Tsentralny 2/Severny-Gluboky 2.1/Severny 3/Kaula-Kotseivaara

Note: In 2005, the Severny mine was merged with the Severny-Gluboky mine.

Ore mined and the metal content of ore mined at the Group's mines (excluding Stillwater Mining Company) ('000 tonnes or as noted)

	Type of ore	2006	2005	2004
<b>Taimyr Peninsula</b>				
<b>Oktyabrsky deposit</b>				
Oktyabrsky mine	Rich	3,321	3,684	3,855
	Cuprous	1,575	1,214	1,055
	Disseminated	21	26	26
	<b>Total</b>	<b>4,917</b>	<b>4,924</b>	<b>4,936</b>
Taimyrsky mine	Rich	3,281	3,263	3,165
<b>Talnakh deposit</b>				
Talnakh mining department	Rich	657	492	312
	Cuprous	1,875	2,456	2,420
	Disseminated	508	502	505
	<b>Total</b>	<b>3,040</b>	<b>3,450</b>	<b>3,237</b>
<b>Norilsk-1 deposit</b>				
Medvezhy Ruchey mine	Disseminated	1,743	1,528	1,240
Zapolyarny mine	Disseminated	1,146	1,223	1,206
<b>Total Taimyr Peninsula</b>				
	Rich	7,259	7,439	7,332
	Cuprous	3,450	3,670	3,475
	Disseminated	3,418	3,279	2,977
	<b>Total</b>	<b>14,127</b>	<b>14,388</b>	<b>13,784</b>

### Average metal content in ore

	2006	2005	2004
(% or as noted)			
Nickel	1.70	1.70	1.74
Copper	2.90	2.97	3.03
PGM (g/tonne)	9.59	9.43	–

### Kola Peninsula

	2006	2005	2004
<b>Zhdanovskoe deposit</b>			
Tsentralny mine	Disseminated	5,058	4,774
<b>Zapolyarnoe deposit</b>			
Severny-Gluboky mine	Disseminated	1,753	1,302
Severny <sup>(1)</sup>	Disseminated	–	–
<b>Kotseivaara and Semiletka deposits</b>			
Kaula-Kotseivaara mine	Disseminated	823	726
<b>Total Kola Peninsula</b>		<b>7,634</b>	<b>6,802</b>

### Average metal content in ore (%)

	2006	2005	2004
Nickel	0.70	0.69	0.67
Copper	0.33	0.32	0.29

**Note:**

(1) In 2005, the Severny mine was merged with the Severny-Gluboky mine.

### Concentration

#### Taimyr Peninsula

The existing production facilities of the two concentrators in the Taimyr Peninsula ensure the processing of all types of ore (rich, cuprous and disseminated ore) at the level of 14 million tonnes per year, and industrial feed (previously stored pyrrhotite concentrate) up to 900 thousand tonnes per year.

In 2006, the Group increased the recovery of base metals in the concentration process. The nickel recovery to collective concentrate in the concentration process in 2006 was 84.8%, which is 0.5% higher than in 2005. Copper recovery to collective concentrate in the concentration process in 2006 was 96.8%, which is 0.1% higher than in 2005.

Nickel recovery to nickel concentrate reached 73.3%, which is higher than in 2005 by 2.2%. Copper recovery to copper concentrate in 2006 increased by 1.1% as compared to the previous year and was at the level of 74.4%.



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**Norilsk Concentrator**

In addition to a slight decrease in ore processing (by 1.3% in 2006 as compared to 2005), there was an increase in processing of the stored pyrrhotite concentrate (by 2.2%).

In 2006, the quantitative indicators of the concentration process increased when compared to 2005:

- nickel recovery to collective concentrate from ore in 2006 was 75.3%, which is 1.3% higher than in 2005;
- copper recovery to collective concentrate from ore in 2006 was 92.2%, which is 0.7% higher than in 2005;
- nickel recovery to nickel concentrate increased from 65.7% in 2005 to 68.4% in 2006;
- copper recovery to copper concentrate increased from 66.6% in 2005 to 69.3% in 2006.

The quality of nickel and copper concentrates improved as compared to 2005:

- nickel grade of nickel concentrate increased from 4.00% in 2005 to 4.03% in 2006;
- copper grade of copper concentrate increased from 24.2% in 2005 to 25.9% in 2006.

**Talnakh Concentrator**

In 2006, ore processing declined by 1.9%, as compared to 2005. Base metal recovery was as follows:

- nickel recovery to collective concentrate increased by 0.2% as compared to 2005 and was 87.7%;
- nickel recovery to nickel concentrate reached 74.8% in 2006, which is higher than in 2005 by 1.3%;
- copper recovery to collective concentrate was 98.7% in 2006, which is 0.1% lower than in 2005.
- copper recovery to copper concentrate reached 76.4% in 2006, which is 0.1% higher than in 2005.

The quality of nickel and copper concentrates in 2006 is slightly lower than the level of concentrates in 2005: the nickel grade of nickel concentrate is 0.1% lower; the copper grade of copper concentrate is 0.7% lower.

During 2006, the Talnakh Concentrator continued to improve the selective-collective-selective concentration process, which allowed to:

- increase nickel recovery to nickel concentrate due to the transfer of nickel from pyrrhotite concentrate to nickel concentrate;
- improve pyrrhotite concentrate by adding a pyrrhotite product with low nickel content;
- reduce metal losses in concentration tailings.

The selective-collective-selective concentration process development makes it possible to further use the tailings as backfill in the developed mining areas.

In line with the implementation of the Production Development Strategy, an improved concentration technology is tested in 2006-2007. It is aimed at increasing concentrates nickel grade and decrease the sulfur content in nickel concentrates to be smelted.

Based on the research results, a technological project for Talnakh Concentrator modernization will be prepared in 2007 in order to increase capacity up to 10.5 million tonnes of ore per annum.

The project for Norilsk Concentrator modernization is under development providing for the expansion of ore processing capacity up to 8.2 million tonnes and of stored pyrrhotite concentrate processing up to 1.5 million tonnes annually.

**Kola Peninsula**

The Concentrator in the Kola Peninsula processes the entire volume of mined ore. In 2006, the volume of ore processed increased by 3.5% compared to 2005.

In 2006, the Concentrator improved its base metal recovery:

- nickel recovery to collective concentrate in 2006 was 73.3%, which is 0.7% higher than in 2005;
- copper recovery to collective concentrate in 2006 was 77.9%, which is 0.4% higher than in 2005;
- provided additionally, to concentrate 2,342 tonnes of nickel, 1,526 tonnes of copper in 2006.

The increase of base metal recovery to concentrate was due to the reconstruction of the crushing cycle with installation of new ball mills and hydro-cyclones, reconstruction of the third floatation section with installation of new floatation machines, and the implementation of an automated system for technological process management.

To stabilize the technological process at the Concentrator and improve nickel recovery to concentrate, in 2005, the Kola Peninsula, jointly with Gipronickel Institute, developed an Action Plan. Its implementation will continue in 2007.

In 2006, tests of technology for increasing concentrate's nickel grade were undertaken at the Concentrator in the Kola Peninsula, in line with the Production Development Strategy. This technology is intended to reduce the content of magnesium oxide from 12% to 5% without reducing the metal recovery, thus decreasing smelting costs. In 2007, tests of this technology will continue.

**Metallurgy**

In 2006, the Group's metallurgical plants continued to improve the technological processes and the key technological equipment.

**Taimyr Peninsula**

In the metallurgical process at the Taimyr Peninsula, nickel recovery increased by 0.2% in 2006, copper recovery decreased by 0.2% from 2005 due to the reduction of the work-in-process with a high level of completion (copper anodes).

In 2006, the Nadezhda Metallurgical Plant was prepared for modernization in order to further extend its processing capacity. In particular, a contract for project development and delivery of equipment for reconstruction of the flash smelter No. 2 was signed. This reconstruction and modernization of the waste heat boiler is expected to be completed in 2008 to ensure an increase in the nickel concentrate processing capacity of the technological line from 1.0 million to 1.2 million tonnes per annum and allow for the transfer of nickel concentrate smelting to the Nadezhda Metallurgical Plant, thus enabling the closure of the smelting shops of the Nickel Plant.

**Kola Peninsula**

In 2006, the Kola Peninsula continued to undertake actions to reduce loss and increase recoveries of base metal in refining. As a result, nickel recovery to final products increased by 0.1%, for copper – by 0.2% as compared to 2005.

In 2006, the pilot-plant testing of copper/nickel concentrate briquetting technology was successfully completed. Completion of design stage is expected by the end of 2007, with subsequent initiation of construction of a new technological briquetting facility. This facility will allow the discontinuing of the outdated concentrate roasting and pelletizing technology in the town of Zapolyarny by 2010. Modern equipment produced by leading companies will be used in construction to improve the quality of intermediate products for smelting, increase the recovery of base metals and significantly reduce sulfur dioxide emissions.

In August 2006, the testing of the copper-nickel concentrate smelting technology in the two-zone Vanyukov furnace was completed. The results obtained were reviewed and appraised by the leading Russian metallurgists. Test results provided informational basis for designing an industrial furnace.

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In January 2007, the Group's Management Board considered the reconstruction option of the advanced metallurgical production units in the Kola Peninsula to construct a two-zone Vanyukov furnace facility. The design of the facility will start in 2007.

#### Metal recoveries by the Company (%)

	2006	2005	2004
<b>Taimyr Peninsula</b>			
<b>Norilsk Concentrator</b>			
Nickel concentrate			
Nickel	68.4	65.7	70.4
Copper	22.8	24.9	20.5
Copper concentrate			
Nickel	6.9	8.2	7.7
Copper	69.3	66.6	71.9
<b>Talnakh Concentrator</b>			
Nickel concentrate			
Nickel	74.8	73.5	73.9
Copper	20.6	20.7	21.0
Copper concentrate			
Nickel	5.2	5.1	5.0
Copper	76.4	76.3	76.4
Pyrrhotite concentrate			
Nickel	7.7	8.9	7.3
Copper	1.6	1.7	1.1
<b>Recoveries of metal in the concentration processes</b>			
Nickel	84.8	84.3	84.0
Copper	96.8	96.7	96.6
<b>Recoveries of metal in the metallurgical processes (from concentrate)</b>			
Nickel	93.1	93.0	92.9
Copper	94.8	95.0	94.7
<b>Kola Peninsula</b>			
<b>Concentration and metallurgical processes (from ore to high grade matte)</b>			
High-grade matte			
Nickel	73.5	73.3	75.5
Copper	81.4	82.1	80.7
<b>Refining</b>			
Nickel	97.1	97.0	97.2
Copper	96.3	96.1	96.7

#### Metal production

The increase in nickel recovery contributed to the growth of nickel production by the Group by 0.5% as compared to 2005.

Copper production from own feed declined by 0.5% in 2006, as compared to 2005.

PGM production increased by 0.9% in 2006, as compared to 2005, due to the increased content of PGM (by 1.7%) in ore extracted in the Taimyr Peninsula.

#### Volumes of metal produced by the Group (excluding Stillwater Mining Company) ('000 tonnes or as noted)

	2006	2005	2004
<b>Taimyr Peninsula</b>			
Nickel	122	123	127
Copper	351	361	353
<b>Kola Peninsula</b>			
Nickel			
From own ores	37	37	36
From other materials	85	83	80
Total nickel	122	120	116
Copper			
From own ores	18	16	16
From other materials	56	75	78
Total copper	74	91	94
<b>Total Group</b>			
<b>Nickel</b>	<b>244</b>	<b>243</b>	<b>243</b>
<b>Copper</b>	<b>425</b>	<b>452</b>	<b>447</b>
<b>Palladium<sup>(1)</sup> ('000 ounces)</b>	<b>3,164</b>	<b>3,133</b>	<b>-</b>
<b>Platinum<sup>(1)</sup> ('000 ounces)</b>	<b>752</b>	<b>751</b>	<b>-</b>

#### Note:

(1) Until 2005, the information on the volumes 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.



Capital  
investments } 10 [chapter]

Capital  
investments**Metal production by  
Stillwater Mining Company**

In 2006, in accordance with its production plan Stillwater Mining Company produced 601 thousand ounces of palladium and platinum, which is 8% higher than the metal production in 2005.

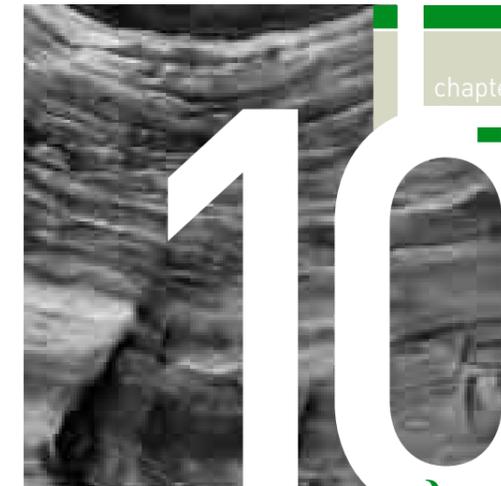
PGM production at the Stillwater mine increased by 7% and was 409 thousand ounces in 2006. PGM production at the East Boulder mine increased by 11% as compared to 2005, and totaled to 192 thousand ounces in 2006. PGM recycling increased by 68% in 2006 and totaled to 349 thousand ounces.

**Metal produced by Stillwater Mining Company  
('000 ounces)**

	2006	2005	2004
<b>Stillwater mine</b>			
Palladium	314	293	311
Platinum	95	88	94
<b>Total</b>	<b>409</b>	<b>381</b>	<b>405</b>
<b>East Boulder mine</b>			
Palladium	149	135	128
Platinum	43	38	36
<b>Total</b>	<b>192</b>	<b>173</b>	<b>164</b>
<b>Total Stillwater Mining Company</b>			
Palladium	463	428	439
Platinum	138	126	130
<b>Total</b>	<b>601</b>	<b>554</b>	<b>569</b>

**Structure of the Group's IFRS capital investments  
excluding Stillwater Mining Company  
(US Dollars millions)**

Purpose	2006	2005	2004
<b>Production assets in the Russian Federation</b>			
Mines	214	149	146
Concentration	34	42	37
Metallurgy	36	116	89
Energy	75	78	75
Auxiliary facilities	60	48	35
<b>Sub total production assets</b>	<b>419</b>	<b>433</b>	<b>382</b>
Equipment not budgeted by construction projects for replacement of obsolete equipment in the Russian Federation	269	155	125
<b>Total production assets</b>	<b>688</b>	<b>588</b>	<b>507</b>
Non-production assets	80	26	61
<b>Total Group excluding Stillwater Mining Company</b>	<b>768</b>	<b>614</b>	<b>568</b>





In 2006, the priorities of the MMC Norilsk Nickel capital investment policy were aligned with the Production Development Strategy and were to:

- continue the construction of mining and reserve development facilities for the purpose of the stripping and development of new ore deposits, increasing ore mining output, replacing decommissioned facilities, and the introduction of new mining techniques;
- continue the construction of the Skalisty mine in the Taimyr Peninsula, and preparing for the underground mining of deep ores;
- proceed with the re-equipment of mining and winding installation of the Taimyrsky and Komsomolsky mines, which is aimed at increasing the productivity of these mines;
- continue the development of the Severny mine in the Kola Peninsula.
- upgrade and re-equip facilities used in the ore concentration and metallurgical processes;
- carry out research related to the development of a new concentration technology and the development of a business case for the modernization of the Talnakh Concentrator to increase the concentration yield and total output to 10.5 million tonnes of ore per year;
- find solutions to the problem of oxygen supply to metallurgical plants.
- undertake environmental protection projects and implement new technologies to reduce pollution and improve the restoration of the natural environment.

The Group's capital expenditures in 2006 under IFRS (without ZAO Polus and Stillwater Mining Company) amounted to USD 768 million. A major portion of the capital investment, namely USD 419 million, was used to finance the construction of industrial assets in the Russian Federation. USD 269 million went to the acquisition of equipment not budgeted for by construction projects, and for the replacement of obsolete equipment.

### Mining

In 2006, the Group invested a total of USD 214 million in the development of the mining operations, which was USD 65 million more than in 2005. A major portion of the investment was used to finance the construction, re-construction and modernization of the mining facilities in the Taimyr Peninsula (USD 168 million).

#### Taimyr Peninsula

In 2006, capital construction continued on the main ore production facilities.

USD 56 million was spent on the development of the Skalisty mine facilities, of which:

- USD 52 million was spent on the commissioning of facilities of the second launch complex for the mining of rich ores;
- USD 4 million was spent for the stripping, preparation and mining of rich and cuprous ores in the Talnakh deposit and deep ores of the Oktyabrsky deposit.

USD 48 million was invested in the development of facilities at the Komsomolsky mine:

- USD 27 million was spent to re-equip the skip-winding installations. The project objective is to perform a comprehensive technical re-equipment of the winding facilities of the skip shaft. The cash outlay was required to perform the bulk of the work relating to the installation of imported technological equipment of the first launch complex, which is expected to be put into operation in 2007;
- USD 15 million was invested in the mining of disseminated ore at the first launch complex. The project was launched in 1992, and is scheduled for completion in 2008. The project objective is the extraction of disseminated ores due to the decommissioning of rich and cuprous ore extraction facilities;
- USD 6 million was allocated to the implementation of the project on the development of flank reserves of rich ores (the fifth launch complex is expected to be put into operation in 2008). The project objective is the extraction of flank reserves of rich and cuprous ores to sustain the mine's output.

USD 23 million was spent for the development of the Taimyrsky mine facilities, of which:

- USD 21 million was allocated to support the operation of existing facilities and the stripping of new horizons: (-1,100 meters, -1,300 meters, -1,400 meters), and replace decommissioned facilities for copper and nickel ore production;
- Approximately USD 2 million was spent to finance the project providing for stripping of part of the Bolshoy Gorst deposit, which, when implemented, would replace the decommissioned solid sulfide ores mining facilities for the amount of 800 thousand tonnes per year. The project is scheduled for completion in 2012.

USD 19 million was spent on the construction and re-equipment of the Taimyrsky mine facilities, of which:

- USD 8 million was spent to replace the facilities for the stripping, preparation and development of cuprous ores. Capital construction under the project is expected to be completed in 2007. The project implementation will result in an increase in the annual cuprous ore production of 1.5 million tonnes;
- USD 6 million was allocated to finance the project on expanding the cuprous ore production capacities to 3 million tonnes of ore per year. Design capacity is expected to be reached in 2013;
- USD 5 million was invested in the reconstruction of the existing facilities of the -650 meters horizon used for the mining of solid sulfide ores in the western flank of the deposit. The project is expected to be completed in 2014. Its implementation will enable the stripping and mining of flank reserves of rich ores in replacement of decommissioned facilities at the central site of the deposit.

USD 12 millions was allocated to finance work on the first launch complex of the Zapolyarny mine, planned to be put into operation in 2008.

USD 10 million was invested in work on the second launch complex of the Anhydrite mine, which produces anhydrite. It is planned to launch the second launch complex into operation in 2007.

#### Kola Peninsula

In 2006, USD 46 million was allocated to the development of the ore mining facilities in the Kola Peninsula.

USD 43 million was invested in the construction of the Severny-Gluboky underground mine, to replace the decommissioned facilities of the Tsentralny mine, and ensure an optimum load for the processing facilities in the Kola Peninsula. The project started in 2000, and will be reaching design capacity in 2012.

USD 2 million was used to finance stripping and mining of ore reserves on -620 meters and -740 meters horizons of the Severny mine. The objective of the project, initiated in 2001, is to develop the remaining ore reserves of the Zapolyarnoye deposit.

Approximately USD 1 million was invested in capital mining work at the Kaula-Kotselvaara mine. The project is scheduled to be completed in 2008.

### Concentration

#### Taimyr Peninsula

In 2006, investment in the concentration facilities in the Taimyr Peninsula amounted to USD 30 million.

USD 29 million was invested in the expansion of the Norilsk Concentrator facilities to ensure sustainable processing of the increased volumes of disseminated and cuprous ores, and compliance with environmental regulations.

In addition, the Group proceeded with the delivery of a complex project on expansion of the mine tailings storage capacity for all slurry waste remaining after the operations at the Norilsk and Talnakh Concentrators, taking into account the prospective growth in ore production and processing volumes.

In 2006, the Group continued research on the development of an improved technology for Talnakh copper and nickel ore processing, as part of the project for the reconstruction and technical re-equipment of the Talnakh Concentrator to increase the processing capacities to 10.5 million tonnes of ore per year.

#### Kola Peninsula

Kola Peninsula invested USD 4 million in the development of concentration operations:

- USD 3 million was spent on the completion of construction and installation work during the reconstruction of pulp pumping applications at the Kola Peninsula, with replacement of the existing slurry pumps. This will reduce the load on the pulp pipelines and ensure the stable operation of the system of hydraulic transportation of tailings;
- USD 1 million was spent to increase the production efficiency of the Concentrator and refining operations of the Kola Peninsula as a whole. GiproNickel Institute developed an optimal technological process for the concentration of disseminated copper and nickel ore mined in the Kola Peninsula. The proposed technology will raise the nickel content in the concentrate without reducing the yield, and improve the technical and economical performance of the smelting processes.

### Metallurgy

#### Taimyr Peninsula

In 2006, investment in metallurgical production development amounted to USD 30 million. The reduction in the capital investment in 2006 (in comparison to 2005) was due to the completion of the construction, installation and start-up work on key metallurgical facilities, and their launch into operation.

In 2006, the Group commenced design work in connection with the delivery of a complex project on closing down the agglomeration and smelting shops of the Nickel Plant, enhancing the pyrometallurgical facilities of the Nadezhda Metallurgical Plant to enable processing of all nickel material. It was also meant to reduce waste and improve the state of the environment in the Norilsk industrial district. The project will expand the capacity of the pyrometallurgical facilities of the Nadezhda Metallurgical Plant to 2.4 million tonnes of nickel concentrate per year.



USD 24 million was invested in the construction of facilities and installations of the Nadezhda Metallurgical Plant, of which:

- USD 21 million was used to finance the completion of construction, installation and start-up work on the oxygen block replacement project aimed at the development of oxygen production in the Taimyr Peninsula. The facility is expected to be put in operation in the first half of 2007;
- USD 2 million were spent on the reconstruction of an air separation plant, under an agreement with a third party contractor;
- approximately USD 1 million was invested in the reconstruction of an air separation shop during the construction of the air separation plant, with a capacity of 22 thousand cubic meters per hour.

USD 4 million was invested to complete the construction, installation and start-up work on capital construction projects for the Copper Plant, which included:

- reconstruction of the technological and suction gas evacuation system of the smelting shop and elementary sulfur production section;
- replacement of the waste heat boiler aimed at preventing leakage to the air of gases containing high concentrations of sulfur dioxide. This is an environmental project, and its implementation is critical for the creation of favorable environmental conditions in the Norilsk industrial district.

#### Kola Peninsula

Investment in the metallurgic operations of the Kola Peninsula amounted to USD 6 million, of which USD 4 million was used to support the development of metallurgic production in the Kola Peninsula.

USD 2 million was directed to the industrial site in the city of Monchegorsk, where the investment project for the stage-by-stage replacement of reinforced concrete tanks by polymer concrete ones in the Nickel Electrolysis shop was underway. The project implementation will significantly cut tank repair costs, reduce nickel losses and decrease power and spares consumption. The project was launched in 2005, and is expected to be completed in 2009.

#### Energy

##### Energy business unit

The Energy business unit operations were focused on electric and thermal power supplies to the production operations in the Taimyr Peninsula and to the population of the Norilsk industrial district. The Energy business unit provided also the stability of the water and waste water systems. Investment totaled to USD 57 million, of which USD 52 million was invested in the construction of OJSC Taimyrgaz facilities:

- USD 50 million was used in 2006 to finance the continued development of infrastructure of the Pelyatka gas condensate deposit in the Taimyr Peninsula. The timely launch of the Pelyatka gas condensate deposit will ensure gas supplies to the industrial facilities of the Group's companies and neighboring residential areas, providing uninterrupted power supplies. The pilot run of the Pelyatka gas condensate deposit, which started in 2003, will continue until 2008, when commercial operation will start;
- USD 2 million was spent to design new gas and condensate conduits along the Pelyatka deposit-Dudinka route. The project will reduce the accident rates during gas and condensate transportation, improve the carrying capacity, and create the reserve capacities required for gas supply and transportation.

USD 5 million was required to finance the construction of facilities at OJSC Norilsk Taimyr Energy Company.

**Mining and metallurgical business unit**  
USD 18 million was spent to ensure the reliable production and reserve capacity for the production of thermal power, of which USD 16 million was invested in the main capital construction projects:

- USD 12 million was allocated towards the continued implementation at the Copper Plant of the project for the technical water supply reconstruction to the Nadezhda Metallurgical Plant, initiated in 1999. As a result of the project, it is planned that reliable and continuous technological water supplies in the necessary quantities will be ensured for consumers, and costs related to water losses as a result of damage to water conduits, as well as the respective repair costs, will be eliminated;
- USD 3 million was used to finance the TPP-1 reconstruction project to replace the medium pressure turbine units. The replacement of the turbine units with the generator will provide the requisite quantity of thermal and electric power to the production facilities, reduce the number of turbine units while preserving the necessary capacity, and create reserve capacities for the generation of thermal and electric power in accordance with the Development Concept of the Energy business unit in the Norilsk Industrial District;
- USD 1 million was allocated to the reconstruction of the TPP-3 auxiliary equipment. The main project objective is to ensure the production of the required quantity of thermal power to meet consumers' needs, and provide reserve capacities for the thermal energy production in accordance with the Development Concept of the Energy business unit in the Norilsk industrial district.

USD 2 million was invested in the reconstruction of the oxygen supply system, and in the development of the design and estimate documentation on energy volumes in the Taimyr Peninsula.

#### Auxiliary facilities

Investments in auxiliary facilities amounted to USD 60 million. A major investment was directed towards the support and improvement of the production processes, and strengthening the Group's security.

USD 24 million was invested in the development of operations of the Transport and logistics business unit, of which:

- USD 3 million was invested in OOO Taimyr Investment Company, which proceeded to modernize the airport terminals at Alykel. The project objective is to allow for all-year-round passenger and cargo transportation services via the Alykel airport terminals with maximum safety and regularity, and provide modern comfort for passengers. The project is expected to be completed in 2007;
- USD 3 million was invested in the implementation of the project on the establishment of a transshipment terminal in the city of Murmansk which would maximize the efficiency of the loading and unloading process and the speed of ship handling, and, as a result, minimize capital costs. The completion of the terminal is expected in mid-2009, in line with the concept for the creation of an optimized transportation system.

USD 19 million was allocated towards the construction of facilities for the Mining and metallurgical business unit.

USD 12 million was directed to the implementation of the telecommunications projects of OOO Norilsk Telecom, in the Support business unit.

USD 4 million was used to finance projects in the Support business unit, of which:

- USD 3 million was invested in CJSC Taimyr Fuel Company, which in 2006 completed the construction of five gasoline stations in the Norilsk industrial district. One of the key tasks addressed by the project is the organization of a single system of oil product supply to the Group's companies.

USD 1 million was used to finance projects implemented by the Construction and Maintenance business units.

#### Non-production assets

USD 80 million was invested in the non-production assets of the Group. It was mainly used for production process support, and the improvement of infrastructure and working conditions for the Group's employees. The growth in investment (in comparison to 2005) is explained by the commencement of construction and installation work.



Commitment  
to environmental  
protection

11 [chapter]

Commitment  
to environmental  
protection

chapter

11



### Equipment not included in construction project budgets, and for the replacement of obsolete equipment in the Russian Federation

In 2006, USD 269 million was invested in equipment not budgeted by construction projects, and for the replacement of obsolete equipment.

As part of the concept for the creation of an optimized transportation system for the Group, USD 130 million was spent to ensure the reliability of the transportation of cargo via the Northern Sea Route. The Concept provides for the construction of ice breaker cargo vessels that would not require ice-breaker convoys (for more details, please refer to the description of the Transportation and logistics business unit in Management and structure reform).

USD 90 million was directed towards the acquisition of equipment to meet the requirements of the Mining and metallurgical business unit.

#### Taimyr Peninsula

USD 67 million was invested in equipment not budgeted by construction projects and for the replacement of obsolete equipment, of which:

- USD 24 million – mechanic and technical equipment;
- USD 22 million – mining and drilling equipment;
- USD 11 million – lifting and transportation equipment;
- USD 5 million – power equipment;
- USD 3 million – auxiliary and technological equipment;
- USD 2 million – control and analytical equipment.

#### Kola Peninsula

USD 23 million was invested in equipment not budgeted by construction projects, and for the replacement of obsolete equipment, of which:

- USD 8 million – auxiliary and technical equipment, communications equipment and control and metering devices;
- USD 7 million – heavy and transportation equipment;
- USD 3 million – mining and drilling equipment;
- USD 3 million – general plant and chemical equipment;
- USD 2 million – power equipment.

An investment of USD 49 million was made in the acquisition of equipment necessary to support the current operations of subsidiaries and associates of the Group.

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## Commitment to environmental protection



The key principles of MMC Norilsk Nickel environmental approach include the search and use of production technologies and technical solutions in the mining and metallurgical processes to reduce the environmental impact of production activity. A key goal undertaken by the Group is to reduce harmful emission and improve the environmental situation in the Taimyr and Kola Peninsulas. In particular, the Production Development Strategy approved by the Board of Directors provides for a set of initiatives aimed at addressing the environmental problems.

In November 2006, the Group was awarded a diploma as a "Leader in environmental protection in Russia" by the Second All-Russia Ecological Conference of New Priorities of the National Environmental Policy in the Real Sector of the Economy held in Moscow, for outstanding environment protection activity and rational nature management in support of sustainable development of the Russian economy, improvement of the quality of life and national health, and ensuring ecological safety of the country; and seven employees of the Group were decorated with an honorary order, "Russian Environmental Shield".

In accordance with the key provisions of the Group's Environmental Policy and Environmental Management Program, which set its environmental goals and objectives, in 2006, the Group performed work to address the following tasks:

- gradual reduction of pollutant emission into the air;
- consistent reduction of effluent discharge;
- improvement of waste disposal sites in order to reduce environmental impact.





### Taimyr Peninsula

Actions on gradual decrease of pollutant emission to become compliant with effluent limits include completion of reconstruction projects for the technological lines no. 1 and no. 2 of elementary sulphur production from the gas emissions of the Vanukov furnace at the Copper Plant.

As a result of a set of measures to reduce dust emission in the Taimyr Peninsula (Nickel and Copper Plants, Nadezhda Metallurgical Plant, Cement Plant, Talnakh and Norilsk Concentrators, mines), hard element emission was reduced by 12.9% from 2005.

Due to a 13.2% increase in reclamation of sulfur from emission gases of the Vanukov furnaces at the Copper Plant, discharge of the principal pollutant – sulfur dioxide – in the Taimyr Peninsula is reduced by 0.84% from 2005.

The Taimyr Peninsula reduced aggregate discharge of pollutants by 1.2% as compared to 2005.

To achieve consistent reduction of polluted water discharge, the following measures were taken in 2006:

- nine projects for the construction of water purification facilities for household and industrial waste water (including at Anhydrite and Zapolarny mines) were developed;
- certain stages of construction and installation work on oil bearing and household waste water treatment facilities were performed;
- capital construction of sewage networks for a number of waste water discharge points on Norilsk railway facilities was completed;
- equipping of the Taimyr Peninsula operations with water and waste water meters was continued.

The full implementation of these measures will ensure an aggregate reduction of unpurified waste water discharge by 16 million cubic meters per year.

As a result of work performed by the Taimyr Peninsula in 2006 to reduce water consumption and disposal, and separation of non-core assets from the Group as part of management system reorganization, the aggregate water discharge to water bodies decreased by 19.5% from 2005.

In 2006, the Group continued to implement measures aimed at reducing the negative impact of the production waste on the natural environment. The implementation of these measures ensured environmentally friendly disposal of concentrate tailings preventing the penetration of pollutants to the soil and water bodies.

Construction and installation work was performed on the following projects:

- extension of the Lebyazhie tailing pit through construction of a second site for joint storage of concentrate tailings from the Norilsk and Talnakh Concentrators;
- reconstruction of the first site of the Lebyazhie tailing pit, with the dam built up to the +90 meters mark;
- improvement of waste heap No. 1.

The Group continued to implement a program of rational waste utilization providing for:

- use of concentrate tailings for the aggradation of the tailing pit dams;
- use of metallurgical slag as construction material for road construction, and preparation of filling mixes;
- use of stripping and solid rocks to fill the exhausted mines, the excavations of exhausted quarries and reclaim land disturbed by mining works.

Until 2010, the Group plans to implement large investment projects in the Taimyr Peninsula aimed at the reconstruction of production facilities to reduce environmental impact, including:

- reconstruction of technological line no. 2 for elementary sulfur production at the Copper plant to increase commodity sulfur production by 55 thousand tonnes per year and reduce sulfur dioxide emission;
- expansion of the pyrrrometallurgical production capacity at the Nadezhda Metallurgical Plant to ensure processing of all the nickel materials available to the Taimyr Peninsula;
- closedown of the agglomeration and smelting shops of the Nickel Plant;
- increasing gas purification efficiency for gases emitted from the principal cement production equipment (Cement Plant);
- construction of water purification facilities for household and industrial sewage water and reconstruction of sewerage networks at a number of sites;
- implementation of state-of-the-art waste water treatment technologies;
- completion of the second site construction at the Lebyazhie tailing pit;
- implementation of a project to use tailings of the Talnakh Concentrator in stowing the developed mining areas;
- reconstruction of the tailing pit at the Nadezhda Metallurgical Plant.

### Kola Peninsula

In the Kola Peninsula, a number of projects were implemented in 2006, aimed at reduction of pollutant discharge into the atmosphere and effluent discharge into water bodies.

At the Monchegorsk site:

- replacement of the catalyst unit of the sulfuric acid shop was completed;
- replacement of the collector of fume-laden gas from the electric filters in the refining shop was completed;
- a total of 17 ha of disturbed land reclaimed in the Monchegorsk district;
- industrial site planted with trees.

At the Nickel settlement and Zapolarny town sites:

- reconstruction of the smelter and sulfuric acid shop cooling towers was completed;
- Severny mine waste water basins and the Concentrator emergency basin and drain ditches were cleaned;
- hydrological engineering research of the Severny and Centralny mines water drainage systems was performed;
- the construction of the biological treatment plant for the city of Zapolarny, with implementation of a state-of-the-art ultraviolet effluent disinfection technology was completed;
- a total of 4 ha of disturbed land was reclaimed in the Pechenga district;
- Industrial site was planted with trees.

A number of activities to improve waste disposal sites were performed in order to reduce environmental impact:

- the construction of a state-of-the-art industrial waste disposal ground was started at the Monchegorsk site;
- design work for the project of Concentrator's tailing pit construction that would minimize the tailing disposal area through state-of-the-art technologies.

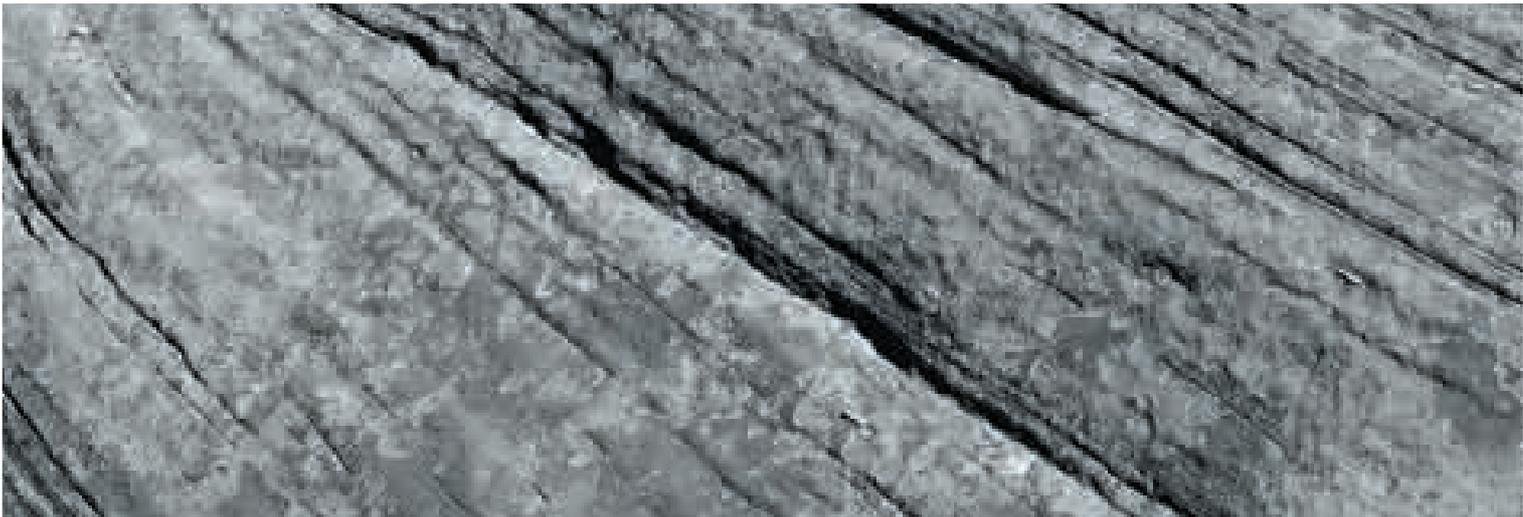
Waste utilization and detoxification volumes were increased due to:

- use of concentration tailings instead of sand for the aggradation of the banks;
- use of overburden to reclaim quarries and for other purposes;
- use of smelter slam in solid stowing of the Severny mine.



Implementation  
of a quality and environmental  
management system

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## Implementation of a quality and environmental management system

Until 2010, the Group plans to implement large investment projects in the Kola Peninsula aimed at the reconstruction of production facilities to reduce environmental emission, including:

- mining facility reconstruction through transition to underground mining;
- transfer of the roasting shop at the Zapoliarny site to the environmentally friendly cold briquette technology;
- transfer of the smelter and sulfuric acid production from the Nickel site to the Monchegorsk site with transition to briquette smelting in the two-zone Vanukov furnace;
- transfer of all the copper production at the Monchegorsk site to the roasting-leaching-electroextraction technology, which will reduce metal bearing dust and sulfur dioxide emission;
- reconstruction of the sulfuric acid production facilities to increase sulfur to sulfuric acid extraction to 96.6% decreasing sulfur dioxide emission;
- transfer to pressure tank slam processing.

The key focus of the Kola Peninsula in water resource protection is on:

- development of an optimum scheme for the reclamation of the salt discharge from the electrolytic shops to achieve reduction of all pollutant discharge to allowable limits;
- construction of a mine water purification station and use of the purified water for technical needs;
- transfer to the fixed site method of the Concentrator tailing pit emergency basin cleaning;
- construction of the Severny-Gluboky mine with state-of-the-art purification facilities, to fully terminate discharge of subterranean water from open quarries and insufficiently purified mine water.

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Last year, the Group continued its activities aimed at achieving the objectives and fulfilling its undertakings regarding quality and environmental issues, using the full possible scope of efficient methods and instruments, including effective operation of the Integrated Quality and Environmental Management System (IQEMS) in accordance with the requirements of the international standards, ISO 9001:2000 and ISO 14001:2004.

Creation of the IQEMS is the Group's highly motivated response to the requirements of the market and various interested parties (shareholders, product consumers, government, the general public, employees, etc.) with the ultimate aim of strengthening the Group's market positions, achieving steady growth in its shareholder value and financial performance.

The Group's IQEMS was created for the purposes of ensuring consistency within the Group on these issues, minimising the functional disunity typical for independent implementation of the management systems.

The system is certified in the area "Production and Project Management, Sales and Supplies of Products (Nickel, Copper, Cobalt, Precious Metals, Sulphur, Selenium, Tellurium)" by BVQI (Holding) SA, one of the leading global certification bodies, and accredited with the national accreditation bodies of the UK (UKAS) and the Netherlands (Road voor Accreditatie).

In the reporting year, the following IQEMS-related activities took place:

- development of interaction principles and competence levels of the Corporate centre, the territorial corporate centre, industry business units, functional units and production units of the Group, in terms of quality and environmental management,



as well as preparation for implementing OHSAS 18000:1999 international specification requirements regarding professional security and health protection management;

- creation of a quality and environmental management remote training system for the Group's employees;
- reduction in the number of claims and an increase in the level of consumer satisfaction with the product quality and supply service quality to increase the Group's competitive capacity as well as distribution efficiency;
- improvement of monitoring over the program of the capital construction of projects that improve the environmental situation of the Group's production activities;



- streamlining the procedure of planning the work included in the capital construction and resource provision programs;
- improvement of the system of collection and accumulation of information on the inventory suppliers fulfilling their obligations regarding quality of supplies for the purposes of their valuation and reevaluation;
- implementation of a potential transportation service provider database throughout the Transportation and logistics business unit;
- preparation of a list (database) of approved transportation service providers;
- improvement of the transportation service providers selection system;
- creation and implementation of the Corporate IQEMS information system.

In 2006, pursuant to the requirements of the ISO 9001:2000 and ISO 14001:2004 standards on periodic assessment of effective management systems within the IQEMS, specially trained Group employees performed six internal audits in accordance with the audit program, as approved by order No. ГМК/4-n of the General Director of 20 February 2006. Based on the results of all the completed internal audits, appropriate improvement recommendations have been prepared and approved for implementation.

In June 2006, BVQI auditors performed the first supervisory audit of the Group's IQEMS that revealed no non-compliance with the requirements of the ISO 9001:2000 and ISO 14001:2004 international standards.

The auditors noted the following strengths of the Group's IQEMS:

- full coverage of the elements of standards;
- systematising legislative, regulatory and other requirements;
- competence and professionalism of managers and staff regarding IQEMS-related issues;
- implementation of an electronic document flow;
- monitoring of IQEMS processes by their owners;
- system accounting and management of environmental issues;
- regular work aimed at reducing the level of pollutant emissions into the atmosphere;
- in-depth and comprehensive analysis of the IQEMS by the Group's management;
- monitoring the work progress on environmental management programs;
- well-coordinated cooperation with interested parties;
- well-coordinated production management efforts;
- regular efforts aimed at reducing the expenses on repairing the Taimyr Peninsula equipment;
- well-coordinated logistic efforts.

In May 2006, based on the analysis of the IQEMS functioning results, the Management Board of the Company made a decision on the necessity of the further development of the IQEMS, and approved the Corporate IQEMS Creation Concept containing the following key provisions:

- integration of the Group's IQEMS with local quality and environmental management systems operating at the Group's division level and expansion into the certification sphere;
- creation and development of the Corporate IQEMS information system;
- implementation of the Corporate Audit practice;
- development of the Corporate IQEMS personnel training system;
- implementation of the international specification requirements OHSAS 18000:1999 on the IQEMS basis.

Plans for the IQEMS Development and resource estimate for 2006–2008 and its implementation were elaborated and approved by the Board and the General Director in October 2006.

A certified local quality management system regarding nickel, copper and cobalt production operates in the Taimyr Peninsula.

In March 2006, BVQI auditors performed the first supervisory audit of the Group's IQEMS on the Taimyr Peninsula and it did not reveal non-compliance with the requirements of the ISO 9001:2000 international standard. Based on the audit results, the following strengths of the system were revealed:

- competence and high professionalism of the staff;
- significant level of production automation and implementation of information technologies;
- regular efforts aimed at staff competence improvement, training the HR reserve, increasing staff motivation;
- well-coordinated monitoring of the production process;
- timely decision making on the management of inappropriate products;
- well-coordinated monitoring of regulatory compliance efforts.

In 2006, the Environmental Management System of the Taimyr Peninsula was implemented based on integration with the existing Quality Management System of the Taimyr Peninsula with subsequent integration of it into the Group's IQEMS.

In accordance with the decisions made earlier, the IQEMS department intended to become a coordinating tool in the introduction of the IQEMS to the Group's enterprises at the territory of the Norilsk Industrial District, that was established within the Territorial Corporate Centre of Taimyr Peninsula in December 2006.

### Technical regulation

In 2006, the Group continued its participation in the work conducted by the Government of the Russian Federation, the Russian business community and public organisations aimed at elaborating the technical legislation of the Russian Federation in accordance with the Federal Law "On Technical Regulation".

To protect and promote its interests in the course of technical regulation reform, the Group was a member in the Coordination Expert Council of the Expert Board under the President of the Russian Federation, the Metallurgy Committee of the Chamber of Commerce of the Russian Federation and the Working Group on Technical Regulation at the above Committee, and the Technical Regulation Committee of the Russian Union of Industrialists and Entrepreneurs.

The achievements of the reporting year are listed below:

- the Concept of the Technical Regulation in the Metal Sector of the Russian Federation was developed by the working group and submitted for consideration to the Governmental Technical Regulations Commission;
- introduction of changes to the Concept of the Technical Regulation of Railway Transportation in the Russian Federation was initiated with due regard to specific features of industrial railway transport, as well as setting up a separate category for the Norilsk Railway due to its autonomous character and the severe weather conditions under which it operates.

- proposals on introduction of changes to the Federal Law "On Industrial Security of Hazardous Production Facilities" were prepared to align it with the Federal Law "On Technical Regulation"; these proposals were subsequently approved by the working group and the Metallurgy Committee of the Chamber of Commerce of the Russian Federation.

Regarding technical regulation within the reporting year, the Group maintained official contacts with:

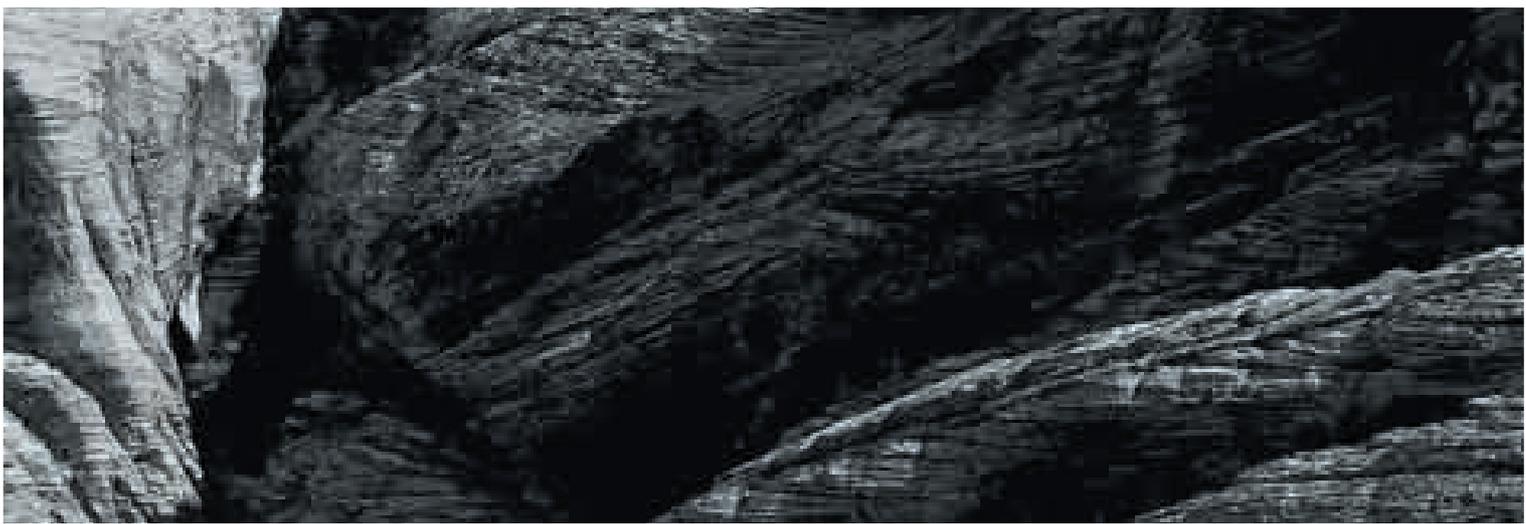
- responsible legislative and executive bodies – appropriate committees of the Federation Council, the State Duma, departments and expert commissions of the Ministry of Industry and Energy of the Russian Federation;
- public organisations – the Chamber of Commerce of the Russian Federation and the Russian Union of Industrialists and Entrepreneurs;
- representatives of leading enterprises in the ferrous and non-ferrous metal sectors of Russia.

Based on the Technical Regulations Development Program for 2006 - 2008, as approved by the resolution of the Government of the Russian Federation, the List of Technical Regulations Required for Production Activities of the Group's industrial business units was determined, including 82 technical regulations. Monitoring and participation at all stages of their development and public consideration were arranged for. Last year, the Group took part in the development and consideration of 22 technical regulations.



Overview  
of human resources  
and social policies

13 [chapter]





# Overview of human resources and social policies

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In view of the pertinence for ongoing technological activities of the mining enterprises, the Group delegated representatives to the working group on the development of the special technical regulation entitled, "On the Safety of Extraction, Concentration and Processing of Mineral Resources," that has been by now agreed upon by the appropriate Federal executive bodies and prepared for consideration by legislative bodies.

To support ongoing activities and create an evidence base for enforcement, by the Group's structural divisions, of the effective requirements and norms, the national standardisation program was conducted in 2006. Instead of effective, but obsolete, standards, the development of new standards for the Group's marketable products was initiated.

At present, the Group is a member of the nine Technical Committees of the Federal Technical Regulation and Metrology Agency of the Russian Federation and involved in the standardisation of metal products and the methods of analysing them. 50 other Technical Committees, whose activities may, to some extent, impact the Group's activities, are carefully monitored.

## + Personnel development

A major focus in implementing corporate policies with regard to personnel development is on providing Group companies with efficient employees based on identification, development and facilitation of the full realization of the labor and creative potential of each employee, instilling a feeling of corporate unity and loyalty to the Company interests.

To implement such policies, the Group applies state-of-the-art technologies for professional training, recruitment and adaptation of young employees, searching for highly qualified specialists, preparing an internal pool of talent, working with target employee groups, developing a corporate culture and synchronizing internal communications.

In 2006, the Group's entities ran additional professional training courses for a total of 31.2 thousand employees, which makes up 42% of the average annual headcount. Over 80% of the training was delivered by the Company's own educational center.

The Group runs an internal distance learner network. In 2006, entities in the Kola Peninsula were connected to the distance learner network. The number of network users increased by 2.9 times from the previous year. The existence of a mature internal training system made it possible to raise the professional personnel development programs rolled out in the Group's entities to a new level of quality.



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In 2007, pursuant to a decision of the Group's management, a non-government educational institution for additional vocational training (increasing qualifications), the Norilsk Nickel Corporate University, was set up. The University is aimed at achieving the following objectives: reviewing the needs in training the Group's employees, making forecasts and drafting personnel training plans, and carrying out research and scientific activities.

In 2006, 3,700 workers were selected and recruited to the Group's entities. The Group searches for applicants and recruits personnel in the nation-wide labor market by applying modern technologies and engaging personnel recruitment agencies to ensure a targeted selection of highly qualified specialists and executive-level employees. To enhance effectiveness and efficiency of the personnel recruitment efforts, in 2006, the Group launched a corporate-wide Job and Career web initiative, where all entities of the Group may place information on existing vacancies, receive curriculum vitae's and establish business contacts with job applicants.

96 { A focus was placed on recruiting and adapting young workers and specialists. A total of 1,129 young people participated in ongoing targeted corporate programs, including graduates and students from 15 related universities.

In 2006, a joint program named the Future of the North was initiated and funded by MMC Norilsk Nickel and Vladimir Potanin's charity foundation. The program's goal is supporting promising students and participants in the Professional Start corporate program, who are eager to start their career at the Group's entities in the Norilsk industrial district.

### Personnel motivation

The key objectives of the Group's compensation policy are to motivate and reward employees for high performance and ensure the effective utilization of payroll.

The key element of personnel motivation is a system of incentives that is implemented through coordinated labor compensation policies that include managing payroll expenses and employee reward systems.

An employee's salary is based on the achieved productivity and performance levels, and the competitive level in comparable labor markets. Such approaches allow the Group to recruit and retain personnel with the level of professionalism and qualifications that meets the existing requirements.

The Group strives to constantly improve the employee reward systems, accentuating the link between the contribution from an individual employee to the overall output and his/her remuneration.

In 2006, tariff rates and official rates of pay were raised for employees of the Kola Peninsula, the Arkhangelsk Seaport, and certain divisions of the OJSC Yenisey River Shipping Company. To stimulate motivation among employees in support of efforts aimed at reducing fuel and energy consumption and safeguarding the Group's property, the Group developed appropriate incentives programs. The Group continues to develop such performance management tools as awarding bonuses to employees out of the collective incentive funds and awarding bonuses to executives depending on achieved Key Performance Indicators (KPI's).

In connection with restructuring activities and management structure reform, the Group adopted a remuneration scheme based on success achieved in the implementation of structural changes by way of paying for additional business unit-specific allowances to employees.

Over the reporting period, a labor productivity increase was achieved through the efforts of the Group's employees and management, which helps the Group to keep a leading position in terms of labor remuneration among the largest Russian mining companies. The average salary of Group employees increased in 2006 by 13%, to RUR 31.6 thousand (USD 1.2 thousand) in comparison to the previous year, which exceeds the country's average by 2.9 times, and the metallurgic industry's average in Russia by 2.2 times.

In 2006, payroll expenses incurred by the Group entities and reported under IFRS as cost of metals sold and as selling, general and administrative expenses amounted to USD 1,3 billion.

In combination with social payments and benefits covering all the employees, the Group provides an additional social package to highly qualified employees who achieve high performance results and share corporate culture and social responsibility principles. In 2006, an additional social package was provided to employees under the following social programs:

- joint corporate post-retirement benefits plan;
- beneficial lending;
- additional corporate transport compensation.

To reward employees of certain entities of the Group based on their performance results in 2006 and to create conditions for supplementary post-retirement benefits, the Group made a decision to grant 70,000 employees the right (option) to a pension contribution in the amount of RUR 10,000 (USD 368) to be made by the Group to their registered pension accounts in a non-government pension fund. The corporate post-retirement option program was implemented in the first half of 2007.

The Group emphasizes non-material employee motivation, assuming that timely moral rewards adequately reflecting labor achievements facilitate the feeling of involvement and importance of individual contributions, by employees, to the achievement of the corporate objectives among employees and fosters an interest in improving the performance of the division where the employee works, as well as the performance of the Group on a whole.

In 2006, over 3 thousand employees of the major entities of the Group were awarded various rewards for high performance results, implementation of innovative projects and many years of conscientious work. Among them, 321 employees received government and industry awards.

### Development of the corporate culture

The Group pays a lot of attention to the development of a corporate culture where all employees recognize the value of teamwork and work collectively to achieve established goals, where employees adopt a positive approach towards existing development challenges, and where a healthy lifestyle is promoted.

In accordance with the corporate event plan in 2006, MMC Norilsk Nickel organized festive and sporting events and events for kids. Over 120,000 people, consisting of Group's employees and their family members, attended such events.

The extensive activities of the Merry Norilsk Nickel club, uniting 10 teams of various entities of the Group, promotes creativity among the youth. In November 2006, the Fourth Annual Corporate Festival of the Merry Norilsk Nickel club was held in Norilsk.

One of the vital goals of the corporate culture development efforts is the promotion of a healthy lifestyle as a means of enhancing labor potential and productivity and creating of conditions for regular fitness and sporting activities. In 2006, over 22,000 employees of the Group took part in corporate sports events.

In 2006, as part of the Nickelka kids club project, the Group continued its efforts aimed at developing the creative capabilities of kids and teenagers living in the regions where the Group operates, building a positive image of the Group and motivating them to choose a career related to the Group.

### Healthcare programs and labor environment

Recreation and health care programs for Group employees and their family members represent a high priority social policy initiative and an efficient tool for occupational illnesses prevention as it helps to reduce the sickness rates and fosters high performance results.

Under health care programs, employees have an opportunity to receive special treatment at corporate and third-party recreation centers located in Russia. In 2006, around 20,000 people were treated at sanatorium resorts under discounted resort holiday packages provided by the Group to employees and their family members.

Health care and recreation programs for employees and their family members are funded by the Group entities, based on joint participation at the expense of organizations, employees and government social security programs.

97 } In 2006, the Group continued to implement a program under which certain communal and sports facilities were repaired; for example, canteens, checkrooms and medical centers were equipped with modern appliances and equipment. Approximately RUR 170 million (USD 6.3 million) was spent in implementing the program in 2006.

### Social adaptation programs as part of restructuring

To improve production effectiveness and secure a leading position in the global mining sector, in 2006, MMC Norilsk Nickel continued to implement structural changes aimed at dividing the Group's operations into separate business streams. These efforts were supported by the roll-out of programs fostering the social adaptation of employees.

When eligible employees are moved to newly established entities of the Group, their social guarantees are preserved. The following social security measures were taken in 2006, with regard to redundant employees:

- creating additional vacancies for employing dismissed employees;
- transferring dismissed employees to vacancies available in other structural divisions (with due regard to their occupation and qualification);
- running training and re-training courses for dismissed employees to master new professions in accordance with the Group's needs;
- employment assistance to employees after the completion of training.

The Group also has targeted programs in place aimed at supporting retirees who retire and depart the Norilsk industrial district. These programs are focused on maintaining an optimal age structure of the personnel and ensuring staff rotation due to the retirement of older employees.

Thanks to the implementation of the social adaptation programs in 2006, more than 1,900 employees retired and moved from the Taimyr Peninsula to areas with a better climate, which contributed to the effective staff rotation due to the internal mobility of employees and the recruitment of young workers and specialists.

### Local community assistance

In close cooperation with regional authorities, municipalities and public organizations, the Group assists the socially sustainable development of territories and contributes to the welfare of the population residing in the areas of the Group's operation, and implements extensive charity programs for the socially-vulnerable layers of the population in the regions where the Group entities are principle employers.

The Group monitors and maintains the housing stock in Norilsk city. In accordance with the program of social infrastructure reconstruction, a series of measures were taken, including capital repairs of pre-school institutions, the city hospital, cultural and recreational centers, sports installations and schools.

The Group works together with the Norilsk city Administration on supporting and developing the fitness and sports infrastructure of the city. In 2006, the Norilsk city Administration and the Group signed an agreement on the implementation and financing on a parity basis of the program for the development of the fitness and sports infrastructure of the city for the years 2007-2010.

As for preserving and developing the Group's personnel potential, the long-term interests of the Group and that of the local community overlap. In 2006, the Group, together with local municipalities, regional and federal authorities, and higher educational institutions, carried out joint efforts focused on improving the quality and efficiency of young worker and specialist training and providing career guidance and sponsorship activities in schools located in cities where the Group operates.

The Group provides aid to the population of the Taimyr settlements, carries out activities aimed at the preservation and restoration of the cultural traditions of the native peoples of the Far North and the protection of the unique nature of the Taimyr Peninsula.

Traditionally, as part of the regional charity program, the Group supports local public organizations, including:

- Russian Society of Disable People;
- Russian Society of Blind People;
- Russian Society of Deaf People;
- Association of public organizations of parents raising handicapped children of the Norilsk industrial district Victoria;
- Norilsk City Council of War and Labor Veterans;
- Union for the Protection of Victims of Illegal Political Repression;
- Community of former Norilsk residents in the southern part of the Krasnoyarsk Region;
- Norilsk sports and creative teams;
- budgetary health care and cultural organizations;
- youth and student organizations;
- law enforcement agencies;
- military divisions;
- organizations and institutions of the Krasnoyarsk region.

### Social partnership

Collective agreements embody many years of tradition regarding regulating relations in the social and employment sphere between the employer and the employee. Such agreements are in place in the Group and most of its entities. Apart from the Collective agreement, internal regulations governing the provision of benefits and compensations are in force at the Group entities and all subsidiaries that ensure the social security of employees.

In 2006, the social partnership system reached a new level of maturity. To further improve communication with employees, to preserve the accumulated as well as to develop a new common social and labor standards for the Group's employees, the Corporate Social and Employment Board (the CSEB) was set up. The CSEB represents 55,000 people, who are employed by the Group entities.

The CSEB initiated to organize annual regional corporate forums at the Group entities to consider opinions of personnel representatives. At the Corporate Forum that took place in February 2006, an Agreement was approved that regulated relationships in the social and employment sphere at the Group entities located in Norilsk and the Taimyr (Dolgano-Nenets) municipal district for the period from 2006 to 2008. This Agreement determined the basic standards of employer-employee relations in the social and labor sphere for all entities of the Group located in the Norilsk industrial district.

Further improvement in social partnership is achieved by the establishment of an open dialogue between the employer and employees, direct communication of employees with the management, which allows making prompt decisions regarding day-to-day issues at such levels when they arise.

The Group's social policy was highly applauded at a Russian national competition called the Russian Organization of High Social Efficiency. The Group was named, in 2006, a Honorary Russian High Social Efficiency Organization.

Details of the MMC Norilsk Nickel social policy are disclosed in the Company's 2006 Social report.



State-of-the-art  
technologies and  
innovations

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# State-of-the-art technologies and innovations



## + Establishing the Technology stream

In August 2006, the Group made a decision to consolidate its corporate technology assets within a separate stream - the Technology stream. These changes are part of the program focused on improving corporate governance and structural reorganization of the entire Group.

A single legal entity will be formed on the basis of the GiproNickel Research and Development Institute (Saint Petersburg) with two branches in the cities of Norilsk and Monchegorsk. The entity will consolidate all the existing research and development projects:

- Institute Norilskproject and the Mining & Metallurgic and Experiment & Research Center of the Taimyr Peninsula;
- Design & Research Center of the Kola Peninsula; and
- Scientific & Technical Libraries in Norilsk and Monchegorsk.

The key objective of the reorganization is to enhance the effectiveness of the corporate research work to support the Group's technological development as a global leader in the mining and metallurgic sector. The reorganization will allow the Group to improve the controllability of its technology assets, reduce research and development costs, and establish customer-contractor relations with the Group's scientific divisions.

The Company's management believes that the separation of technology assets into an independent stream should provide a strong impetus for corporate scientific development and strengthen the Group's position in the global mining and metallurgic sector.

## State-of-the-art technologies

To be able to further expand production operations into the global markets, in March 2007, MMC Norilsk Nickel acquired the Nickel Business of the OM Group Inc. This transaction allowed the Group to secure access to state-of-the-art production and operational skills and technologies, such as:

- autoclave sulphuric-acid-leaching of laterite ores (applied at the Norilsk Nickel Cawse Plant);
- sulphuric-acid-leaching of nickel-rich intermediate products, including high-grade matte, applied at commercial-scale production at the Norilsk Nickel Harjavalta refining plant.

### Autoclave sulphuric-acid-leaching of laterite ores

The technological system of the Norilsk Nickel Cawse Plant includes the following operations:

- concentration of limonite ore by way of screening;
- crushing and grinding of cobalt ore using silica;
- autoclave sulphuric-acid-leaching of the ore mixture to transfer nickel and cobalt into solution;
- hydrolytic refinement of nickel-cobalt solution to remove impurities and precipitation of commodity nickel-cobalt carbonate.

The thickened slurry of the ore mixture, comprised of concentrated limonite and preliminary crushed cobalt ore, goes to the receiver tank and is further delivered to heating installations by pumps.

The slurry, heated up to 170°C, is delivered by a pump to the autoclave leaching facility. The process is performed at 250°C, and under a pressure of 4.5 MPa. Steam used for slurry heating is produced by the power plant of the facility. Leaching is performed using concentrated sulphuric acid delivered from Kalgoorlie by tank cars.

Slurry cooling after leaching is performed in a two-step process by self-evaporation. The highly acidic cooled slurry is neutralized with lime.

Neutralized slurry is washed off when the nickel-cobalt solution is separated from solid ferrous residual that goes to a tail-

ing pit. Further separation of nickel-cobalt solution from ferrous impurities is performed using a traditional method of oxy-hydrolysis.

The refined solution is separated from ferrous and plaster residue by filtering. The produced cake goes back to the first stage of slurry neutralization after autoclave leaching, while filtrate goes for the precipitation of mixed nickel-cobalt hydroxide for a finer separation of nickel and cobalt from impurities. Slurry containing the mixed nickel-cobalt hydroxide is filtered and delivered to ammoniac precipitation of commodity nickel-cobalt carbonate supplied to the Norilsk Nickel Harjavalta Plant (Finland) for further processing.

### Hydrogen energy

Deterioration of the environment and the gradual depletion of hydrocarbon resources, forced the Group to consider hydrogen as an absolutely safe fuel. Hydrogen is considered the foundation of a future energy economy.

A peculiarity of hydrogen fuel cells is that they represent electrochemical power sources. As a result of direct conversion of energy produced by hydrogen fuel cells into electric power, combustion processes are excluded from the process chain, thus increasing efficiency up to 90% and reducing environmental damage. Hydrogen engine wastes are environmentally friendly, since they do not contain any water and carbon dioxide.

In November 2003, the Russian Academy of Science (RAS) and MMC Norilsk Nickel signed an agreement for cooperation in the field of hydrogen energy and fuel cells. At the end of that year, a Comprehensive Hydrogen Energy and Fuel Cells Exploration, Research and Development Plan was signed. Joint research and development efforts were brought forward by the exceptional importance of the hydrogen energy for the country's economy and a potential additional source of demand for metals produced by the Group.

The agreement was signed as part of a program focused on popularization of palladium on the basis of fundamental research. The established cooperation is primarily aimed at developing, financing and delivering high-priority and high-technology projects, development of competitive import-replacing equipment and materials in the field of hydrogen energy and fuel cells.

The results achieved during the first stage of cooperation between science and business demonstrated the need for the development of a universal integrator capable of effectively managing various types of activities on the development, commercialization and introduction, in domestic and global markets, of competitive hydrogen energy solutions. The National Innovational Company New Energy Projects, established by the Group in 2005, represents such a universal integrator. The key directions of its activities include:

- hydrogen energy and fuel cells exploration, research and development;
- development of innovative and venture-based hydrogen-related projects with a high potential;

- research of market demand (in domestic and foreign markets) for locally developed hydrogen technologies, determining market segments with the highest potential and appropriate marketing strategies;
- building an intellectual property database and providing patent and license support;
- starting production operations and sales of products manufactured by the Group.

#### Key achievements in 2005–2006

The following demonstration versions of high-technology hydrogen energy and fuel cells products were developed:

- power plants with the capacity of 5 kW based on alkaline and solid polymer electrolyte fuel cells;
- main support systems for power plants;
- new membrane and composite materials;
- a hydrogen plant based on electrolyte modules;
- hydrogen generator-based charging devices for cell phones and laptops.

In February 2006, demonstration versions of the devices and materials were presented at the International Forum on Hydrogen Technologies and Alternative Energy. In June 2006, the specified products were demonstrated at the Innovative Achievements trade show held during the St. Petersburg International Economic Forum. The Group presented over 30 exhibits within five focused sections of its stand.

During the reporting period, the Group developed the technology for the production of micro fuel cells based on silicon and nanostructure materials, technological procedures for the production of materials and technological processes. The Group identified 40 patent-capable technical so-

lutions, some of which are far above the global standards. The Group produced an action plan for the development of hydrogen technologies and alternative power sources for 2007.

In 2006, Smart Hydrogen, set up by MMC Norilsk Nickel and CJSC Holding Company Interros, acquired 35% of the ordinary shares in Plug Power, a leading US developer of environmentally safe and reliable energy products. The synergy from such cooperation is achieved due to integration of US technologies and Russian science with the aim of developing hydrogen appliances that could be highly competitive in the global marketplace.

#### Plans for 2007

- Complete large-scale development work on certain independent power plants and portable power sources based on fuel cells.
- Continue the research and development work whose potential was proven in 2006.
- Continue development of integrated power plants based on renewable power sources (solar and wind) with a hydrogen cycle.
- Carrying out activities for starting up the production of power plants:
  - production of prototypes;
  - validation of appropriate terms of reference;
  - drafting design and methodological documentation;
  - preparing regulatory framework.

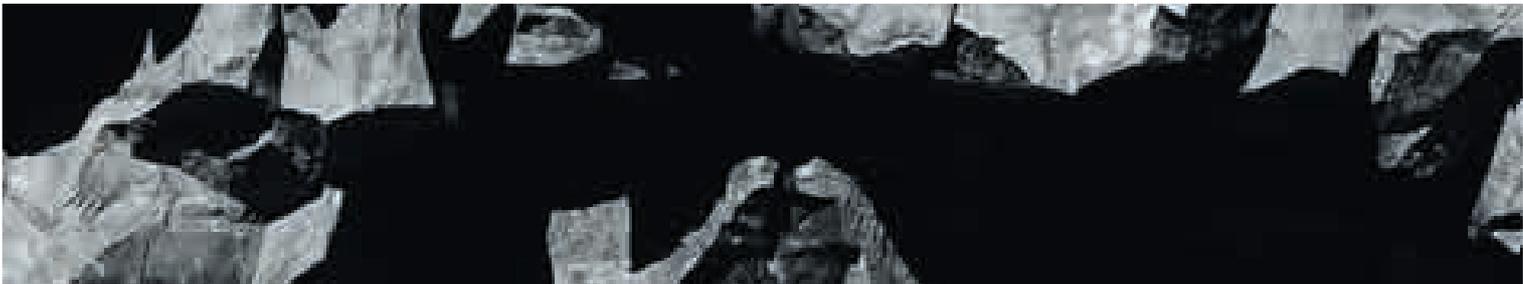
- Setting up an Engineering Center:
  - the Center will include: a Design-Engineering Department, a Laboratory of Electrocatalysis and Fuel Cells, a Laboratory of Fuel Processes, and a Laboratory of Solid Oxide Fuel Cell;
  - reduction of research and development costs, optimal utilization of deliverables;
  - shifting certain work, currently carried out by RAS institutes, towards the Engineering Center;
  - opening a demonstration hall.

- International cooperation:
  - with Plug Power – improvement, commercialization and promotion of its products, delivering joint projects, development of a joint work strategy until 2015;
  - with Fuma Tech – development of a membrane-electrode block for low- and medium-temperature installations which will lower production costs for Plug Power products;
  - with UTC – commercialization of UTC products.

- Cooperation with Russian partners:
  - with RAS institutes, research and development organizations, and certain universities – continued joint work;
  - with OJSC Russian Railways – agreeing upon the terms of reference for the development of power sources based on Plug Power's generators, and putting the power generation installations into pilot programs at railway stations.

The Group expects an increase in demand for palladium, which may potentially become one of the core metals used in equipment for hydrogen energy.





Management  
structure reform

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Management  
structure reform

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chapter

15

# Management structure reform



Before the Organizational Development Concept started to be implemented in 2005, MMC Norilsk Nickel was a unified multi-industry conglomerate with diversified structures and subsidiaries. The diversity of types of activities and the heterogeneity of assets resulted in a complex, inert, non-transparent, highly centralized and customized management system.

The management system used before 2005 fully completed its tasks, and ensured stability and profitability of operations and preserved personnel, management, resource and production potential. Thanks to the stabilization of the social, economic and political situation, management was able to shift the focus from preserving the Group's potential to the realization, development and creation of modern management mechanisms.

Embarking on the reform, the Group's management pursued the following objectives:

- Increase the work effectiveness of the Group and, as a result, improve its investment attractiveness, achieve shareholder value growth and improve the Group's image in international markets;
- Establish the Group's management structure appropriate for a multi-industry geographically distributed organization;
- Optimize management structures according to an industry-based segregation of responsibility areas; achieve transparency and economic rationality in management structures;
- Delegate responsibility to the regions, assigning respective authority to the managers of industry business units and divisional managers in the regions;
- Reduce management staff and non-productive costs.

The reform shall be implemented in three stages:

- Stage I – organizational separation of industry business units and professional services within the Group;
- Stage II – legal separation of industrial business units within the Group;
- Stage III – marketing activity of industry companies and professional services, provision of services to the Group's entities on a tender basis.



In 2005, the Group completed stage I – structural regrouping of its business units according to industry business units. Based on the results of stage I, the structure of the Group’s management system was changed and industry directorates were created that are responsible for operation of the relevant industry business units included into the Group’s structure.

In 2006, the Group’s management began to implement stage II of the Group’s management structure reform.

Stage II, to be completed in 2008, is to formally improve communications between the industry business units, which requires much effort in terms of revising the internal regulations of the Group. The Group began and completed the major part of work for precise segregation of duties and responsibilities in points where industry business units meet, and created a system of regulators common for the whole Group – mandatory regulations and corporate standards defining the authority of the heads of industry business units in such crucial areas as:

- management of the asset structure of industry business units (protection of shareholders’ interest);
- management of industry business units’ economy and finances (management of financial and economic risks);
- management of legal obligations and compliance with the legislation (protection of shareholders’ interest and management of business risks);
- management of personnel and social and economic environment (management of social and economic risks);
- management of the quality management system, technical regulation, ecological management system (management of general technology and man-caused risks).

In the reporting year, the Group began to create its industry subsidiaries based on assets and administrative resources of industry business units and the Corporate Center.

Creation of subsidiaries – industry business units and professional services – implies that a part of management person-

nel will be commissioned from the Corporate Center and the Taimyr Peninsula of the Group to industry business units and the role of the Taimyr Peninsula will change. The subsidiaries located in the Norilsk Industrial Region are transformed from the governing bodies into bodies controlling and regulating communication between industries and monitoring the protection of shareholders’ rights and compliance with the Group’s corporate standards.

Such a change in the role of governing bodies in the Norilsk Industrial Region called for the creation of a Local Corporate Center, which executes the authority of the Corporate Center in the Group’s key business area.

Back in 2006, the creation of independent business units – industrial companies – proved that basic provisions and principles of the management system reform were right. For example, after OOO Norilskremont was created in 2006, one of the least transparent and formalized activities in terms of the economy, repair work, showed

a 12% increase in work performance. That proves that the introduction of competition and delegation of responsibility and authority at the local level reduced influence of central governing bodies on decision-making and valuation of economic performance, provided that the level of all types of risks determined by the Corporate Center is not exceeded and resulted in a considerable growth of economic efficiency, as well as increase in managers’ motivation and enthusiasm and reduce non-operating expenses.

The methods of management of MMC Norilsk Nickel’s companies, business units and subsidiaries have changed since 2006. The Group launched a program for the delegation of responsibility and authority down to the local level, while the Corporate Center exerts control by issuing mandatory requirements and imposing limitations on the activities of subsidiaries and industry business units. The industry business units are granted considerable medium-term and operational independence with a complete business cycle and responsibility for economic and production performance.

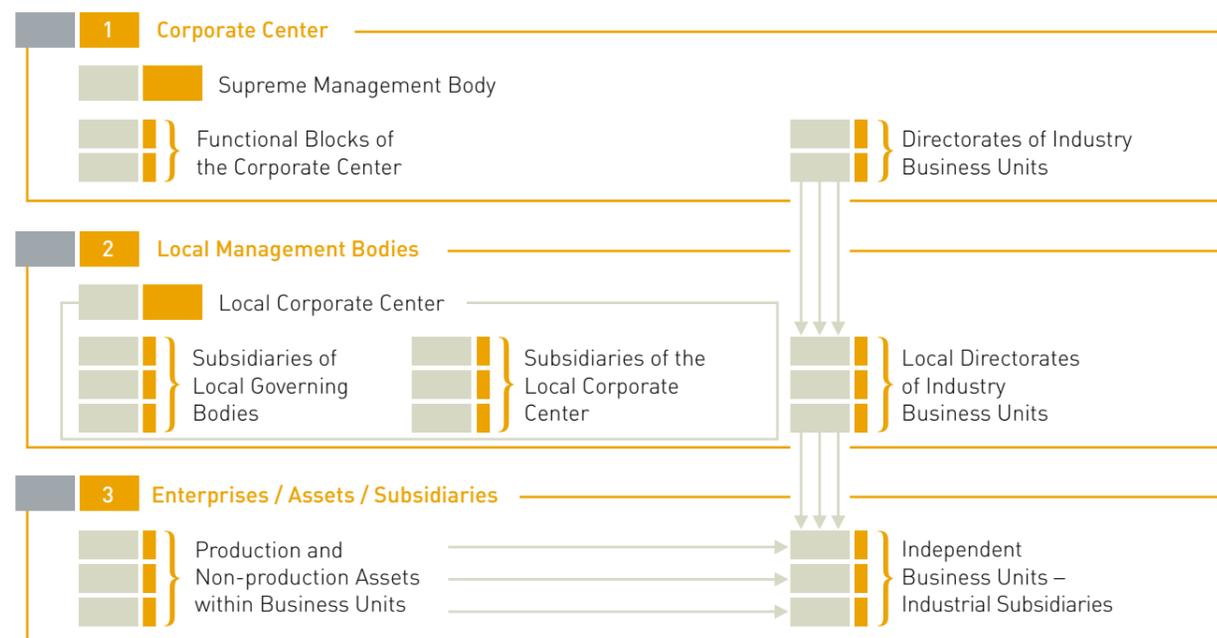
At this stage, the Group ensures that the newly created subsidiaries and industry business units keep 100 percent of the orders for their products/services by setting the prices for their products and services within the normal budgeting process. During subsequent stages, the Corporate Center will gradually reduce the volume of the Group’s guaranteed order and offer a part of products/services in open tenders, gradually transforming its subsidiaries into market companies operating in a competitive environment.

During the reporting year, the Group started to gradually create a modern market structure for the Group, complying with today’s requirements for transparency, efficiency and manageability of the Group’s entities. To ensure absolute compliance with the rights of the Group’s shareholders, the Corporate Center focuses on the Group’s principle business – the Mining and metallurgical business unit that stays under direct control of the Corporate Center. To reduce various business risks, the Group deployed a program for the preparation and implementation of a set of the

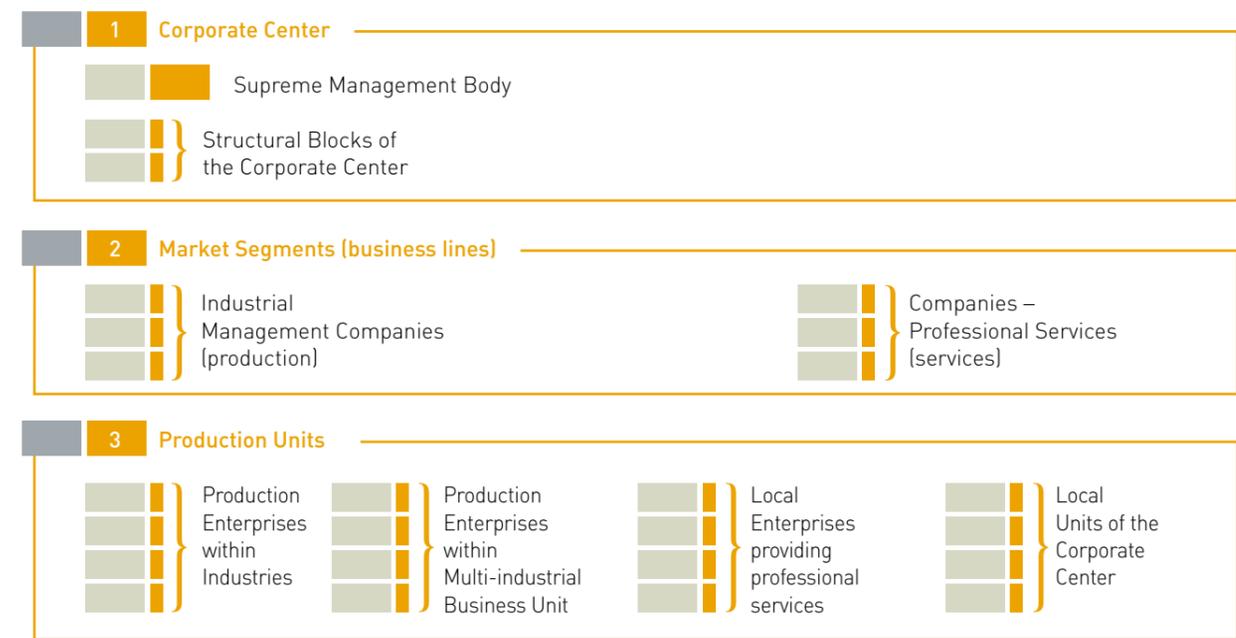
Group’s corporate standards that partially limit independence of the heads of industry business units.

In the future, until 2008, the Group will continue to create industrial subsidiaries and, at the same time, gradually prepare their businesses for market conditions in a competitive environment. Such an approach complies with the modern requirements of the management structure of major companies that hold leading positions in global markets and improves investors’ confidence and the Group’s image in the international financial markets.

Group’s Transitional Structure (end of 2006)



Group’s Target Structure



### Mining and metallurgical business unit

The main goal of the Mining and metallurgical business unit is stable production with minimal expenses and in compliance with production plans approved by the Corporate Center and the Sales business unit. The key tasks for achieving this goal are the development of the mineral resource base and an increase in ore extraction, as well as optimization of the use of the Group's production capacities in the Taimyr and Kola Peninsulas.

The Mining and metallurgical business unit comprises mining, concentration and metallurgical entities being a part of the Taimyr Peninsula located in the Norilsk industrial district on the Taimyr Peninsula and the Kola Peninsula. Starting from March 2007, after the Group purchased the Nickel Business of OM Group Inc., the Mining and metallurgical business unit includes an open-pit mine and the Australia-based lateritic ore leaching facility, Cawse, as well as the Harjavalta nickel refining plant in Finland.

During the reporting year, the Group's Mining and metallurgic business unit performed its metal production plan, meeting the management's expectations and complying with the published preliminary forecasts.

In 2006, the Company's Board of Directors approved the basic provisions of MMC Norilsk Nickel's Production Development Strategy, as a part of which the Group performed several tests of new technologies in the reporting year, and also started to prepare for the implementation of key projects (for details see Description of key operating assets, Production development strategy and Review of operating performance sections).

### Sales business unit

The Sales business unit of MMC Norilsk Nickel sells the products produced in the Russian Federation and foreign markets. The strategic goal of the Business unit is to generate maximum revenue on the sales stage and to ensure stable, long-term liquidity of the metals produced by the Group in the consuming markets.

The Sales business unit includes:

- CJSC Normetimpex (Russia);
- Metal Trade Overseas AG (Switzerland);
- Norilsk Nickel Europe Limited (UK);
- Norilsk Nickel USA Inc. (USA);
- Norilsk Nickel Asia Ltd. (China).

The Sales business unit demonstrated high performance in the reporting year:

- sold all products produced;
- ensured the diversification of sales of the Group's principle product in accordance with the structure of the global consumer market;
- reduced the current nickel and palladium inventories as a result of supply chain optimization.

The main tasks of the Sales business unit for 2007, are:

- to sell all metal products produced in 2007;
- to ensure stable long-term liquidity of the produced products in the consumer markets;
- to ensure the diversification of sales of the Group's principle product in accordance with the structure of the global consumer market.

For details see Review of sales performance and market developments section.

### Geology business unit

The Geology business unit combines the Group's entities that perform the following types of activities:

- creation and preparation for the exploration of mineral resources of target and new highly liquid types of minerals;
- preparation and putting into operation the objects of subsoil use;
- all types of technological drilling;
- rehabilitation of mineral resources for perspective development of the Mining and metallurgical business unit in the areas of productive deposits;
- provision of reliable data on the explored reserves in the operating mines.

The Geology business unit includes the following entities:

- OOO Pechengageologiya;
- Krasnoyarsk branch, OOO Norilskgeologiya;
- OOO Vostokgeologiya;
- OOO RioNor-Geologorazvedka.

OOO Pechengageologiya conducts geological surveys and exploration of nickel and gold on the Kola Peninsula and in the Murmansk region.

OJSC Norilskgeologiya conducts geological surveys and exploration of nickel, copper, and PGMs in the center of Siberia, including the territories nearby city of Norilsk and other territories in the Krasnoyarsk Krai.

OOO Vostokgeologiya conducts geological surveys and exploration of copper and gold in the south-east of Siberia and Far East.

In 2006, MMC Norilsk Nickel signed an agreement for the creation of a joint venture with Rio Tinto (OOO RioNor-Geologorazvedka) and an agreement for cooperation with BHP Billiton.

Currently, the joint venture focuses on the analysis of potential projects in the southern regions of the Siberian and the Far Eastern Federal Districts of the Russian Federation. The goal of MMC Norilsk Nickel and BHP Billiton's joint work is to determine prospective objects for geologic exploration in West Siberia and the North West regions of the Russian Federation.

Taking into account that the Group aspires for the growth and diversification of its resource base, in 2007, the Group plans to continue the prospect appraisal in some promising spheres.

For details see Geological exploration section.

### Energy business unit

The Energy business unit ensures secure energy supplies for the enterprises and residential areas of the Norilsk and Taimyr (Dolgano-Nenets) municipal districts, efficient management of the housing facilities and infrastructure of the Norilsk industrial district, and structuring and management of other energy assets of the Group.

The Energy business unit includes enterprises of gas and energy industries, as well as public utility companies.

The gas business industry is a part of an isolated energy supply system of the Norilsk industrial district (there are no alternative gas suppliers in the region). It includes:

- OJSC Taimyrgaz; and
- OJSC Norilskgazprom.

The gas produced is sold to Norilskenergo, a Group branch, as raw material for power and heat generation purposes, as well as for production needs.

Currently the Group continues to improve the Pelyatka gas condensate deposit. OJSC Taimyrgaz has the license for its development. More than 200 complex technological facilities are under construction – the whole production chain from gas and gas condensate extraction to its transportation to the customer. The development site occupies more than 22 hectares and the total length of pipelines for gas and gas products transportation is more than 180 kilometers.

OJSC Norilskgazprom has licenses for the development of the Severo-Soleninskoye and Yuzhno-Soleninskoye gas condensate deposits and the Messoyakhskoye gas deposit.

The Group's energy business industry includes three units:

- OJSC Norilskenergo – provides wastewater services to the Group's entities in the Norilsk Industrial Region;
- OJSC Norilsk-Taimyr Energy Company – produces and supplies thermal and electric power to consumers on the basis of assets leased from OJSC Taimyrenego and OJSC Norilskenergo;
- OJSC Taimyrenego – combines two hydroelectric power stations leased to OJSC Norilsk-Taimyr Energy Company.

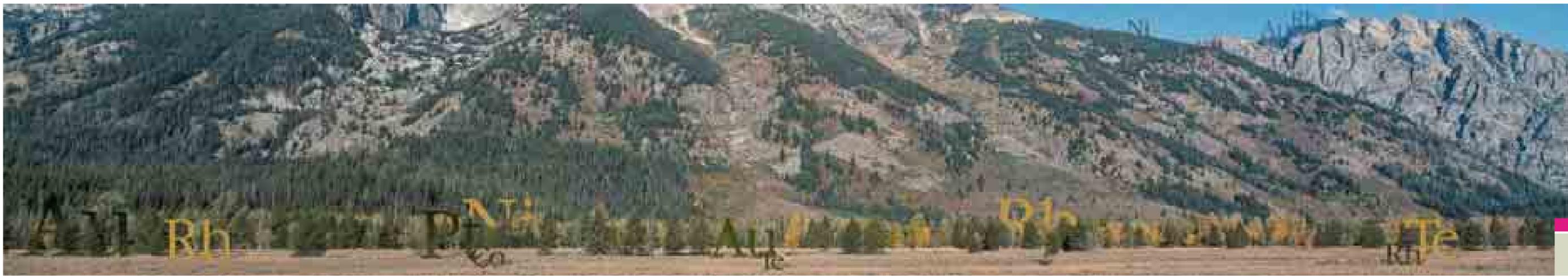
In July 2006, the Group purchased 100% of OJSC Taimyrenego's shares from RAO UES in an open auction. Therefore, today, the Group owns all energy assets required to provide the Group's entities in the Norilsk industrial district with electricity and thermal power.

The public utility business industry is represented by OOO MC Zapolyarnaya Stolitsa, controlling the housing facilities and public utilities in the Norilsk industrial district.

Also, the Energy business unit takes part in the management of energy enterprises, a share in the capital of which belongs to MMC Norilsk Nickel, namely:

- RAO EUS of Russia;
- OJSC OGG-3;
- OJSC TGK-1;
- OJSC TGK-14;
- OJSC Kolenergo;
- OJSC Kolenergosbyt;
- OJSC Kolskiye Transmission Networks;
- OJSC Krasnoyarskenergo;
- OJSC Krasnoyarskiye Transmission Networks; and
- OJSC Tuvaenergo-Holding.

In 2007, the Group intends to spin-off its power assets and to distribute the shares of a newly established holding company among the shareholders of the Group on a pro-rata basis. The newly established power holding company is expected to include the spun-off electric power assets of the Group not participating in the power supply of the Taimyr Peninsula.



As a part of restructuring and development of the Energy business unit in 2007, the Group plans to:

- purchase 49% of the shares of OJSC Norilsk Taimyr Energy Company from RAO UES of Russia to complete the merger of the Group's energy assets in the Norilsk industrial district;
- integrate OJSC Taimyrenego into the single management system for the Group's entities;
- upgrade the energy system of the Norilsk industrial district;
- complete the construction of the launch complex at the Pelyatka gas condensate deposit;
- build four development wells of the Pelyatka gas condensate deposit;
- launch a project for the construction of Pelyatka-Dudinka gas and gas condensate pipelines;
- initiate exploration and design works to construct a gas condensate and natural gas liquids processing plant.

### Transportation and logistics business unit

The Transportation and logistics business unit is in charge of loading, transportation, storage, freight insurance, customs clearance and airport services.

The Transportation and logistics business unit includes:

- Directorate of the Transportation and logistics business unit in the Group's Head office;
- Polar Transportation Division (created in the reporting year on the base of merged Dudinka sea port, Dudinsky Motor Transport Company and Container Shipping Services Company);
- Murmansk Transportation Branch;
- Krasnoyarsk Branch;
- Arkhangelsk Branch;
- OJSC Yenisey River Shipping Company and its subsidiaries;
- OJSC Arkhangelsk Commercial sea port;
- CJSC Alykel (airport);
- OJSC Aviakompaniya Taymyr; and
- OOO Taimyr Investment Company (performs the reconstruction of the Alykel airport area among other activities).

To enable the transportation and logistics process, in 2006, the Group signed all the necessary transportation agreements for sea, river, motor and air transportation and the handling of the Group's goods in transshipment ports (Murmansk, Krasnoyarsk, Arkhangelsk and Lesosibirsk). During the year, the Group organized and exerted continuous control over the way the transport agreements were performed. In 2006, the Group's registered goods were transported in full.

In compliance with the concept for the creation of the MMC Norilsk Nickel's optimal transportation system implying that the Group will switch to transporting goods in the Group's own vessels, in 2006, the Group put into operation the first ice-breaking cargo ship. Norilsk Nickel, a diesel-electric ship with a carrying capacity of 14,500 tons, is equipped with an up-to-date Azipod-type thruster and is able to move in heavy ices, breaking ice up to 1.5 meters thick. The ship is equipped with a data terminal that continuously supplies the captain of the vessel with information on the state of the ice cover along the travel route, thus allowing him to choose the optimal travel route in a severe ice environment.

Thanks to unique technological solutions implemented in the diesel-electric ship, the Group was able to completely stop using the services of atomic-powered ice-breakers on the Northern Sea Route in the Kara Sea. In 2006, the Group saved RUR 132 million (USD 4.9 million) on transportation expenses, thanks to using its own vessel for the transportation of a part of the goods. The Group signed a contract for the construction of four more vessels of the same design. The construction is to be completed in the end of 2008 – first quarter of 2009.

In 2006, the Group continued to develop the organizational structure of the Murmansk Transportation Branch whose main task is to manage the Group's own fleet, to construct the transshipment terminal and, subsequently, to perform transshipments in its own transshipment terminal. The Group finished the creation of the branch's property complex. It carries out construction and assembly works in order to create the transshipment terminal in Murmansk on the base of purchased real estate property.

In 2007, as a part of management structure reform and development of the Transportation and logistics business unit, the Group plans to:

- continue the reconstruction of OJSC Yenisey River Shipping Company;
- continue the construction of its four ice-breaking cargo ships for the transportation of the Group's goods along the Northern Sea Route without atomic-powered ice-breakers;
- continue the construction of its own transshipment terminal in Murmansk;
- continue technological re-equipment of the Dudinka sea port;
- launch container transportation of its goods in order to accelerate their handling in ports and, consequently, to reduce transportation expenses;
- complete the major part of reconstruction of the Alykel airport complex;
- increase the amount of third-party goods transported on its own vessel in order to reduce general transportation expenses of the Group.

### Support business unit

The main goal of the Support business unit is to provide the main production and other industrial business units of the Group with its products and services taking into account the principles and limitations aimed at reaching the following goals:

- ensure stable operation of the main production units and other production entities of the Group;
- make the Support business unit's products and services competitive in terms of their quality and quantity compared with similar "continental" enterprises.

The assets of the Support business unit are grouped by business lines:

- production and service support – OOO Norilsk Support business unit (including Stroykomplekt, Tisma and Mechanical plants);
- research, development, and exploration and design activities<sup>(1)</sup> – OOO Gipronickel Institute including the Norilsk and Kola branches;
- support activity – health and recreation complex Valek, Yenisey sanatorium of the Taimyr Peninsula, Ramat-Aviv medical center, Creative and Production Association of Culture Institutions, OJSC Torginvest and OOO Kolabyt;
- telecommunications – OOO Norilsk Telecom and OOO Astron.

In 2006, as a part of the management structure reform, the Group created OOO Norilsk Support business unit on the base of the Tisma and Stroykomplekt plants. Starting from 1 February 2006, it also includes Mechanical Plant.

At the end of 2006, the Group consolidated its technical assets on the base of the Science & Research and Project Institute Gipronickel (Saint Petersburg) and at the same time opened branches in its main operation regions – the Norilsk and Kola branches. Starting from 1 February 2006, the branches comprise:

- Institute Norilskproject and Mining & Metallurgic and Experiment & Research Center of the Taimyr Peninsula;
- Design & Research Center of the Kola Peninsula; and
- Scientific & Technical Libraries in Norilsk and Monchegorsk.

Restructuring will improve the controllability of technology assets, provide the Group's shareholders with a transparent vision of the operation, reduce research and development costs and optimize the allocation of scientific and technical support functions of the Group across the regions where scientific and project assets are based.

In the reporting year, Gipronickel Institute developed a promising technology for the production of crude copper by continuous conversion in a flash smelter, which is of great importance to the Group's entities and major Russian copper companies. The Group completed the development of a pan-corporate program aimed at reducing harmful emissions and normalizing the ecological situation in the Group's production regions.

**Note:**

(1) In accordance with the Order of MMC Norilsk Nickel's General Director Research and Engineering business unit will be created, while OOO Gipronickel Institute shall be excluded from the list of enterprises controlled by the Support business unit.



As a result of these measures, during 2006, the Group adjusted the lease payment for OJSC Torginvest's assets in accordance with market conditions, developed and implemented a system of differentiated lease rates depending on characteristics of the leased objects, and sold unprofitable assets.

In order to optimize the cost of maintenance of the Group's non-core assets, the Group restructured OOO Kolabyt in terms of medical services and transferred this function to specialized municipal organizations.

The Group completed the first stage of the project "Construction of a multi-service network in the Norilsk industrial region and Dudinka" (digital and analogue TV, video-on-demand, high-speed Internet services). The Group created its own satellite channel, Norilsk-Krasnoyarsk, breaking the dependence on the OOO Norilsk Telecom monopoly services and, therefore, making the Group's entities based in the Norilsk Industrial Region less dependent on the single provider of long-distance services.

The Public switched telephone network of the Norilsk industrial district was expanded and the numbering capacity was increased by 6,000 phone numbers. Together with Megafon, the Group deployed a GSM network. By the end of 2006, its customer base exceeded 20,000.

Optimization measures taken during the reporting year allowed the Group to reduce the actual size of the Support business unit and the Group's spending on the Group's assets by 10% in similar conditions (compared with 2005).

Main plans of the Support business unit for the near future:

- perform the production order of industrial business units;
- minimize current costs of the Support business unit's assets by optimizing production processes, upgrading production facilities and deploying new technological products;
- create a legal communication environment between the Customer and the Contractor to ensure the responsibility of both parties in order to optimize the load on production facilities and resources, to forecast their development and to ensure timely order completion;
- search, development and implementation of innovative technologies and alternatives to existing materials for the main production;
- eliminate/convert unprofitable assets;
- develop and deploy management processes at the newly created subsidiaries and train the administrative staff;
- develop and deploy key subsystems (budgeting, planning, accounting and motivation);
- ensure compliance with environmental protection standards;
- optimize the structure and number of the Support business unit's personnel and at the same time keep the corporate standards of social guarantees.

### Procurement business unit

The Procurement business unit purchases and sells inventory for the Group's entities, collects, processes and sells the scrap of ferrous and non-ferrous metals and provides the Group's employees in the Norilsk industrial district with dietary and healthy food.

The Procurement business unit includes the following units:

- Procurement Directorate;
- Directorate in charge of market conditions, methodology and resource balance;
- Procurement Directorate of Polar Division (Taimyr Peninsula);
- OJSC Norilsk Trade and Production Association;
- CJSC Taimyr Fuel Company;
- OOO Metal Scrap Recycling Plant; and
- OOO Taimyr Peninsula Commercial Alliance.

During 2006, the Business unit procured inventories for the Group's entities under direct contracts and organized communications according to the agent scheme with CJSC Polus, CJSC Matrosov Mine<sup>(1)</sup>, OJSC Norilskgazprom, OJSC Yenisey River Shipping Company, OJSC Taimyrgaz, OOO Norilsktelecom, OJSC Norilsk Energy Company and other companies and supplied fuel to enterprises in the Taimyr (Dolgano-Nenets) municipal district. No production and technological processes were stopped and no fixed assets were repaired at the Group's entities due to a fault in procurement services.

In 2006, a large proportion of inventories were purchased using open tenders and more than half of the total amount of goods were procured under direct contracts with production plants.

In the reporting year, the Group sold inventories from the warehouse of Unified Warehousing Enterprise of the Group's Taimyr Peninsula in the amount of RUR 12,327 million (USD 453.4 million). The Group determines the quota of inventories for its business units quarterly, analyzes the structure and dynamics of inventory balance monthly and controls the compliance with approved quotas for each business unit. Thanks to these measures, the Group reduced the inventory balance for its enterprises in the Norilsk industrial district by RUR 1,146 million (USD 42.2 million).

The amount of oil products sold by CJSC Taimyr Fuel Company to the Group's entities in the reporting period equaled RUR 9,142 million (USD 336.3 million). As a part of initiative for the creation of a single procurement system to provide oil products to the Group's entities in the Norilsk industrial district, the Group created a workshop comprising four gas stations. The Group completed design and exploration for the project Reconstruction of the Taimyr Peninsula petroleum storage depot and made technical and economic calculations for the two variants of oil product delivery: summer and year-round. The Group launched the construction of the fifth gas station in the Norilsk industrial district.

In the reporting year, the Group prepared for the implementation of an automated supply chain management system for catering companies at OJSC Norilsk Trade and Production Association. Thanks to optimization of the catering companies' activities, the Group saved RUR 11.7 million (USD 430 thousand).

As a part of a program aimed at the creation of a system for collection, processing and sale of ferrous and non-ferrous scrap generated at the Group's enterprises in production regions, the Group implemented a system that returns inventories after use/ dismantling for further processing. In 2006, OOO Scrap Recycling Plant processed 63,200 tonnes of scrap metal. 18,900 tonnes of scrap metal were sold to third parties in the internal and foreign markets.

The main tasks of the Procurement business unit for 2007 are:

- develop a new economic model for the Procurement business unit;
- optimize warehouse facilities;
- improve conditions of inventory storage at the Procurement business unit warehouses;
- determine slow moving and non-liquid inventories and sell them;
- implement an automated supply chain management system for employee catering companies;
- reconstruct and put into operation a wholesale food distribution center in Norilsk;
- analyze the Procurement business unit's staff and create a pool of staff.

### Construction block

The Construction block's divisions are involved in capital construction, provision of mine sinking services, special work, maintenance and capital repair of fixed assets of the Group's Taimyr Peninsula operations.

In June 2006, within the program of reforming the Group's management system, OOO Polar Construction Company was established as a 100% subsidiary of the Group. Having received the appropriate license in August 2006, this company started its production activities in October 2006. Polar Construction Company consists of the following divisions:

- Construction Department;
- Norilskshakhtstroy Trust; and
- Central Construction Laboratory.

In the reporting year, production results remained at the previous level as compared to 2005, with a 5% reduction in payroll.

Key results of the Construction block's activities in 2006 are as follows:

- reconstruction of Lebyazhye tailing pit intended for storing the tailings from the Norilsk and Talnakh Concentrators; and
- finalization of the ventilation shaft sinking work at the Taimyrsky mine.

#### Note:

(1) CJSC Polus, CJSC Matrosov Mine and other gold mining assets of the Group were spun-off as part of MMC Norilsk Nickel reorganization in 2006.



Key plans of the Construction block for 2007 are as follows:

- finalization of construction work at Oktyabrsky and Komsomolsky mines;
- commissioning the second launch complex into operation at the Skalisty mine;
- commissioning the second-stage capacities of the first launch complex into operation at the Taimyrsky mine;
- commissioning the smelting section, automation and energy supply system, installation of the boiler gas heater, reconstruction of the gas consumption and oxygen supply system at the Copper Plant;
- commissioning the environmental protection facilities (local purification);
- implementation of preparatory actions aimed at the increase in the production volume in accordance with the Group's Production Development Strategy.
- creation of an automated management system of the construction company;
- implementation of an internal cost budget regulatory framework;
- installation of new state-of-the-art technologies, equipment, use of new materials;
- arranging for the provision of engineering services;
- provision of new types of services (installation of the telecommunication system, video monitoring, fire alarm, ventilation).

### Maintenance block

The Maintenance block's divisions are involved in maintenance and repair of fixed assets of the Group's enterprises, based on state-of-the-art technologies and labor organization principles.

The Maintenance block includes OOO Norilsknikelremont (a 100% subsidiary to the Group) established in July 2006 within the program of reforming Group management system, on the basis of four divisions:

- Norilskremont Production Association;
- Norilskshakhtservis Trust;
- Norilsktransremont Production Association; and
- Norilskavtomatika Multi-industry Association.

In November 2006, the Maintenance directorate was liquidated and OOO Norilsknikelremont began its operation as an independent Maintenance block of the Group.

In the reporting year, OOO Norilsknikelremont achieved high performance results – contractor's work execution level increased to 112.8% in relation to the planned level.

Key tasks of the Maintenance block for 2007 are as follows:

- high-quality maintenance and repair of the fixed assets of the Group's enterprises;
- arranging for servicing the Group's production processes;
- development and introduction of an automated management system of business processes;
- expansion to new markets and mastering new services;
- creation of an efficient and flexible structure for managing maintenance operations;
- optimization of current expenses and cost reduction;
- optimization of the use of HR resources to increase labor productivity.

### Security block

The Security block's activities are aimed at reducing the losses from theft of products and inventories at the Group's enterprises.

The Security block includes security divisions of the Group's enterprises, the largest of which are:

- Security Department of the Head Office;
- Security Department of Polar Division (Taimyr Peninsula);
- Security Department of Kola MMC (Kola Peninsula);
- CHOP Nornik;
- CHOP Nornik-N;
- CHOP Nornik-M; and
- CHOP Nornik-K.

Security divisions conduct intellectual protection of the Group's enterprises from actual and potential threats, including methodological guidance of security activities. Corporate security agencies provide physical protection to the Group's key assets and facilities. In addition, the Group uses the services of various departmental and extra-departmental security agencies, and various divisions of the Ministry of Interior of the Russian Federation.

Activities of the Security block are based on the Concept of Corporate Security of the Group, as approved in 2002 and the Comprehensive Program of Work and Organizational and Technical Activities Aimed at Developing Economic Security of the Group, Its Subsidiaries and Affiliates for 2004 to 2010.

In 2006, there was a significant strengthening in activities aimed at improving the security block's operations. There was a large-scale reorganization of the economic security department of the Taimyr Peninsula and Kola Peninsula that allowed reduction of the payroll on the one hand, and improvement of the quality level of employees on the other hand. Next year, the reorganization of economic security divisions at other enterprises of the Group will be finalized.

Due to its centralization in the reporting year the security block managed to initiate over 300 criminal cases as a result of theft. The court convicted 147 people, guilty of theft of the Group's property. These are the highest results over the entire history of the Group's security division.

In 2006, implementation of the rotation work method continued in the CHOP Nornik. After successful implementation at all Kola Peninsula's enterprises, the rotation method will be implemented at all Taimyr Peninsula's enterprises too. Transfer of security structures to the professional service companies continued in the reporting year.

Development of engineering and technical security systems also continued. An X-ray scanning system designed for checking aviation cargo, was installed at the Alykel airport.

Within the program of international cooperation in business security, the Head Security Department office initiated the development and promotion of an international system of counteracting an illegal trafficking of precious metals as a way of financing extremist and terrorist activities. This initiative received a large-scale support from business community and was approved by respectable representatives of foreign state institutions and international organizations. Based on the results of consideration of the Group's initiative, it was decided to create an international working group with the aim of developing a unified system of certification of batches of raw materials containing precious metals, intended to act as an efficient security barrier against criminal supplies of the Group's products.

For 2007, the Group plans to continue its efforts on implementation of the comprehensive program aimed at increasing the efficiency of counteraction to those who perpetrate theft of precious and base metals, on implementation of new engineering and technical systems, on development of the information security policy and strategy in the course of the Group's reform, as well as increasing general labor discipline of the Group's personnel.



Share capital  
and share prices

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Share capital  
and share prices



chapter

16

# Share capital and share prices



As of 31 December 2006, MMC Norilsk Nickel had an issued share capital of 190,627,747 ordinary shares with a par value of RUR 1 per share, of them, 7,498,950 shares were held by the Company after they were purchased from the shareholders.

## Purchase of shares

On 5 October 2006, the Board of Directors passed a resolution to purchase up to 7,500,000 shares of MMC Norilsk Nickel at the average market price over the past 3 months, i.e. at RUR 3,510 (USD 129.1) per share. Applications to sell shares were accepted by the Group from 16 October to 16 November 2006. The number of shares purchased by the Group from each shareholder having applied for sale of shares was determined on a pro-rata basis. The number of shares specified in the requests made by the shareholders was 97,035,124. This exceeded the number of shares that the Group planned to purchase; therefore, the shares were purchased on a ratio of 0.0772916001. The shares were purchased from 17 November to 17 December 2006. As a result, the Group purchased 7,498,950 shares for a total amount of RUR 26.3 billion (USD 967.4 million). The shares purchased by the Group were fully paid for before the end of December 2006.

According to clause 3, article 72 of the Federal Law "On Joint Stock Companies", shares purchased by the Company carry no voting rights, are not taken into account in vote counting and do not participate in dividends distribution. Such shares should be sold at a price not lower than their market value within one year after they were

purchased. Otherwise, the General Shareholder Meeting should make a decision to decrease the share capital of the Company through the redemption of the indicated shares.

## Decrease of the share capital

On 17 February 2006, at an Extraordinary General Meeting of MMC Norilsk Nickel Shareholders, it was decided by a majority vote, to decrease the Company's share capital through the redemption of the purchased and bought-back shares.



On 17 February 2006, the date of the Extraordinary General Meeting of Shareholders, the issued share capital of MMC Norilsk Nickel comprised 213,905,884 ordinary shares with a par value of RUR 1 each. Following the purchase of shares by the Group in the period from January to February 2005, and the buy-back from shareholders due to the reorganization of MMC Norilsk Nickel in the form of separation in November and December 2005, the share capital of the Company was decreased by 23,278,137 shares to 190,627,747 ordinary shares, with a par value of RUR 1 each.

The respective changes and amendments to the Company Charter were registered in the Unified State Register of Legal Entities on 17 March 2006.

#### Additional swap of shares of RAO Norilsk Nickel for shares of MMC Norilsk Nickel

In July 2005, the Company decided to conduct another additional swap of shares of RAO Norilsk Nickel for shares of MMC Norilsk Nickel for all shareholders of RAO Norilsk Nickel who did not use their right to perform this transaction earlier.

A share swap with the ratio 1:1 was started on 1 August 2005 and ended on 31 July 2006. A total of 324,465 shares were swapped. The treasury stock of MMC Norilsk Nickel was used in the swap.

#### Share tickers

Trading floor	Bloomberg code	Reuters code
RTS – Moscow, Russia	GMKN RU	GMKN.RTS
MICEX – Moscow, Russia	GMKN RM	GMKN.MM

#### International share identification codes

Description	Code
ISIN	RU0007288411
SEDOL	7131431

#### Shares

In Russia, the shares of MMC Norilsk Nickel are traded on the CJSC MICEX Stock Exchange (MICEX) and the OJSC RTS Stock Exchange (RTS).

On 12 December 2006, at the request of the Company and on the basis of the Resolution of the FCSM of Russia No. 03-18/nc, dated 01.04.2003 and entitled "On the procedure for the merger of additional issues of securities", the Federal Service on Financial Markets made a decision to merge the two issues of the Group's shares: No.1-04-40155-F and No.1-05-40155-F. The shares of the indicated issues had the same par value and carried a similar set of shareholder rights. This initiative of the Group was due to the fact that simultaneous flotation of the two issues on the stock market created certain complications for the market participants. The merged issue was assigned the state registration number 1-01-40155-F.

Beginning from 1 January 2007, the servicing of trading in the Group's shares on the RTS Classical Market was transferred from NP RTS to OJSC RTS. This decision was due to technical reasons related exclusively to the RTS Group business reorganization. On 29 December 2006, the Company's shares were included in Quotation List B of OJSC RTS. The trading in the Company's shares included in the Quotation List commenced in OJSC RTS on 9 January 2007.

#### Prices and volume of MMC Norilsk Nickel shares<sup>(1)</sup>

##### Share prices on the RTS (US Dollars)

	Minimum	Maximum	At the end of the period	Volume (pcs.)
2001	6.50	20.85	17.02	3,734,158
2002	15.00	25.10	20.25	7,850,368
2003	20.25	66.00	65.15	7,160,086
2004	44.00	81.10	54.40	8,830,055
2005	51.10	90.80	88.60	10,501,327
<b>2006</b>	<b>75.80</b>	<b>157.00</b>	<b>157.00</b>	<b>8,108,946</b>
1st quarter	75.80	96.00	94.30	2,474,991
2nd quarter	91.00	156.50	130.00	1,966,944
3rd quarter	112.00	145.80	126.40	1,999,955
4th quarter	121.00	157.00	157.00	1,667,056
<b>2007</b>				
1st quarter	135.50	189.00	185.05	1,270,459

##### Share prices on the MICEX (Roubles)

	Minimum	Maximum	At the end of the period	Volume (pcs.)
2001	288.00	518.00	512.89	1,344,943
2002	456.20	794.50	647.00	21,811,326
2003	612.86	2,021.00	1,896.59	36,438,344
2004	1,190.00	2,357.50	1,519.48	90,510,398
2005	1,405.00	2,617.00	2,557.53	156,626,894
<b>2006</b>	<b>2,117.00</b>	<b>4,270.00</b>	<b>3,963.62</b>	<b>217,551,025</b>
1st quarter	2,117.00	2,702.80	2,604.94	29,830,135
2nd quarter	2,400.00	4,270.00	3,470.75	71,472,477
3rd quarter	2,951.00	3,919.80	3,395.92	60,868,280
4th quarter	3,152.11	4,160.75	3,963.62	55,380,133
<b>2007</b>				
1st quarter	3,657.00	4,955.00	4,816.83	76,298,364

#### Note:

(1) Before the 4th quarter of 2001 – RAO Norilsk Nickel shares, after the 4th quarter 2001 – MMC Norilsk Nickel shares.



## American Depository Receipts

In June 2001, the Company signed a depository agreement with The Bank of New York, under which the issue of Level-1 ADRs for MMC Norilsk Nickel shares was initiated. Custodial services for ADR transactions are rendered by the depository of ING Bank (EUROPE) ZAO. ADRs convert into Company shares at a 1:1 ratio.

The ADRs are traded in the USA Over the Counter (OTC) market, on the London Stock Exchange IOB and on the Freiverkehr, Berlin-Bremen Stock Exchange.

According to FSFM Regulation "On the procedure for issuing permits by the Federal Service on Financial Markets for an offer and (or) floatation of issue securities of Russian issuers outside of the Russian Federation", the number of shares of a Russian issuer it plans to offer and/or float outside of the Russian Federation, including by offering foreign securities, should not exceed 35% of the overall number of the outstanding shares of the Russian

issuer of the same share category. As the Group launched its Level-1 ADR program before this Regulation was put into effect, the cap for the number of foreign securities offered remained the same – 40% of the overall number of shares outstanding.

As of 31 December 2006, the total number of ADRs issued for the shares of MMC Norilsk Nickel amounted to 76,251,098, or 40% of the Company's share capital.

The Group regularly and opportunely provides information to all ADR holders in English language, according to Rule 12g3-2(b) of the USA law "On securities and exchanges" of 1934.

### ADR tickers

Trading floor	Bloomberg code	Reuters code
OTC Market – New York, USA	NILSY US	NILSY.PK
IOB, London Stock Exchange – London, UK	MNOD LI	NKELYq.L
Freiverkehr, Berlin-Bremen Stock Exchange – Berlin, Germany	NNIA GR	NKELY.F

### International ADR identification codes

Description	Code
ISIN	US46626D1081
CUSIP	46626D108
SEDOL	B114RK6

## Prices and volume of MMC Norilsk Nickel ADRs

### ADR prices on OTC – New York, USA (US Dollars)

	Minimum	Maximum	At the end of the period	Volume (pcs.)
2001	10.71	17.50	17.25	1,527,300
2002	14.90	24.75	20.18	12,028,800
2003	20.05	26.60	67.25	39,510,754
2004	43.65	83.00	55.00	32,419,007
2005	48.75	96.50	94.01	17,254,881
<b>2006</b>	<b>71.75</b>	<b>164.00</b>	<b>160.00</b>	<b>14,171,848</b>
1st quarter	71.75	104.25	97.50	4,525,171
2nd quarter	91.00	162.60	130.00	4,878,370
3rd quarter	111.50	148.00	127.00	2,664,985
4th quarter	120.50	164.00	160.00	2,103,322
<b>2007</b>				
1st quarter	141.30	193.00	191.25	3,675,479

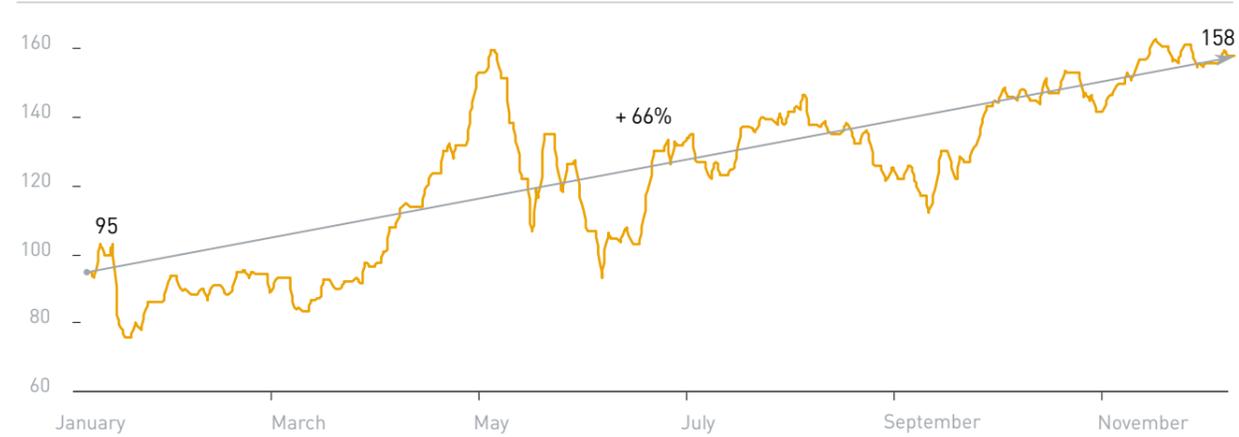
### ADR prices on IOB London Stock Exchange – London, UK (US Dollars)

	Minimum	Maximum	At the end of the period	Volume (pcs.)
2001	10.90	17.05	17.00	6,055,355
2002	15.03	24.85	20.00	49,149,956
2003	19.80	26.70	66.50	85,915,689
2004	43.20	82.70	55.50	134,014,252
2005	49.00	99.00	95.00	115,203,690
<b>2006</b>	<b>71.70</b>	<b>165.00</b>	<b>158.00</b>	<b>106,040,650</b>
1st quarter	71.70	103.90	96.70	23,712,744
2nd quarter	91.00	165.00	130.00	35,995,616
3rd quarter	111.25	148.50	130.00	22,369,260
4th quarter	120.00	163.50	158.00	23,963,030
<b>2007</b>				
1st quarter	141.00	192.00	190.00	35,878,550

### ADR prices on Berlin-Bremen Stock Exchange – Berlin, Germany (Euros)

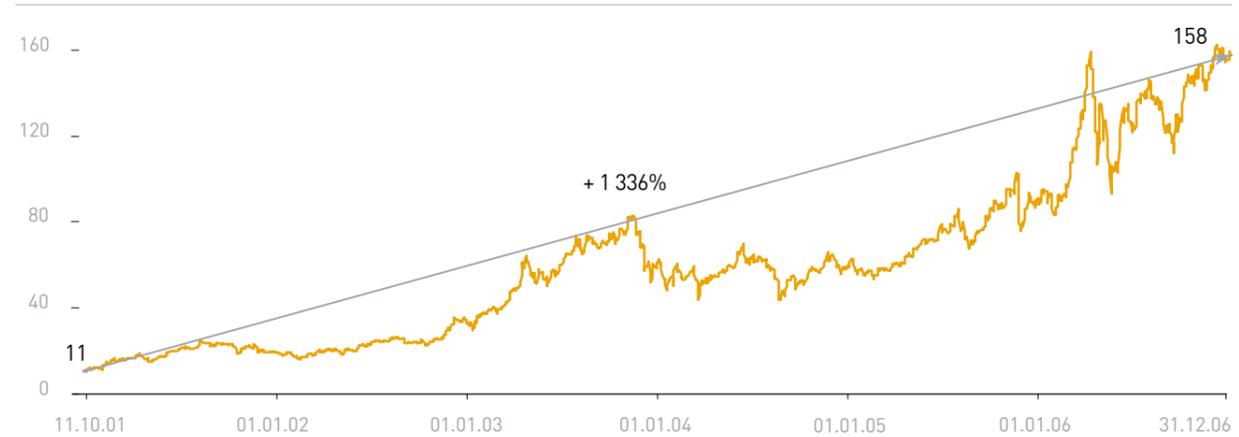
	Minimum	Maximum	At the end of the period	Volume (pcs.)
2001	12.45	19.50	19.00	88,268
2002	16.30	30.00	20.00	336,456
2003	18.50	56.50	52.04	707,596
2004	33.00	71.00	39.80	1,472,671
2005	36.10	81.40	80.10	1,159,655
<b>2006</b>	<b>62.10</b>	<b>129.00</b>	<b>119.00</b>	<b>1,861,978</b>
1st quarter	62.10	86.20	80.10	561,839
2nd quarter	72.00	129.00	102.00	791,141
3rd quarter	86.89	115.30	101.50	292,470
4th quarter	94.00	123.99	119.00	216,528
<b>2007</b>				
1st quarter	107.50	146.75	142.00	322,281

ADR prices in 2006 (IOB London, US Dollars)



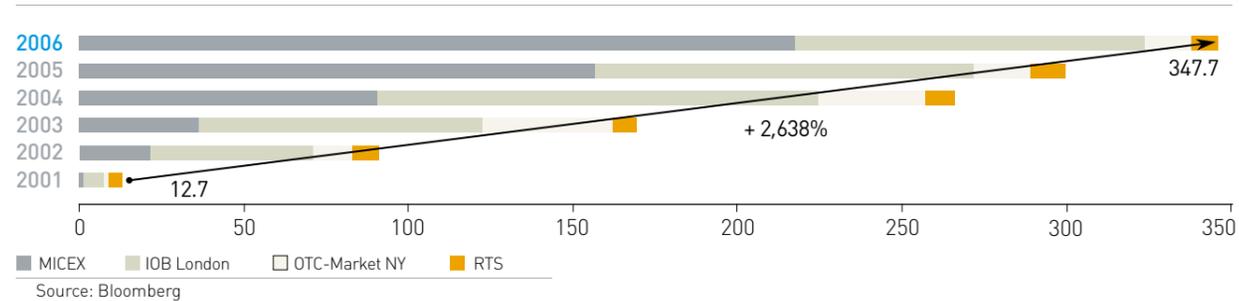
Source: Bloomberg

History of ADR price (IOB London, US Dollars)



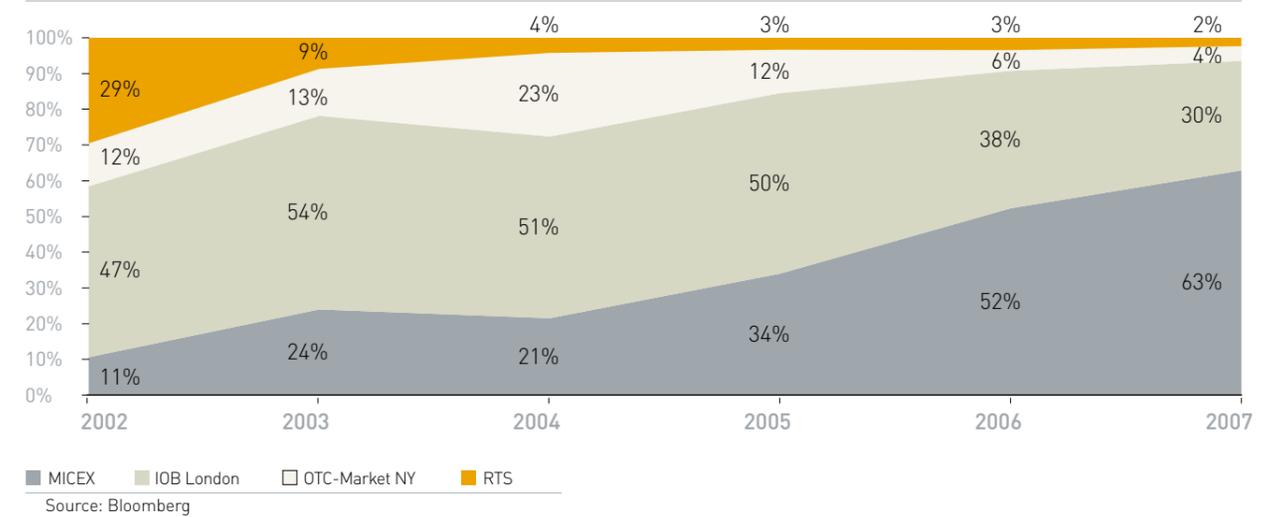
Source: Bloomberg

Volume of trading dynamics on stock exchanges  
(million of shares)



Source: Bloomberg

Changes of stock exchange shares in the overall volume of trading



Source: Bloomberg

### Stock indices

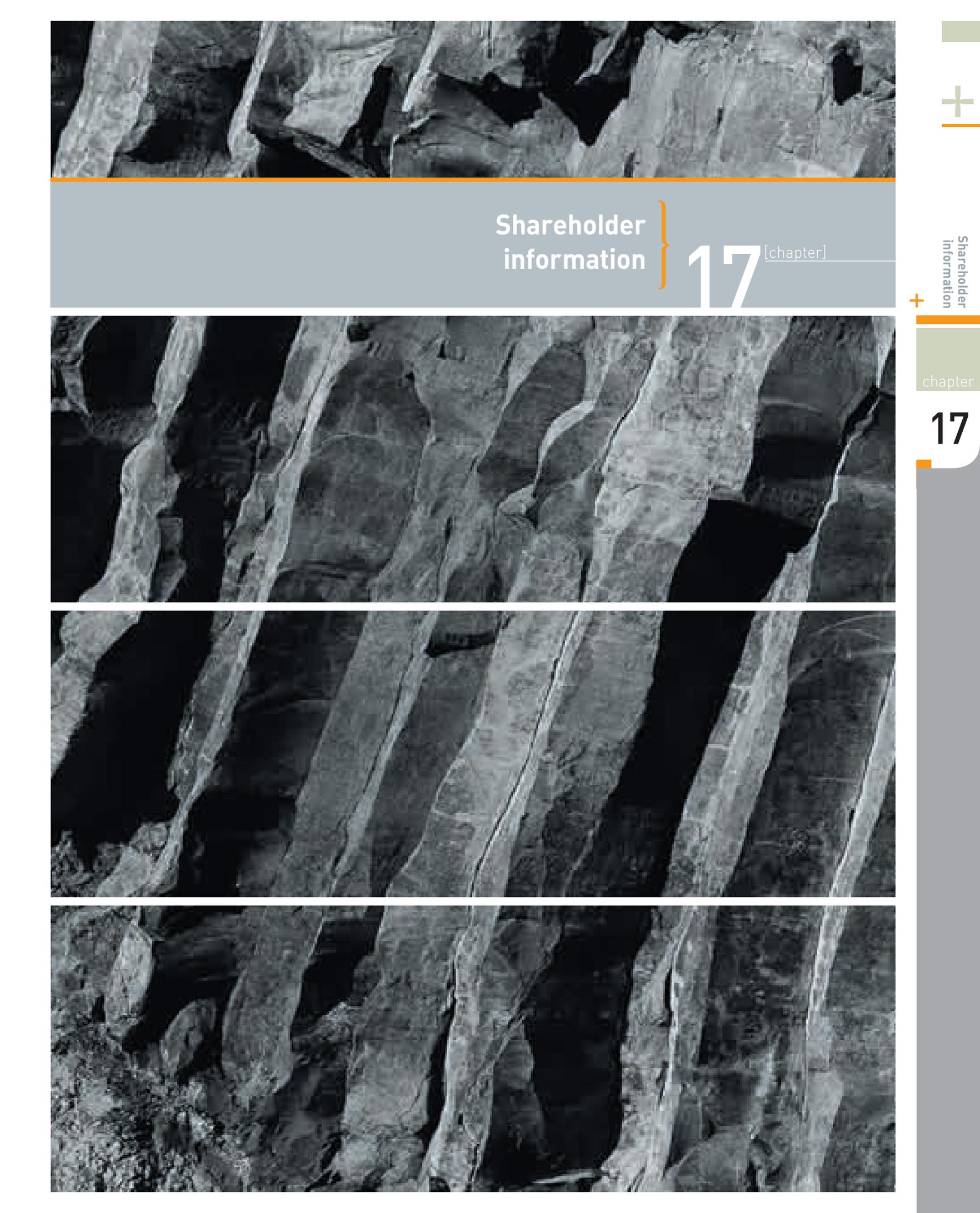
The market capitalization indicator of the Company is used in the calculation of the key stock indices, both Russian and of the leading international institutions and trade organizers.

### Company's share incorporated in the key indices

Index	Company's share, %
RTS Index	6.4
RTS Index – Metals and mining	25.0
MICEX Index	12.6
RTS Index – Interfax	9.1
AK&M Index	5.5
Dow Jones Russia Titans Index	16.2
LSE FTSE Russian IOB Index	9.6
Vienna Stock Exchange Index – RTX	8.1
MSCI Russia Index	5.5
CSFB Russia Index	5.2
HSBC Emerging Europe 220 Index	1.3
HSBC Global Mining Diversified Mining Index	3.4

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Shareholder  
information

17 [chapter]



Shareholder  
information



chapter

17



Performance of MMC Norilsk Nickel shares in the RTS and selected mining indices  
(MMC Norilsk Nickel shares in US Dollars, indices adjusted to MMC Norilsk Nickel share price)



MMC Norilsk Nickel major shareholders<sup>(1)</sup>  
(stakeholders holding over 1% of the share capital as of 15 May 2007)

Company name	Number of shares, million	% of the share capital
The Bank of New York International Nominees <sup>(2)</sup>	42.2	22.1%
Bonico Holdings Co. Limited <sup>(3)</sup>	31.7	16.6%
Coverico Holdings Co. Limited <sup>(3)</sup>	23.2	12.2%
ZAO KM Invest	14.1	7.4%
Bektanco Holdings Co. Limited <sup>(4)</sup>	13.8	7.2%
Rinsoco Trading Co. Limited <sup>(5)</sup>	13.8	7.2%
OJSC MMC Norilsk Nickel	7.5	3.9%
Templeton Asset Management (Hong Kong) Ltd.	3.3	1.7%
Blackrock Investment Management (UK) Ltd.	3.0	1.6%
JP Morgan Asset Management (UK) Ltd.	2.5	1.3%
Other shareholders	35.5	18.6%
<b>Total</b>	<b>190.6</b>	<b>100.0%</b>

**Notes:**

(1) The total number of shareholders in the Register included 64 legal entities (including 17 nominal holders) and 56,690 individuals.

(2) The nominal holder, which renders depository services for the Company. The amount of ADRs excludes the ADRs held by Bektanco Holdings Co. Limited, Rinsoco Trading Co. Limited, Templeton Asset Management (Hong Kong) Ltd., Blackrock Investment Management (UK) Ltd., JP Morgan Asset Management (UK) Ltd.

(3) The beneficiary of these companies are Mr. V.O. Potanin and Mr. M.D. Prokhorov.

(4) The beneficiary of this company is Mr. V.O. Potanin.

(5) The beneficiary of this company is Mr. M.D. Prokhorov.

## Shareholder information

### + Shareholder rights

In accordance with the provisions of Article 31 of Federal Law No. 208-ФЗ "On joint stock companies" dated 26 December 1995, all ordinary shares grant their holders equal rights.

In accordance with Russian legislation and the Company Charter, shareholders of MMC Norilsk Nickel have the rights to:

- participate in the General Meeting of Shareholders and vote on all issues;
- receive dividends;
- receive part of Company property upon liquidation;
- dispose of their shares;
- exercise the preemptive right to purchase additional shares and securities, convertible into shares placed by open subscription, in a quantity proportionate to the number of shares of the respective category held by them;
- receive information on the Company's activities in accordance with the Federal Law and other regulations of the Russian Federation, as well as the Company Charter;
- read the agenda of the Annual General Meeting of Shareholders before it is held;
- exercise other rights, as provided by the Federal Law and other regulations of the Russian Federation, the Company's Charter and the decisions of the Annual General Meeting of Shareholders.

Shareholders included in the list of persons eligible to participate in the General Meeting of Shareholders and holding:

- at least 1% of the Company's ordinary voting shares may have access to the list in accordance with clause 4 of Article 51 of the Federal Law;
- at least 2% of the Company's ordinary voting shares may add issues to the agenda of the Annual General Meeting of Share-



holders and nominate candidates to the Company's Board of Directors, the collective executive body, the Auditing Commission and the Counting Commission, the number of which may not exceed the number of members in the respective body, as well as a candidate for the Company's sole executive body;

- at least 10% of the Company's ordinary voting shares may demand that an Extraordinary General Meeting of Shareholders be convened.

Holders of voting shares may demand that the Company buys out all or part of their shares in the following cases:

- Company reorganization or entrance into a major transaction, subject to the approval by the Annual General Meeting of Shareholders in accordance with clause 3 of Article 79 of the Federal Law, if they voted against the decision to reorganize or approve the said transaction or did not participate in the voting on these issues;
- Amendments to the Company Charter or approval of the new version of the Company Charter that limit their rights if they voted against the decision or did not participate in the voting.

In accordance with clause 5 of Article 32 of the Federal Law, a person that intends to acquire more than 30% of the total number of the Company's ordinary voting shares, including the shares held by such person and its affiliates, may send, to the Company, a public offer addressed to shareholders of the Company's shares to buy out their shares in the Company.

### Company's shares

Company's shares are traded in the RTS and on the MICEX.

American Depositary Receipts (ADRs) for the ordinary shares of MMC Norilsk Nickel are traded on OTC markets in New York, London and Berlin (see more detailed information on Company's shares in the Share capital and share prices section).

### Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on 28 June 2007 at 13:00 (Moscow time) at 49, Leningradsky prospect, Moscow. Registration of the participants of the Annual General Meeting of Shareholders of MMC Norilsk Nickel will start on 28 June 2007 at 9:00 (Moscow time).

Voting at the Annual General Meeting of Shareholders is on a one share – one vote basis, unless otherwise provided for by the Federal Law. The members of the Company's Board of Directors are elected by cumulative vote, with the number of votes held by each shareholder multiplied by the number of persons to be elected to the Board of Directors.

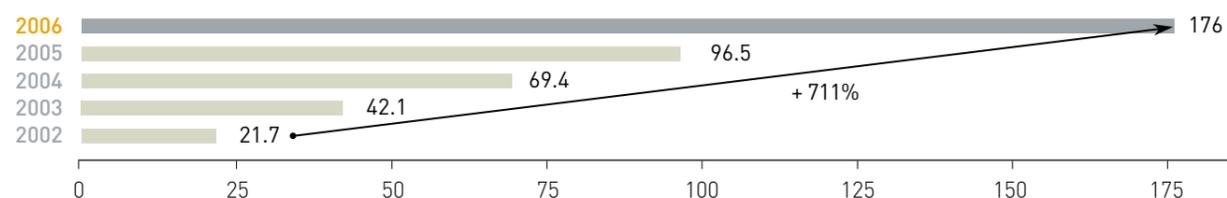
### Dividend distribution

According to MMC Norilsk Nickel's dividend policy, approved by the Board of Directors in 2002, the Company distributes between 20% to 25% of its IFRS net profit for the year as dividends.

The decision to distribute dividends on the Company's ordinary shares, and on the amount of dividends is taken by the Annual General Meeting of Shareholders. The Company pays dividends via postal and/or bank transfer. The method of dividend payment to a particular shareholder shall be indicated in the registered person questionnaire, to be completed and signed by each shareholder that has an account in the Company's shareholder register. The shareholders may complete and submit the registered person questionnaire to the offices of our Registrar, ZAO "National Registration Company," at the addresses specified in the Contact information section.

If a shareholder opts to receive dividends via bank transfer, the registered person questionnaire should specify the full details of his bank account opened with any bank in the Russian Federation. The Company announces dividends per share in Roubles.

Dividends paid by the Company (Roubles)



In accordance with Article 42 of the Federal Law, the timing of dividend distribution is established by the Charter or by decision of the Annual General Meeting of Shareholders on dividend distribution. If the Charter does not define the timing for dividend distribution, such timing should not exceed 60 days from the decision on distribution of dividends. The list of persons entitled to dividends is compiled as of the date of preparation of the list of persons eligible to participate in the Annual General Meeting of Shareholders, which decides on the distribution of the respective dividends.

Considering the successful performance of the Group, reflecting sustained favorable metal prices in 2006, the Company continued the practice of interim dividend distribution.

The Extraordinary General Meeting of Shareholders on 24 November 2006 approved distribution of interim dividends for 9 months of 2006 of RUR 56 (USD 2.1<sup>1</sup>) per one ordinary share.

Based on the financial and operating results for 2006, the Board of Directors proposed, for approval, at the General Shareholders Meeting of MMC Norilsk Nickel to be held on 28 June 2007 dividends for 2006 of 176 Roubles (USD 6.7) per one ordinary share. Therefore, taking into account dividends already distributed for the 9 months of 2006, the additional dividends for 2006 will amount to RUR 120 (USD 4.6<sup>1</sup>) per one ordinary share.

Recently, the Company has been continuously and consistently increasing its dividend distributions. Dividends for 2006 exceed dividends for 2005 by 82%, and dividends for the period from 2002 to 2006 increased by more than 7 times.

#### 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.

### Description of the taxation procedure for income received by legal entities and individuals on securities in accordance with Russian tax legislation

Income received on the ordinary shares of MMC Norilsk Nickel is taxed in accordance with the effective Russian tax legislation (Chapter 23 – Personal Income Tax and Chapter 25 – Corporate Income Tax of the Russian Tax Code (Tax Code)).

#### Taxation of income from the sale of securities

##### 1. Taxation of individuals' income from the sale of securities

The taxation procedure for the income of individuals from the sale of securities is established by Chapter 23 – Personal Income Tax of the Tax Code (Article 214-1 of the Tax Code).

Income (loss) on purchase and sale of securities is defined as the aggregate income on all transactions with securities of the respective category made within a tax period, net of losses.

Income (loss) on purchase and sale of securities is defined as the difference between the sales proceeds and the documented expenses on the purchase, sale and holding of securities actually incurred by the taxpayer.

The documented expenses may be deducted by a taxpayer when the tax is being calculated and paid to the budget at the source of disbursement of income (a broker, trustee, unit investment trust management company or another person accomplishing transactions under an agency agreement or another agreement of similar nature for the taxpayer's benefit) or upon the expiration of the tax period when the tax return is filed with the tax authorities.

If securities were sold before 1 January 2007 and had been held by a taxpayer resident in Russia for tax purposes for more than three years, such individual may use a property deduction as provided by sub-clause 1 of clause 1 of Article 220 of the Tax Code. In such cases, the property deduction granted to the taxpayer is equal to the full amount received by the taxpayer from the sale of the securities.

The tax base on securities sale and purchase transactions includes income received in the tax period from securities transactions.

The tax base on securities sale and purchase transactions is determined after the end of the tax period. The tax is calculated and paid by the tax agent after the end of the tax period or upon distribution of funds to the taxpayer before the expiration of the tax period.

In accordance with the current legislation, the tax agent functions, under such transactions, may be performed by a broker, trust manager or another person accomplishing transactions under an agency agreement or another agreement of similar nature for the taxpayer's benefit.

Based on the above, the Company will not act as the tax agent on this income unless it has the above listed relations with the shareholders.

If the source of payment is unable to withhold the assessed tax amount, the tax agent (broker, trust manager or another person accomplishing transactions under an agency or brokerage agreement or another agreement of similar nature for the taxpayer's benefit) shall notify, in writing, the tax authority where it is registered of its inability to withhold the tax and of the amount of such tax within one month.

In this case and also where the sale and purchase of securities took place without the involvement of a person recognized as a tax agent, the tax shall be paid by the taxpayer (Article 228 of the Tax Code) on the basis of a tax return (Article 229 of the Tax Code) filed with the tax authorities.

The tax rate established for this type of income for individuals resident in the Russian Federation for tax purposes is 13% (Article 224 of the Tax Code).

The tax rate established for this type of income for individuals not resident in the Russian Federation for tax purposes is 30% (Article 224 of the Tax Code).

#### 2. Taxation of legal entities' income from the sale of securities

The taxation procedure for incomes of legal entities from the sale of securities is established by Chapter 25 – Corporate Income Tax of the Tax Code (Article 280 of the Tax Code).

The Tax Code establishes a special procedure to account for profit and loss on securities sale.

The Taxpayer's income on the sale or other disposal of securities (including redemption) is determined on the basis of the price of the sale or other disposal of securities, plus the amount of accumulated interest (coupon) income paid by the buyer to the taxpayer and interest (coupon) income paid to the taxpayer by the issuer.

Expenses incurred on the sale (or other disposal) of securities are defined by reference to the price of acquisition of the security (including expenses on the acquisition), expenses on its sale and amount of accumulated interest (coupon) income paid by the taxpayer to the seller.

For tax purposes, the market value of securities traded in the organized securities market is assumed to be equal to its actual transaction price if the actual transaction price is in the range between the minimum and maximum price (price range) of transactions with the concerned security as registered by the securities market trade organizer as at the date of the transaction.

The tax base for a securities transaction is determined by the taxpayer separately. The taxpayers should determine the tax base for transactions with securities traded in an organized securities market separately from the tax base on transactions with securities not traded in an organized securities market.

Taxpayers that incurred losses from securities transactions in the previous tax period(s) may reduce the current period's tax base on securities transactions (carry forward the loss) in the manner established by the Tax Code.

The tax rate established for Russian entities and foreign entities operating through a permanent establishment in Russia is 24% (Article 284 of the Tax Code).

Foreign entities not operating in the Russian Federation through a permanent establishment and receiving income from sources in the Russian Federation, in particular income from the sale of shares in Russian companies with more than 50% of assets composed of real estate located in the Russian Federation and financial instruments derived from such shares, are taxed by withholding tax (Article 309 of the Tax Code). In this case, the source of income payment acts as the tax agent liable to assess, withhold and remit tax to the budget indicating the type of income (Article 310 of the Tax Code).

In determining the tax base for this income, it may be reduced by expenses incurred in the manner specified in the Tax Code (Article 309 of the Tax Code).

Then, the difference between income from the sale of shares and expenses of the foreign entity from their sale is liable to tax at the rate of 24% (Article 310 of the Tax Code and Article 284 of the Tax Code).

If these expenses are not deductible for tax purposes, income is taxed at 20% (Article 284 of the Tax Code).

Tax withheld from the income of foreign entities should be remitted by the tax agent to the federal budget simultaneously with the payment of income, in the currency of income payment or in Russian currency at the official rate of the Central Bank of the Russian Federation, effective on the date of remittance.

#### Taxation of dividends received on securities

##### 1. Taxation of dividends received on securities by individuals

The taxation procedure for dividend income of individuals is established by Chapter 23 – Personal Income Tax of the Tax Code.

If the source of a taxpayer's dividend income is a Russian entity, the entity is recognized as the tax agent and shall calculate the tax for each taxpayer separately for each distribution of income in the manner established by the Tax Code (Article 214 of the Tax Code).

Thus, MMC Norilsk Nickel will act as the tax agent for the dividend income of individuals holding its stock.

The tax rate is equal to 9% for dividend income from equity participations received by individual residents of the Russian Federation for tax purposes (article 224 of the Tax Code).

The tax rate is equal to 30% for dividend income from equity participation received in the form of dividends by individual non-residents of the Russian Federation for tax purposes (article 224 of the Tax Code).

Tax agents must withhold the tax directly from the taxpayer's income upon actual distribution.

Therefore, when paying dividends to individuals holding its shares, the Company will withhold the dividend income tax in the amount established by legislation.

The tax agent shall withhold the assessed amount of tax out of any monetary resources which are payable by the tax agent to the taxpayer when those monetary resources are actually paid to the taxpayer or to a third party on behalf of the taxpayer.

If the tax agent is unable to withhold the assessed tax amount from the taxpayer, it shall notify, in writing, the tax authority with which it is registered of its inability to withhold tax and the amount of such tax, within one month from the date when such inability occurs.

Shareholders should take into account that income tax may not be paid out of the funds of tax agents (Article 226 of the Tax Code).

##### 2. Taxation of dividends received on securities by legal entities

The taxation procedure for dividend incomes of legal entities is established by Chapter 25 – Corporate Income Tax of the Tax Code.

For Russian taxpayers, the tax base for dividend income received from equity participations in other entities is determined by the tax agent on the basis of the peculiarities specified in the Tax Code (Article 275 of the Tax Code).

Therefore, MMC Norilsk Nickel will act as the tax agent for this income.

The amount of tax withheld from the dividend recipient shall be assessed by the tax agent on the basis of the total amount of tax assessed as prescribed by the Tax Code and the share of each taxpayer in the total amount of dividends.

If a Russian tax agent pays dividends to a foreign entity and/or individual non-resident of the Russian Federation, the tax base of the dividend recipient for each disbursement is determined as the amount of dividends distributed and a tax rate established by the Tax Code for the respective type of income is applicable (Article 275 of the Tax Code).

Dividend income is taxed at the following rates:

- 9% – dividend income received from Russian entities by Russian entities and individuals resident in the Russian Federation for tax purposes;
- 15% – dividend income received from Russian entities by foreign entities and dividend income received by Russian entities from foreign entities (Article 284 of the Tax Code).

##### 3. Peculiarities of dividend income taxation established by the Russian Tax Code

The Tax Code establishes a special procedure for assessing the tax which the Russian tax agent shall withhold and pay to the budget on dividend income paid to shareholders residents of the Russian Federation for tax purposes.

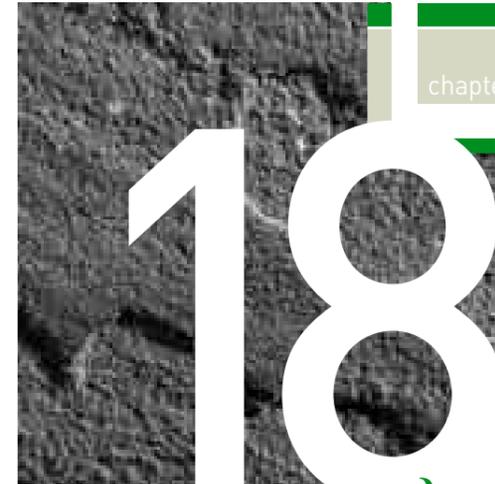
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18



The total amount of tax is defined as the multiple of the dividend income tax rate for Russian tax residents and the difference between the amount of dividends distributable between shareholders (members) in the current tax period, decreased by dividends paid by the tax agent to shareholding non-residents of the Russian Federation for tax purposes in the current tax period and dividends received by the tax agent in the current reporting (tax) period and previous reporting (tax) period, unless such amounts participated in the determination of taxable dividend income earlier. If the difference is negative, no tax payment liability arises and no reimbursement from the budget is made (Article 275 of the Tax Code).

130 { **Taxation of income from securities on the basis of international treaties**

If a tax treaty of the Russian Federation contains provisions concerning taxation and establishes rules and standards other than those provided by the Tax Code or other tax regulations adopted in accordance with it, the terms and provisions of the tax treaties of the Russian Federation shall prevail (Article 7 of the Tax Code).

When applying the provisions of the Russian tax treaties, a foreign entity shall provide the tax agent with a confirmation that it has permanent residence in a country that has an international treaty with the Russian Federation regulating tax issues, certified by a relevant government authority of the foreign country.

Board of Directors of MMC Norilsk Nickel <sup>(1)</sup>

Member of the Board of Directors	Biography/positions
 <p><b>Andrey Alexandrovich Klishas</b></p>	<p><b>Chairman of the Board of Directors since 2001</b></p> <p>Born in 1972. In 1993, graduated from the Urals State University with a degree in history of philosophy. In 1998, received a bachelor's degree in law from the Peoples Friendship University of Russia (PFUR). In 2000, graduated with honors from the PFUR post-graduate school with a master of law degree.</p> <p>From 1998 to 2001 – Director on legal issues, Deputy General Director of CJSC Holding Company Interros.                      From 1999 to 2003 – Member of the Board of Directors of OJSC AKB Rosbank.                      From 2000 to 2001 – Member of the Board of Directors of OJSC Sidanko.                      From 2001 to 2002 – Member of the Board of Directors of OJSC Federal Contracting Corporation Roskhleboprodukt.                      From 2002 to 2005 – Member of the Board of Directors of OJSC Power Machines.                      From 2003 to 2006 – Member of the Supervisory Board of OOO Fincom – Investment and Management.</p> <p>Since 1998 – Member of the Board of Directors of RAO Norilsk Nickel.                      Since 2001 – Chairman of the Board of Directors of RAO Norilsk Nickel.                      Since 2001 – General Director and Chairman of the Management Board of CJSC Holding Company Interros.                      Since 2002 – Member of the Board of Directors of CJSC Agricultural Complex Agros.                      Since 2003 – Member of the Expert Council under the Interior Ministry of the Russian Federation.</p>



Member of the Board of Directors    Biography/positions

Since 2004 – Chairman of the Board of Directors of OJSC AKB Rosbank.  
Since 2006 – Member of the Board of Directors of OJSC Polyus Gold and OOO Roza Hutor.

PhD in law; associate professor at the constitutional and municipal law division of the PFUR legal faculty, and associate professor at the constitutional and municipal law division of the Moscow University of the Ministry of the Interior of the Russian Federation. Decorated with Order of the Russian Orthodox Church 'Saint Blessed Duke Daniel of Moscow' of the 3rd class and a memorable badge of the Russian Orthodox Church 'Sanctifier Nicholas' of the 1st class.



Andrei  
Evgenyevich  
Bougrov

Member of the Board of Directors since 2002, Member of the Audit Committee since 2004

Born in 1952. After graduation from the Moscow State Institute of International Relations (MSIIR), enrolled in the MSIIR post-graduate school; after graduation he received a PhD in economics.

From 1993 to 2002 – acted as the Representative of the Russian Federation with the World Bank Group, and Executive Director of the International Bank for Reconstruction and Development, International Finance Corporation and Investment Guarantee Agency. From 2002 to 2003 – Member of the Board of Directors of OJSC Power Machines; Chairman of the Board of Directors and President of OJSC AKB Rosbank.

From 2002 to 2004 – Deputy Chairman of the Management Board of CJSC Holding Company Interros.

From 2002 to 2006 – Member of the Committee on financial markets and credit organizations under the Russian Chamber of Commerce.

From 2003 to 2005 – Member of the Board of Directors of OJSC Russian Utility Systems. From 2003 to 2006 – Chairman of the Supervisory Board of OOO Fincom – Investment and Management.

From 2003 to 2007 – Director of AIG-Interros Advisor, Ltd; Director of AIG-Interros RCF, Ltd.

From 2004 to 2006 – Chairman of the Board of Directors of CJSC Prof-Media Publishers.

From 2004 to 2007 – Chairman of the Board of Directors of OJSC Open Investments.

In 2005 – Member of the Board of Directors of OJSC Territorial Generating Company No. 1 and OJSC Power Machines.

Since 2002 – Member of the Board of the Non-Governmental Public Association Council for external and defense policy, and Board for financial markets and credit organizations under the Russian Chamber of Commerce.

Since 2003 – Member of the Board of Directors of OJSC AKB Rosbank.

Since 2004 – Managing Director and Member of the Board of Directors of CJSC Holding Company Interros; Member of the Board of Directors of OJSC RAO UES of Russia.

Since 2005 – Chairman of the Board of Directors of OOO Prof-Media Management.

Since 2006 – Member of the Board of the Russian Union of Industrialists and Entrepreneurs and the Bureau of Economic Analysis Fund; Member of the Board of Directors of IST Capital GP LLC.

Since 2007 – Chairman of the Board of Directors of OJSC OGG-3.

Member of the Board of Directors    Biography/positions



Vladimir  
Ivanovich  
Dolgikh<sup>(2)</sup>

Member of the Board of Directors since 2001

Born in 1924. In 1941, volunteered for combat in World War II. Participated in military operations of the Sixth Guard Division at the Bryansk Front. In 1949, graduated with honors from the Irkutsk Mining Institute with a degree in metallurgic engineering.

From 1966 to 1990 – Deputy of the Supreme Soviet of the USSR.

From 1969 to 1972 – First Secretary of the Krasnoyarsk regional CPSU Committee.

In 1972 – elected Secretary of the Central Committee of the CPSU.

From 1982 to 1988 – Candidate to the Political Bureau of the CPSU Central Committee.

Since 1992 – Chairman of the Management Board, Krasnoyarskoye Zemlyachestvo Society.

Since 1998 – a pensioner.

Since 1999 – Member of the Board of Directors of RAO Norilsk Nickel.

Since 2002 – Chairman of the Moscow City Council of Veterans of war, labor, armed forces and law enforcement agencies.

Doctor of Engineering. Twice Hero of Socialist Labor. Also decorated with six Lenin Orders, two Patriotic War orders of the 1st class, as well as many medals and orders of foreign countries. In 2006, granted the Moscow city award "Legend of the Century."



Ralph  
Tavakolian  
Morgan

Member of the Board of Directors since 2005

Born in 1968. Graduated from Yale University with a BA in political science and international relations, then received a master's degree in economics and law from Oxford University.

Advised Committee of State Property of Kazakhstan. Then worked in Kyrgyzstan. Participated in the establishment of the Russian office of McKinsey, where he worked from 1995 to 2004 as project manager, junior partner, and partner.

Since 2004 – Deputy General Director – Member of the Management Board of MMC Norilsk Nickel. Head of the Mining and metallurgical business unit, Head of the Strategy and development block.

Since 2005 – Chairman of the Scientific and Technical Council of MMC Norilsk Nickel.

Since 2006 – Chairman of the Board of Directors of non-commercial organization Institute of Nickel.



Mikhail  
Dmitrievich  
Prokhorov

Member of the Board of Directors since 2003

Born in 1965. In 1989, graduated with honors from the Moscow State Financial Institute with a degree in international economic relations.

From 1998 to 2001 – Member of the Board of Directors of CJSC Holding Company Interros.

From 2000 to 2001 – President of OJSC AKB Rosbank.

From 2000 to 2002 – Member of the Board of Directors of OJSC AKB Rosbank and CJSC AKB International Finance Company.

From 2001 to 2007 – General Director – Chairman of the Management Board of MMC Norilsk Nickel.



Member of the Board of Directors Biography/positions

Since 2005 – Chairman of the Board of Directors of OOO Football Club Moscow.  
 Since 2006 – Chairman of the Board of Directors of OJSC Polyus Gold and OOO Managing Company Sporting Projects.

Founder of the Charitable Fund of Cultural Initiatives with activities focused on support of cultural innovation and creative initiatives. Decorated with the Order of Friendship for outstanding labor and many years of dedicated work. In 2006, was recognized the best Russian manager by the annual Russia's Top Business Leaders rating held by the American business publication, Institutional Investor.



Ekaterina Mikhailovna Salnikova

**Member of the Board of Directors since 2004**

Born in 1957. In 1979, graduated from the Moscow Management Institute with a degree in management organization. In 1997, graduated from the Russian Academy of State Service under the President of the Russian Federation with a degree in law. PhD in economics.

From 1998 to 2003 – Member of the Supervisory Board of OOO Fincom – Investment and Management.

From 1998 to 2004 – Director for corporate structures of CJSC Holding Company Interros.  
 From 2000 to 2004 – Member of the Board of Directors of CJSC Prof-Media Publishers.  
 From 2000 to 2005 – Member of the Board of Directors of OJSC Power Machines.  
 From 2001 to 2003 – Member of the Board of Directors of CJSC Holding Company Interros.  
 From 2004 to 2005 – Member of the Board of Directors of CJSC Agricultural Complex Agros.  
 From 2004 to 2006 – Member of the Board of Directors of OJSC AKB Rosbank.

Since 2003 – Member of the Board of Directors of OJSC Open Investments.  
 Since 2005 – Deputy Director of the Finance department on corporate governance of CJSC Holding Company Interros.  
 Since 2006 – Member of the Boards of Directors of OJSC Polyus Gold and OJSC Power Machines.



Guy de Selliers<sup>(2)</sup>

**Member of the Board of Directors since 2002, Chairman of the Audit Committee since 2004**

Born in 1952. Graduated with honors from the Belgian University of Leuven with a master's degree in economics and a master's degree in engineering.

From 1998 to 2001 – Member of the Board of Directors of NIF Holding.  
 In 2001 – Member of the Board of Directors of British Titanium.  
 From 2001 to 2005 – Member of the International Advisory Board of Fortis Group.  
 From 2002 to 2003 – Co-Chairman of the Expert group advising the European Commission and the Russian government on energy projects of mutual interest.

Since 1993 – Member of the Board of Directors and Member of the Audit Committee of Solvay S.A.  
 Since 2000 – Chairman of the Board of Trustees of Partners in Hope.  
 Since 2001 – Member of the Board of Directors of OJSC Wimm-Bill-Dann Foods, Chairman of the Audit Committee.  
 Since 2003 – Chairman of the Board of Directors of HB Advisors/ Hatch Corporate Finance; Member of the Board of Directors of OJSC Furniture Factory Shatura.  
 Since 2005 – non-executive Director of the Allied Resource Corporation.

National award Director of 2006.

Member of the Board of Directors Biography/positions



Kirill Lvovich Ugolnikov<sup>(2)</sup>

**Member of the Board of Directors since 2005, Member of the Audit Committee since 2005**

Born in 1961.

From 1995 to 2000 – Deputy Head of the State Tax Service of the Russian Federation, First Deputy Minister for Taxes and Levies of the Russian Federation.

Since 2000 – Member of the Board of Directors of CJSC Vneshyurcollegia and OJSC AKB Investsberbank.



Heinz S. Schimmelbusch<sup>(2)</sup>

**Member of the Board of Directors since 2003**

Born in 1944. Graduated with honors from the University of Tubingen (Germany) with a PhD degree.

Since 1994 – Chairman of the Board of Directors, General Director of Allied Resource Corporation.

Since 1997 – Executive Director, Partner and Founder of Safeguard International Fund L.P.  
 Since 1998 – Chairman of the Supervisory Board of ALD Vacuum Technologies GmbH; Chief Executive Officer, Chairman of the Board of Directors of Metallurg Holdings, Inc.  
 Since 2001 – Chairman of the Supervisory Board of PFW Aerospace AG.  
 Since 2002 – Chairman of the Board of Directors, General Director of Metallurg Inc.  
 Since 2003 – Member of the Board of Directors of Millstream Acquisition Corporation, and Chairman of the Board of Directors of Timminco Limited.

Awarded the Honorary Golden Cross for leadership of the International Consultative Committee under the Chancellor of Austria.

Notes:

(1) The Board of Directors was elected by the Annual General Meeting of Shareholders of MMC Norilsk Nickel on 29 June 2006. All Members of the previous Board of Directors were reelected.

(2) Independent Member of the Board of Directors.



Management Board of MMC Norilsk Nickel<sup>(1)</sup>

Member of the Management Board	Biography/positions
 <p><b>Denis Stanislavovich Morozov</b></p>	<p><b>Chairman of the Management Board and the General Director since 3 April 2007</b></p> <p>Born in 1973. Graduated from the economics faculty of the Lomonosov Moscow State University (MSU). Received a degree in jurisprudence with honors from the Lomonosov MSU. Graduated from the international economic relations faculty of the Moscow State Institute of International Relations under the Russian Foreign Affairs Ministry, and became a PhD in economics. Has a diploma from a Swiss Banking School.</p> <p>Before joining Norilsk Nickel Group, worked for the Insurance Company Ingosstrakh and Commercial Innovation Bank Alfa Bank. Also held the position of the Director of commercial banking operations department with Joint Stock Commercial Bank International Financial Company.</p> <p>In 1999, came to RAO Norilsk Nickel as the Head of the Corporate structures department. Then served as the Head of the Corporate capital, shareholder and investor relations department of RAO Norilsk Nickel.</p> <p>From 2001 to 2003 – Head of the Legal department of MMC Norilsk Nickel. From 2002 to 2003 – Member of the Board of Directors of RAO Norilsk Nickel and Head of staff of the Board of Directors of MMC Norilsk Nickel. From 2002 to 2005 – Member of the Board of Directors of CJSC Polus. From 2002 to 2007 – Member of the Management Board of RAO Norilsk Nickel. From 2003 to 2005 – Deputy General Director, and from 2005 to 2007 – Deputy General Director – Member of the Management Board of MMC Norilsk Nickel.</p> <p>Since 2006 – Member of the Board of Directors at OJSC Polyus Gold.</p>
 <p><b>Mikhail Dmitrievich Prokhorov</b></p>	<p><b>Chairman of the Management Board and General Director from 2001 to 2007</b></p> <p>Born in 1965. In 1989, graduated with honors from the Moscow State Financial Institute with a degree in international economic relations.</p> <p>From 1998 to 2001 – Member of the Board of Directors of CJSC Holding Company Interros. From 2000 to 2001 – President of OJSC AKB Rosbank. From 2000 to 2002 – Member of the Board of Directors of OJSC AKB Rosbank and CJSC AKB International Finance Company.</p> <p>Since 2003 – Member of the Board of Directors of MMC Norilsk Nickel. Since 2005 – Chairman of the Board of Directors of OOO Football Club Moscow. Since 2006 – Chairman of the Board of Directors of OJSC Polyus Gold and OOO Managing Company Sporting Projects.</p> <p>Founder of the Charitable Fund of Cultural Initiatives with activities focused on the support of cultural innovation and creative initiatives. Decorated with the Order of Friendship for outstanding labor and many years of dedicated work. In 2006, was recognized the best Russian manager by the annual Russia's Top Business Leaders rating held by the American business publication, Institutional Investor.</p>

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Member of the Management Board	Biography/positions
 <p><b>Igor Anatolievich Komarov</b></p>	<p><b>Member of the Management Board – Deputy General Director since 2002 Head of the Finance and economics block</b></p> <p>Born in 1964. Graduated from the economic faculty of the Lomonosov Moscow State University.</p> <p>From 2000 to 2002 – Deputy Chairman of the Management Board of OJSC AKB Savings Bank of the Russian Federation. From 2002 to 2004 – Member of the Board of Directors of OJSC AKB Rosbank.</p> <p>Since 2003 – Member of the Management Board of the National Organization for Financial Accounting and Reporting Standards Fund.</p>
 <p><b>Yuri Alexeevich Kotlyar</b></p>	<p><b>Member of the Management Board since 2001 General Director of RAO Norilsk Nickel</b></p> <p>Born in 1938. Graduated from the Moscow Machine and Tool Institute as a mechanical engineer of metallurgical equipment.</p> <p>From 1997 to 2001 – First Deputy General Director of RAO Norilsk Nickel. From 1999 to 2003 – Member of the Board of Directors and Chairman of the Board of Directors of RAO Norilsk Nickel. From 2001 to 2002 – General Director and Member of the Management Board of OOO Gipronickel Institute.</p> <p>Since 2001 – General Director and Chairman of the Management Board of RAO Norilsk Nickel.</p> <p>Candidate of technical science, laureate of the State Prize, author of 25 inventions and more than 80 scientific treatises, mainly dedicated to production and rational use of base and precious metals.</p>
 <p><b>Ralph Tavakolian Morgan</b></p>	<p><b>Member of the Management Board – Deputy General Director since 2004 Head of the Mining and metallurgical business unit, Head of the Strategy and business development block.</b></p> <p>Born in 1968. Graduated from Yale University with a BA in political science and international relations. Received a master's degree in economics and law from Oxford university.</p> <p>Advised the Kazakhstan Committee of State Property. Then worked in Kyrgyzstan. Participated in the establishment of the Russian office of McKinsey, where he worked from 1995 to 2004 as project manager, junior partner, and partner.</p> <p>Since 2005 – Member of the Board of Directors of MMC Norilsk Nickel. Since 2005 – Chairman of the Scientific and Technical Council of MMC Norilsk Nickel. Since 2006 – Chairman of the Board of Directors of non-commercial organization Institute of Nickel.</p>

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Member of the Management Board Biography/positions



Jaques Iosifovich Rozenberg

Member of the Management Board – Deputy General Director since 2001  
Head of the Technical regulation and ecology block

Born in 1943. In 1967, graduated from the Dnepropetrovsk Mining Institute.

From 1998 to 2000 – Deputy General Director of RAO Norilsk Nickel.  
From 1998 to 2003 – Member of the Board of Directors of OJSC Norilskgasprom.  
From 1999 to 2003 – Member of the Scientific and Technical Council of OOO Gipronickel Institute.  
In 2001 – Member of the Board of Directors of CJSC Normetimpex.  
From 2001 to 2003 – Chairman of the Scientific and Technical Council of MMC Norilsk Nickel.



Viktor Evgenyevich Sprogis

Member of the Management Board – Deputy General Director since 2001  
Head of the Sales business unit

Born in 1961. In 1984, graduated with honors from the Bauman Moscow State Technical Institute with a degree in automated management systems.

From 2000 to 2001 – First Deputy General Director of OJSC Raznoimport.



Viktor Petrovich Tomenko

Member of the Management Board since 2006  
Director of the Polar Division

Born in 1971. Graduated with honors from the Norilsk Industrial Institute with a degree in economics and management of non-ferrous metallurgy.

From 2000 to 2005 – Member of the Board of Directors of OJSC Norilsk Trade and Production Association and OJSC Torginvest.  
From 2001 to 2002 – Member of the Board of Directors of OJSC Kola MMC, OJSC Krasnoyarsk branch of MMC Norilsk Nickel and OJSC Novolipetsk Metallurgical Combine and Deputy General Director for economics and finance of the Polar Division of MMC Norilsk Nickel.  
From 2001 to 2003 – Member of the Board of Directors of OJSC Norilskgasprom.  
From 2002 to 2004 – First Deputy General Director and Chairman of the Management Board of the Polar Division of MMC Norilsk Nickel.  
From 2003 to 2005 – Member of the Board of Directors of OJSC Agricultural and Construction Complex Tes.  
From 2003 to 2006 – Director of OJSC Zavenyagin Norilsk Mining Combine.

Since 2004 – Director of the Polar Division of MMC Norilsk Nickel.

For immense personal contribution to the development of metallurgy and high performance, awarded a Certificate of Merit of the Ministry of Economy of the Russian Federation.

Member of the Management Board Biography/positions



Maxim Valeryevich Finsky

Member of the Management Board – Deputy General Director since 2001  
Head of the Geology business unit

Born in 1966. Graduated from the Moscow Finance Institute with a degree in finance and credit.

From 1998 to 2001 – Head of the Client relations department, Director of the Commercial banking operations, Deputy Chairman of the Management Board, First Deputy Chairman of AKB International Financial Company.  
From 2000 to 2002 – Member of the Board of Directors of OJSC International Financial Company.  
From 2001 to 2002 – Chairman of the Board of Directors of OJSC Babaevsky Confectionery Concern.  
From 2002 to 2003 – Member of the Board of Directors of OJSC Murmansk Sea Shipping Company.  
From 2002 to 2005 – Member of the Board of Directors of International Platinum Association.  
From 2004 to 2006 – Chairman of the Board of Directors of Metal Trade Overseas SA.

Since 2006 – Chairman of the Board of Directors of OOO RioNor-Geologorazvedka.

Note:

(1) The composition of the Management Board was approved by the Board of Directors on 2 April 2007. The previous board of Directors approved in August 2005 included: M.D. Prokhorov (Chairman), I.A. Komarov, Y.A. Kotlyar, R.T. Morgan, D.S. Morozov, J.I. Rozenberg, V.E. Sprogis, V.P. Tomenko (elected to replace D.S. Cheskis, at the decision of the Board of Directors dated 15 December 2006), M.V. Finsky.

MMC Norilsk Nickel shareholdings by members of Management Board and Board of Directors

Name/position	Number of shares <sup>(1)</sup>	% in the charter capital <sup>(1)</sup>
D.S.Morozov General Director and Chairman of the Management Board	7	0.000004
V.I. Dolgikh Member of the Board of Directors	479	0.000251
J.I. Rozenberg Member of the Management Board – Deputy General Director	897	0.000471
V.P. Tomenko Member of the Management Board	261	0.000137
<b>Total number of shares held by Members of the Board of Directors and the Management Board</b>	<b>1,644</b>	<b>0.000863</b>

Note:

(1) As at 31 December 2006.

## Corporate governance improvement

The MMC Norilsk Nickel management pays much attention to bringing the Group's corporate governance standards in line with the best global practices. In 2002, MMC Norilsk Nickel declared its intention to comply with the standards and recommendations set out in the Code of Corporate Governance of the FCSM, for which purpose internal documents of the Group were amended appropriately. The main activities aimed at improving corporate governance include:

- election of independent Directors to the Board;
- approval of dividend policy;
- introduction of a Corporate Secretary;
- approval of the Regulation on insider information;
- establishment of an Audit Committee in the Board of Directors;
- establishment of the Internal control department;
- increased transparency/disclosure.

In accordance with the Methodical recommendations approved by the Ruling of the FCSM No. 03-849/r dated 30 April 2003, the Company continues to prepare a report on compliance with the Code. The compliance report is disclosed in Appendix 1 of this Annual Report.

## Management bodies

**General Meeting of the Shareholders**  
The Company's supreme management body is the General Meeting of Shareholders.

The Company holds an Annual General Meeting of Shareholders once a year (not earlier than two months and not later than six months after the end of a financial year). The Annual General Meeting of Shareholders is convened by the Company's Board of Directors.

General meetings other than the Annual General Meeting are Extraordinary Meetings. Extraordinary General Meetings of Shareholders are held at the decision of the Board of Directors, based on their own initiative, request by the Auditing Commission, the Company's auditor, or shareholder(s) owning at least 10% of voting shares at the date of the request.

### Board of Directors

The Board of Directors is the management body responsible for general management of the Company's operations, with the exception of issues included in the responsibilities of the General Meeting of Shareholders, by effective legislation and the Company's Charter.

Members of the Board of Directors are elected by the Annual General Meeting of Shareholders in the manner stipulated by the effective legislation of the Russian Federation for a period until the next Annual General Meeting of Shareholders. The Board includes 9 Directors. The Chairman of the Board is a Director elected by Members of the Board of Directors by a majority vote.

The Annual General Meeting of Shareholders of MMC Norilsk Nickel, that took place on 29 June 2006, elected a new Board of Directors. All Members of the previous Board of Directors were re-elected (the list of Members of the Board of Directors with short biographies is provided in the beginning of this section).

Mr. A.A. Klishas was re-elected as chairman of the Board at the first Board meeting that followed the Annual General Meeting of Shareholders.

In accordance with the global corporate governance practices and the recommendations of the FCSM Code of Corporate Governance, independent Directors are elected to the Board of Directors of MMC Norilsk Nickel. The Group uses the most conservative criteria to determine the independence of the Members of its Board of Directors. In 2006, 4 independent Directors sat on the Board:

- Mr. V.I. Dolgikh;
- Mr. Guy de Selliers;
- Mr. K.L. Ugolnikov;
- Mr. Heinz S. Schimmelbusch.

All of them are recognized professionals in their area. Two independent Directors are foreign nationals that have unique international experience.

In 2006, 33 meetings of the Board of Directors were held:

- 7 meetings held in person;
- 26 meetings held in absentia.

### Attendance by the Directors of Board Meetings held in person in 2006

Director	Number of meetings attended
A.E. Bougrov	6
V.I. Dolgikh	7
A.A. Klishas	7
R.T. Morgan	7
M.D. Prokhorov	7
E. M. Salnikova	6
Guy de Selliers	6
K.L. Ugolnikov	6
H.S. Schimmelbusch	3

During 2006, the Board of Directors considered various issues of the Group's activity, referred to its responsibilities, including:

- purchase and sale of assets;
- conflict of interest transactions (the list of such transactions is provided in Appendix 2 hereto);
- approval of the Group's consolidated financial statements;
- convening of the Company's general meetings;
- acquisition of treasury shares; and
- other issues.

### Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors continued to operate effectively in the reporting year.

In accordance with the Regulation on Audit Committees, developed on the basis of the best Russian and international corporate governance practices, the task of the Audit Committee is to assist the Board of Directors in supervising the financial and operating activities through preliminary consideration and preparation of recommendations on such issues as:

- communications between the Group and the external auditors;

- consideration of the Group's consolidated financial statements;
- evaluating the efficiency of the Group's internal controls;
- assistance in effective operation of the Group's internal controls;
- monitor interaction between the external auditors and the Internal Control Department of the Group.

Members of the Audit Committee may include only non-executive Members of the Board of Directors, and only an independent Director may be elected as its chair. In electing Members of the Audit Committee their education, professional qualifications, experience in the Committee's sphere of activities, financial and operational documentation expertise and other special knowledge necessary to the Members of the Audit Committee in the execution of their respective duties are taken into account.

At the first meeting of the new Board of Directors, which was held following the Annual General Meeting of Shareholders on 29 June 2006, the Audit Committee re-elected:

- Mr. Guy de Selliers – independent Director – Chairman of the Audit Committee;
- Mr. A.E. Bougrov – non-executive Director – Member of the Audit Committee;
- Mr. K.L. Ugolnikov – independent Director – Member of the Audit Committee

The biographies of the Members of the Audit Committee (together with biographies of other Members of the Board of Directors) are provided at the beginning of this section.

In 2006, the Audit Committee held 4 meetings in person and 2 conference calls to discuss various issues relating to the Audit Committee's responsibilities, including:

- corporate risk insurance policy;
- corporate policy with respect to financial control and accounting technology;
- IFRS interim and annual consolidated financial statements for the year ending 31 December 2005;

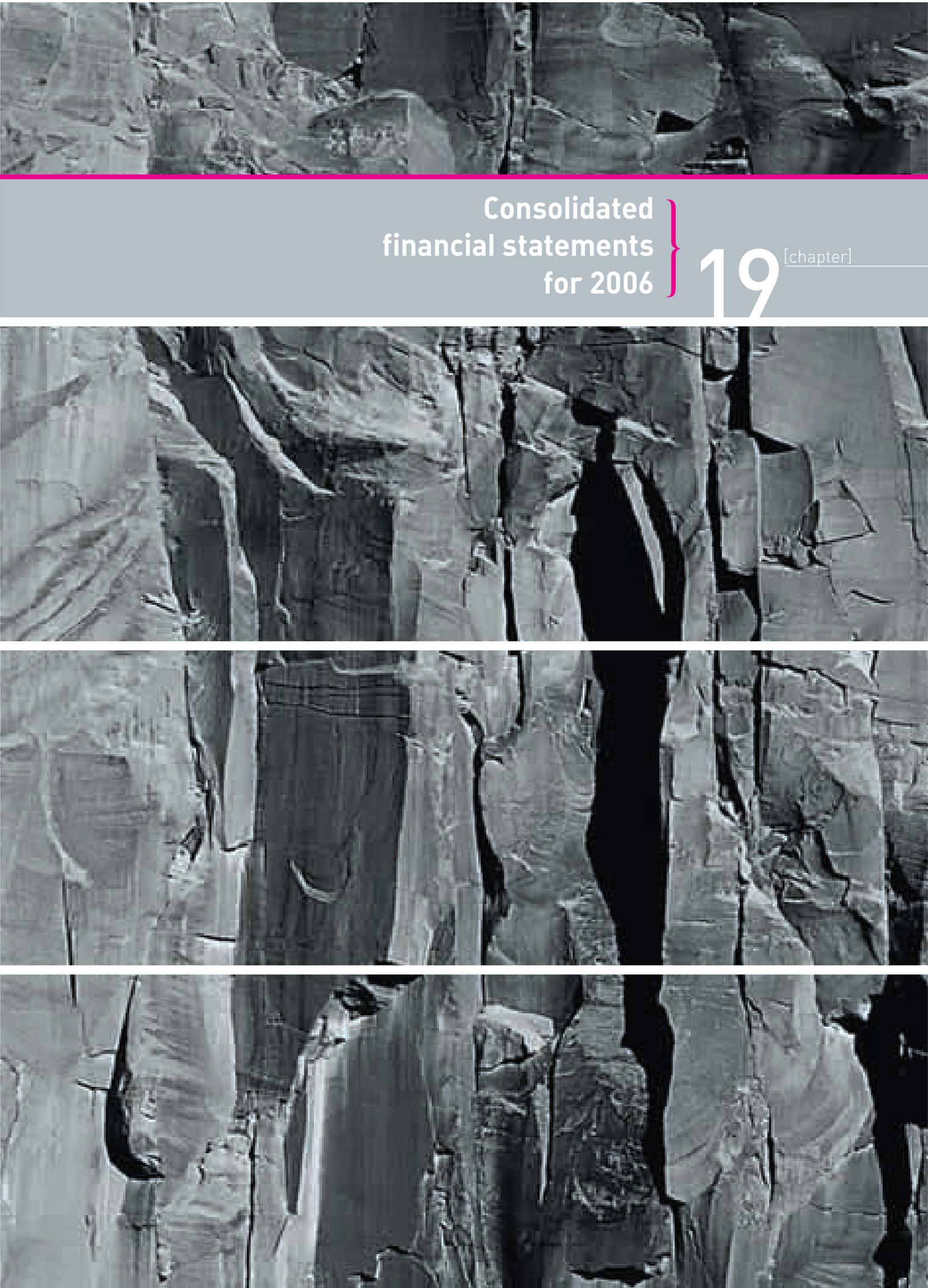
- RAS financial statements for 2005;
- press release regarding IFRS consolidated annual financial statements for 2005 and the draft annual report for 2005;
- meeting with external auditors in the absence of Group management;
- recommendations to management following the audit for 2005;
- approving the external auditors audit plan for 2006;
- report of the Internal Control Department on the last reviews of the Group's financial and operational activities.

### Executive bodies

The General Director (sole executive body) and the Management Board (collective executive body) are responsible for the Group's day-to-day activities. The Management Board is comprised of 8 Members (the list of the Management Board Members with short bios is provided at the beginning of this section). Mr. D.S. Morozov has been acting as the General Director and the Chairman of the Management Board since 3 April 2007 (information on biographies is provided at the beginning of this sections).

The General Director and the Management Board operates in strict compliance with the effective legislation of the Russian Federation, the Charter, internal documents of the Group and employment contracts with the General Director and Members of the Management Board.

The General Director acts on behalf of the Group without any power of attorney. He performs the functions of the Chairman of the Management Board. The General Director acts in accordance with the Management Board's decisions on issues included in the responsibilities of the Management Board. The Management Board manages the activity of the Group within its responsibilities as defined by the Group's Charter, and ensures that all the decisions of the Annual General Meeting and the Extraordinary Meeting of Shareholders and the Board of Directors are realized.



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# Consolidated financial statements for 2006



## Dividend policy

In 2002, the Group approved a dividend policy according to which between 20–25% of the IFRS profit for the year attributable to shareholders of the parent company should be paid in the form of annual dividends to ordinary shareholders. Information on dividends for 2006 is presented in the Share capital and share prices section of this Annual Report.

## Audit of financial statements

The Group's consolidated annual financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The independent external auditor of the consolidated financial statements for the year ending 31 December 2006 is Deloitte & Touche CIS.

The Group's 2006 RAS financial statements have been audited by Rosexpertiza.

## Disclosures

The Group seeks to achieve maximum transparency of its operations and ensure equal and timely access to the information disclosed for its shareholders and investors.

In 2003, the Group for the first time disclosed its ore and mineral reserves, as a result of amendments made to the Russian Federal law On State Secrecy in 2002. In accordance with the above amendments, the information on the base metal ore reserves and resources were excluded from the list of state secrets, which enabled the Group to have an independent audit of the Taimyr and Kola Peninsulas deposits in accordance with the requirements of the JORC Code.

In 2004, as a result of a number of new amendments to the Law On State Secrecy, the base metal ore reserves and resources of the Talnakh ore field and Zhdanovsky deposit were audited, and ore reserves, production, transfer and consumption of PGM metals were disclosed. In 2005, the first audit of base metals ore reserves and resources at the Norilsk-1 deposit was performed.

Since the beginning of 2005, the Group has been disclosing consolidated quarterly production of nickel and copper in press releases published within 30 days after the end of the respective quarter. Since the third quarter 2005, as a result of amendments to the law On State Secrecy, these press releases also disclose quarterly production information of palladium and platinum.

In 2006, the Group made the first disclosure on the PGM metal grade of its ore reserves and mineral resources in the Taimyr Peninsula. Disclosure of PGM ore reserves and resources includes information on the ore reserves and resources of platinum, palladium, rhodium, ruthenium, osmium and iridium.

The Group's efforts aimed at improving corporate governance and transparency did not remain unnoticed by the investment community:

- MMC Norilsk Nickel was the winner of the "Company of the Year" annual national award, one of the most authoritative Russian business awards, in the Best Corporate Project nomination. During the award ceremony, the organizers of the competition, RIA RosbusinessConsulting, highly praised the spin-off of the Group's gold mining assets;

- The 2005 Annual Report was recognized:
  - the absolute winner in the annual report competition of the 10th Annual Federal Report and Web-site Competition held by MICEX and the Securities Market magazine and the winner in the nomination "Best Disclosure" in the annual report in English;
  - winner in the special nomination "Best Annual Report of an Issuer Listed in RTS" of the 2005 annual report competition.
- The 2005 Social report received a certificate of the International Employer Organization and recognition by participants in the seminar held in Geneva in the reporting year as part of the 5th session of the International Labor Organization.

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## Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group at 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2006 were approved on 4 June 2007 by:

D. S. Morozov  
General Director

I. A. Komarov  
Deputy General Director

Moscow  
4 June 2007

## Independent auditors' report

### To the shareholders of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel":

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of accompanying consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical require-

ments and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and the results of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow  
4 June 2007



## Consolidated income statement for the year ended 31 December 2006

(US Dollars million)

	Notes	2006	2005
<b>Metal sales</b>	6	<b>11,550</b>	<b>7,169</b>
Cost of metal sales	7	(3,158)	(2,994)
<b>Gross profit on metal sales</b>		<b>8,392</b>	<b>4,175</b>
Selling, general and administrative expenses	13	(1,090)	(841)
Other net operating expenses	14	(278)	(156)
<b>Operating profit</b>		<b>7,024</b>	<b>3,178</b>
Finance costs	15	(21)	(121)
Net (loss)/income from investments	16	(226)	59
<b>Profit before income tax</b>		<b>6,777</b>	<b>3,116</b>
Income tax	17	(1,805)	(838)
<b>Profit for the year from continuing operations</b>		<b>4,972</b>	<b>2,278</b>
Profit for the year from discontinued operation	42	993	74
<b>Profit for the year</b>		<b>5,965</b>	<b>2,352</b>
Attributable to:			
Shareholders of the parent company		5,989	2,355
Minority interest		(24)	(3)
		<b>5,965</b>	<b>2,352</b>
<b>EARNINGS PER SHARE</b>			
Weighted average number of ordinary shares in issue during the year	27	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
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent company (US Dollars)		26.5	11.3

## Consolidated balance sheet at 31 December 2006

(US Dollars million)

	Notes	2006	2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	8,134	7,145
Intangible assets	19	73	44
Investments in associates	20	208	95
Investments in securities and other financial assets	21	2,615	690
Other non-current assets	22	44	94
Non-current assets of disposal group	42	-	1,109
		<b>11,074</b>	<b>9,177</b>
<b>Current assets</b>			
Inventories	23	1,471	1,301
Trade and other receivables	24	745	440
Other current assets	25	707	567
Investments in securities and other financial assets	21	104	134
Cash and cash equivalents	26	2,178	922
Current assets of disposal group	42	-	2,189
		<b>5,205</b>	<b>5,553</b>
<b>TOTAL ASSETS</b>		<b>16,279</b>	<b>14,730</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	27	8	9
Share premium		611	695
Treasury shares	27	(999)	(1,457)
Investments revaluation reserve		997	690
Hedging reserve		(15)	-
Translation reserve		1,580	748
Retained earnings		10,635	10,378
<b>Equity attributable to shareholders of the parent company</b>		<b>12,817</b>	<b>11,063</b>
Minority interest		319	334
		<b>13,136</b>	<b>11,397</b>
<b>Non-current liabilities</b>			
Long-term borrowings	28	632	635
Employee benefit obligations	29	57	56
Environmental obligations	30	322	269
Deferred tax liabilities	31	881	543
Non-current liabilities of disposal group	42	-	236
		<b>1,892</b>	<b>1,739</b>
<b>Current liabilities</b>			
Short-term borrowings	32	158	357
Current portion of employee benefit obligations	29	259	212
Trade and other payables	33	421	300
Taxes payable	34	393	187
Derivative financial liabilities		15	-
Dividends payable		5	301
Current liabilities of disposal group	42	-	237
		<b>1,251</b>	<b>1,594</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16,279</b>	<b>14,730</b>

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Consolidated cash flow statement for the year ended 31 December 2006  
(US Dollars million)

	2006	2005
<b>Cash flows from operating activities</b>		
<b>Profit for the year</b>	<b>5,965</b>	<b>2,352</b>
Adjustments for <sup>1</sup> :		
Income tax	1,817	889
Amortisation and depreciation	586	585
Interest expense	88	110
Impairment of property, plant and equipment	87	21
Loss on disposal of property, plant and equipment	21	33
Change in allowance for promissory notes and loans advanced	83	4
Impairment of investments in associates	36	-
Interest income	(79)	(43)
Foreign exchange (gain)/loss	(32)	21
Gain on disposal of investments	(733)	-
Gain on disposal of associates	(117)	-
Other	(13)	4
<b>Operating profit before working capital changes</b>	<b>7,709</b>	<b>3,976</b>
(Increase)/decrease in inventories	(73)	37
Increase in trade and other receivables	(218)	(38)
Increase in value added tax recoverable and other current assets	(62)	(11)
Increase in trade and other payables	82	37
Increase/(decrease) in employee benefit obligations	15	(21)
Decrease in taxes payable	(17)	(39)
<b>Cash flows from operations</b>	<b>7,436</b>	<b>3,941</b>
Interest paid	(63)	(84)
Income tax paid	(1,726)	(896)
<b>Net cash generated from operating activities</b>	<b>5,647</b>	<b>2,961</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	(269)	(175)
Purchase of property, plant and equipment	(743)	(773)
Purchase of intangible assets	(27)	(15)
Proceeds from sale of property, plant and equipment	46	39
Acquisition of associates	(151)	-
Proceeds from disposal of associates	156	-
Purchase of securities and other financial assets	(865)	(637)
Proceeds from sale of securities and other financial assets	2,231	134
<b>Net cash generated from/(used in) investing activities</b>	<b>378</b>	<b>(1,427)</b>

[1] Adjustments are presented for continuing and discontinued operations on a combined basis

Consolidated cash flow statement for the year ended 31 December 2006 (continued)  
(US Dollars million)

	2006	2005
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	573	1,877
Repayments of short-term borrowings	(1,055)	(1,792)
Proceeds from long-term borrowings	-	112
Repayments of long-term borrowings	(11)	(412)
Proceeds from increase in share capital of a special purpose entity	28	-
Buy back of issued shares	(999)	(1,457)
Cash distributed to shareholders on disposal of Polyus Group	(2,366)	-
Dividends paid	(1,079)	(201)
<b>Net cash used in financing activities</b>	<b>(4,909)</b>	<b>(1,873)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,116</b>	<b>(339)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>922</b>	<b>1,325</b>
Effect of translation to presentation currency	140	(36)
Cash and cash equivalents of disposal group	-	(28)
<b>Cash and cash equivalents at end of the year</b>	<b>2,178</b>	<b>922</b>

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## Consolidated statement of changes in equity for the year ended 31 December 2006

(US Dollars million)

	Notes	Equity attributable to shareholders of the parent company							Total	Minority interest	Total equity
		Share capital	Share premium	Treasury shares	Investments revaluation reserve	Hedging reserve	Translation reserve	Retained earnings			
<b>Balance at 31 December 2004</b>		<b>9</b>	<b>683</b>	-	(54)	-	1,124	8,515	10,277	366	10,643
Profit for the year		-	-	-	-	-	-	2,355	2,355	(3)	2,352
Dividends	35	-	-	-	-	-	-	(492)	(492)	-	(492)
Buy back of issued shares		-	-	(1,457)	-	-	-	-	(1,457)	-	(1,457)
Issuance of ordinary shares from treasury shares		-	12	-	-	-	-	-	12	(12)	-
Increase in fair value of available-for-sale investments		-	-	-	744	-	-	-	744	-	744
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	-	-	-	-	(15)	(15)
Translation of foreign operations		-	-	-	-	-	12	-	12	-	12
Effect of translation to presentation currency		-	-	-	-	-	(388)	-	(388)	(2)	(390)
<b>Balance at 31 December 2005</b>		<b>9</b>	<b>695</b>	<b>(1,457)</b>	<b>690</b>	<b>-</b>	<b>748</b>	<b>10,378</b>	<b>11,063</b>	<b>334</b>	<b>11,397</b>
Profit for the year		-	-	-	-	-	-	5,989	5,989	(24)	5,965
Dividends	35	-	-	-	-	-	-	(772)	(772)	-	(772)
Buy back of issued shares		-	-	(999)	-	-	-	-	(999)	-	(999)
Cancellation of treasury shares	(1)	-	(86)	1,457	-	-	(15)	(1,355)	-	-	-
Issuance of ordinary shares from treasury shares		-	2	-	-	-	-	-	2	(2)	-
Increase in fair value of available-for-sale investments		-	-	-	920	-	-	-	920	-	920
Realised gain on disposal of available-for-sale investments		-	-	-	(613)	-	(7)	7	(613)	-	(613)
Contribution to share capital of a special purpose entity		-	-	-	-	-	-	(17)	(17)	17	-
Net assets distributed to shareholders on disposal of Polyus Group	42	-	-	-	-	-	(103)	(3,595)	(3,698)	(31)	(3,729)
Loss on cash flow hedge		-	-	-	-	(15)	-	-	(15)	(7)	(22)
Translation of foreign operations		-	-	-	-	-	(55)	-	(55)	-	(55)
Effect of translation to presentation currency		-	-	-	-	-	1,012	-	1,012	32	1,044
<b>Balance at 31 December 2006</b>		<b>8</b>	<b>611</b>	<b>(999)</b>	<b>997</b>	<b>(15)</b>	<b>1,580</b>	<b>10,635</b>	<b>12,817</b>	<b>319</b>	<b>13,136</b>

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Notes to the consolidated financial statements  
for the year ended 31 December 2006 (US Dollars million)

## 1. GENERAL

## Organisation

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company" or "MMC Norilsk Nickel") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group" or "Norilsk Group") are exploration, extraction, production and sale of base and precious metals. Further details regarding the nature of the business and structure of the Group are presented in note 44.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation and in Columbus, Montana, USA. The registered office of the Company is located at 22, Voznesensky pereulok, Moscow, Russian Federation.

Shareholding structure of the Group is as follows:

Shareholders	31 December 2006		31 December 2005	
	Number of shares	% held	Number of shares	% held
CJSC "ING Bank (Eurasia)" (nominee)	80,209,132	44.21%	82,521,332	43.73%
OJSC AKB "Rosbank" (nominee)	46,386,181	25.57%	12,871,010	6.82%
CJSC "Depository Clearing Company"	12,547,555	6.92%	6,263,470	2.93%
Non-profit Partnership "National Depository Centre"	10,713,585	5.91%	7,407,439	3.46%
Dimosenco Holdings Co. Limited	6,920,313	3.81%	24,123,671	12.78%
Pharanco Holdings Co. Limited	6,920,313	3.81%	24,123,671	12.78%
Other, less than 5%	17,720,834	9.77%	31,396,328	17.50%
<b>Total</b>	<b>181,417,913</b>	<b>100.00%</b>	<b>188,706,921</b>	<b>100.00%</b>

The principal beneficial shareholders of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov.

## Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

## Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting principles in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations";
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories"; and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

## Adoption of new and revised IFRS

In the current year, the Group has adopted all of the new and revised standards and interpretations that are relevant to its operations. The adoption of these new and revised standards and interpretations has not resulted in significant changes to the Group's accounting policies.

## New accounting pronouncements

The following new or revised standards and interpretations issued by IASB and IFRIC have been issued at the date of authorisation of the Group's consolidated financial statements for the year ended 31 December 2006 that are mandatory for adoption in the accounting periods beginning on or after 1 January 2007:

- Amendment to IAS 1 "Capital Disclosures"
- Amendment to IAS 23 "Required Capitalisation of Borrowing Costs"
- IFRS 7 "Financial Instruments: Disclosures"
- IFRS 8 "Operating Segments"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements"

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. No material effect on the Group's accounting policies is anticipated, however, adoption of IFRS 7 "Financial Instrument: Disclosures" will require more comprehensive disclosure of the Group's financial instruments.

## 2. SIGNIFICANT ACCOUNTING POLICIES

## Basis of consolidation

## Subsidiaries

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent company, except to the extent that the minority has binding obligations and is able to make an additional investment to cover the losses.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

## Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted for based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

#### Special purpose entities

Special purpose entities ("SPE") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with activities of the SPE.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

#### Accounting for acquisitions

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, liabilities, contingent liabilities and attributable ore reserves at the date of acquisition is recognised as goodwill. Goodwill in respect of mining subsidiaries, which represents mineral resources, is amortised on a systematic basis to recognise the depletion of the resources over the life of mine.

Goodwill in respect of non-mining subsidiaries is disclosed as an intangible asset and goodwill relating to associates is included within the carrying value of the investment in associates.

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement during the period in which the circumstances are identified and is not subsequently reversed.

On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the income statement immediately.

#### Functional and presentation currency

The individual financial statements of each group entity are presented in its functional currency.

It was determined that Russian Rouble ("RUR") is the functional currency of the Company and all foreign subsidiaries of the Group, except for Stillwater Mining Company. Stillwater Mining Company has a significant degree of autonomy and uses the functional currency of the economy in which it operates, US Dollar ("USD" or "US Dollar").

The presentation currency of the consolidated financial statements is the United States of America Dollar. Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognised as a separate component in equity.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Exchange rates were as follows (RUR to 1 US Dollar):

	2006	2005
31 December	26.3311	28.7825
Average for the year	27.1852	28.2864

#### Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the income statement.

#### Property, plant and equipment

##### Mining assets

Mining assets are recorded at cost less accumulated amortisation and accumulated impairment losses. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and mining and exploration licenses and the present value of future decommissioning costs. Amortisation of mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

##### Mineral rights, mineral resources and ore reserves

Mineral rights, mineral resources and ore reserves are recorded as assets when acquired as part of a business combination and are then amortised on a straight-line basis over the life of mine, which is based on estimated proven and probable ore reserves. Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits.

##### Mine development costs

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditures incurred in:

- acquiring mineral rights and mining and exploration licenses;
- developing new mining operations;
- defining further mineralisation in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings, and the present value of future decommissioning costs.

Mine development costs are amortised on a straight-line basis over the lives of mines varying from 7 to 40 years.

##### Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine, varying from 5 to 40 years.

##### Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

- buildings and equipment 2% to 10%;
- motor vehicles 9% to 25%;
- office equipment 10% to 20%.

##### Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs; and the capital repayment, which reduces the related lease obligation to the lessor.

##### Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production.

##### Intangible assets, excluding goodwill

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets mainly include software, patents and licenses. Amortisation is charged on a straight-line basis over the economic useful lives of these assets at the following annual rates:

- software 33% to 50%;
- patents and licenses 5% to 50%.



### Impairment of tangible and intangible assets, excluding goodwill

An impairment review of tangible and intangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

### Research and exploration expenditure

Research and exploration expenditure, including geophysical, topographical, geological and similar types of expenditure, is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, when a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

### Inventories

#### Refined metals

Joint products, i.e. nickel, copper, palladium, platinum and gold, are measured at the lower of net cost of production on the average basis, or net realisable value. The net cost of production per unit of a joint product is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, allocated in the ratio of the contribution of these joint products to total relative sales value, by the saleable mine output of a joint product.

Production costs include on-mine and concentrating costs, smelting costs, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

By-products, i.e. cobalt, ruthenium, rhodium, iridium, silver and other minor metals, are measured at net realisable value, through a mark-to-market valuation.

#### Work-in-process

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

#### Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less allowance for obsolete and slow-moving items.

### Financial instruments

Financial instruments recognised on the Group's balance sheet include investments, trade and other receivables, borrowings, trade and other payables and derivative financial instruments. Financial instruments are initially measured at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement.

On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability.

#### Investments

Investments, other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit and loss; and
- available-for-sale.

The classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments at fair value through profit and loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit and loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss is recognised in the income statement for the period. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in equity, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

#### Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts, calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence the asset is impaired.

### Borrowings

Loans and borrowings are initially measured at fair value, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement.

### Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

### Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge the risk of changes in metal prices. The Group designates these instruments as cash flow hedges and assesses the effectiveness of these hedging activities at the reporting dates.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. The effective portion of changes in the fair value of the derivative financial instruments that are designated as cash flow hedges is recognised directly in equity. The ineffective portion of cash flow hedges is recognised in the income statement.

When a hedging instrument is expired or sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity is transferred to the income statement.

Hedging derivatives are classified as non-current assets or liabilities if the remaining maturity of the hedged item is more than one year and as current assets or liabilities if the maturity of the hedged item is less than one year.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

### Defined contribution plans

The Group contributes to the following defined contribution plans:

- Pension fund of the Russian Federation;
- Stillwater Mining Company savings plan.

The only obligation of the Group with respect to these defined contribution plans is to make the specified contributions in the period in which they arise. These contributions are expensed as incurred.

### Defined benefit plans

The Group operates a number of unfunded defined benefit plans for its employees. At management's discretion and within established annual budgets, the Group admits employees, who have met certain criteria, into one of the following retirement benefit plans:

- **Six pensions plan**, whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- **Lifelong professional pension plan**, whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- **Joint corporate pension plan**, whereby a retired employee receives a monthly allowance equal to 1/150th of total Starting and Counter capital for the rest of his/her life. Starting capital is determined on an individual basis taking into account seniority, salary level, etc. The Counter capital consists of a contribution funded by the Group of 3% of salaries paid to an employee during the period of participation in the plan.

In addition, the Group operates the **Mother's rights program**, whereby a discharged mother with a child between the ages of three and seven receives a monthly benefit equal to her average salary, but limited to 150% of minimum basic salary.

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with an actuarial valuation being carried out on a regular basis. Actuarial gains and losses that exceed 10% of the present value of the Group's defined benefit obligation are amortised over the expected average remaining lives of the participating employees. Past service cost is recognised immediately in the income statement to the extent that the benefits are already vested, and otherwise amortised on the straight-line basis over the average period until the benefit becomes vested.

The Group's obligation in respect of these defined benefit plans relating to post employment benefits is recognised in the balance sheet and represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

The principal assumptions used in calculating these benefits relate to:

- discount rates used in determining the present value of post employment benefits;
- projected salary and pension increases;
- pre-retirement increases to capital accounts; and
- life expectancy of members (or period of the benefit as defined).

### Income tax

Income tax on the profit or loss for the period comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

### Government grants

Government grants related to assets are deducted from the cost of these assets in arriving at their carrying value.

### Revenue recognition

Revenue consists of the sale of joint product metals, and is recognised when the risks and rewards of ownership are transferred to the buyer. Metal sales revenue represents the net invoiced value of all joint products shipped to customers, net of value-added tax. Revenues from sale of by-products are netted off against production costs.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception, and are expected to be settled by physical delivery, are recognised in the consolidated financial statements as and when they are delivered.

### Segmental information

The Group predominantly operates in a single business segment, being exploration, extraction, production and sale of base and precious metals. Reportable segments are based on the geographic location of the Group's operations, which are the Russian Federation, United States of America and Europe.

### Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligations, and the amount of the obligations can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to be required to settle the present obligation, its carrying amount is the present value of those cash flows.

### Interest on borrowings

Interest on borrowings relating to major qualifying capital projects under construction is capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated interest is expensed in the income statement as and when incurred.

Interest relating to operating activities is expensed in the income statement as and when incurred.



### Operating lease payments

Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms. Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases.

### Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

### Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Increases in provision are charged to the income statement as a cost of production. The unwinding of restoration costs are expensed over the life of mine.

Ongoing rehabilitation costs are expensed when incurred.

### Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale or other type of disposal at the balance sheet date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

Comparative information related to discontinued operations is amended in the income statement for a prior period.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet for a prior period.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving raw materials and spare parts;
- environmental obligations;
- employee benefit obligations;
- tax matters; and
- contingencies.

### Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- changes of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

### Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

### Allowances

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

The Group creates an allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

### Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

### Employee benefits

The expected costs of providing pensions and post-retirement benefits under defined benefit arrangements and related employee current service cost during the period are charged to the income statement.

Assumptions in respect of the expected costs are set after consultation with actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the results of the Group's operations.

### Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

### Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

### 4. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2005, has been reclassified.

The effect of the reclassifications is summarised below:

	After reclassifi- cations	Before reclassifi- cations	Difference
<b>CONSOLIDATED INCOME STATEMENT</b>			
Other net operating expenses	(156)	(58)	(98)
Other non-operating expenses	-	(124)	124
Finance costs	(121)	(95)	(26)
			-

Management has performed additional analysis of the nature of expenses incurred and made a decision to present expenses related to maintenance of social sphere facilities and donations within operating expenses.

In addition, all exchange differences related to financing activities were reclassified to finance costs.

### CONSOLIDATED BALANCE SHEET

#### Non-current assets

Intangible assets	44	-	44
Other non-current assets	94	138	(44)
			-

In previous reporting periods intangible assets were not presented separately in the consolidated balance sheet, but included in other non-current assets. Starting 2006, it was decided to present the balance of intangible assets separately, and disclose movements in a separate note.

#### Capital and reserves

Share premium	695	-	695
Treasury shares	(1,457)	-	(1,457)
Investments			
revaluation reserve	690	676	14
Translation reserve	748	-	748
			-

Management has made a decision to change presentation of exchange differences arising on translation of consolidated financial statements from functional to presentation currency in order to better comply with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates". All exchange differences resulting from such translation have been now presented as a separate component in the statement of changes in equity.

Starting 2006, treasury shares are presented as a separate component of equity.

Other reclassifications of comparative information, individually or in aggregate, were not material to the consolidated financial statements of the Group.

## 5. SEGMENTAL INFORMATION

Financial information relating to the Group's consolidated segments is as follows:

2006	Corporate and other	Taimyr penin- sula	Kola penin- sula	Subtotal Russian Federation	North America	Europe	Total
<b>Metal sales</b>	-	10,046	980	11,026	524	-	11,550
Third party transactions	-	1,270	148	1,418	524	9,608	11,550
Intra-segment transactions	-	8,776	832	9,608	-	(9,608)	-
Operating (loss)/profit	(412)	6,137	564	6,289	3	732	7,024
Interest income	43	4	3	50	11	13	74
Finance costs	11	22	5	38	11	(28)	21
Income/(loss) from associates	5	-	-	5	-	(38)	(33)
(Loss)/profit before income tax	(643)	6,119	562	6,038	2	737	6,777
<b>Significant non-cash items</b>							
Amortisation and depreciation	18	470	77	565	8	17	590
Other non-cash expenses	96	139	9	244	(4)	2	242
<b>Capital expenditures</b>	77	572	79	728	28	40	796
<b>Carrying value of assets/liabilities</b>							
Property, plant and equipment	327	6,531	722	7,580	474	80	8,134
Investments in associates	85	1	10	96	-	112	208
Net operating assets	1,119	1,129	233	2,481	177	1,296	3,954
Total assets	4,245	8,528	1,079	13,852	754	1,673	16,279
Total liabilities	414	1,814	166	2,394	241	508	3,143

2005	Corporate and other	Taimyr penin- sula	Kola penin- sula	Severo- Eniseysk and Bodaibo <sup>1</sup>	Subtotal Russian Federation	North America	Europe	Total
<b>Metal sales</b>	-	6,063	642	-	6,705	434	30	7,169
Third party transactions	-	988	130	-	1,118	434	5,617	7,169
Intra-segment transactions	-	5,075	512	-	5,587	-	(5,587)	-
Operating (loss)/profit	(268)	2,979	284	-	2,995	(32)	215	3,178
Interest income	27	1	5	-	33	5	5	43
Finance costs	26	18	3	-	47	12	62	121
Income from associates	2	-	-	-	2	-	-	2
(Loss)/profit before taxation	(249)	2,961	284	-	2,996	(29)	149	3,116
<b>Significant non-cash items</b>								
Amortisation and depreciation	14	431	70	-	515	5	16	536
Other non-cash expenses	(2)	117	(21)	-	94	-	1	95
<b>Capital expenditures</b>	58	488	67	-	613	18	1	632
<b>Carrying value of assets/liabilities</b>								
Property, plant and equipment	182	5,787	661	-	6,630	475	40	7,145
Investments in associates	95	-	-	-	95	-	-	95
Net operating assets	(151)	1,078	151	1,952	3,030	184	745	3,959
Total assets	1,525	7,417	890	3,298	13,130	739	861	14,730
Total liabilities	727	1,216	156	473	2,572	236	525	3,333

(1) The operations attributable to this segment are presented as discontinued in the Group's consolidated income statement. Assets and liabilities related to discontinued operation are presented in the consolidated balance sheet as at 31 December 2005 as assets and liabilities of disposal group (refer to note 42).

## 6. METAL SALES

2006	Total	Nickel	Copper	Palladium	Platinum	Gold
<b>By origin</b>						
Russian Federation						
Taimyr Peninsula	<b>10,046</b>	5,398	2,699	1,018	841	90
Kola Peninsula	<b>980</b>	814	139	15	9	3
United States of America	<b>524</b>	16	3	232	266	7
	<b>11,550</b>	<b>6,228</b>	<b>2,841</b>	<b>1,265</b>	<b>1,116</b>	<b>100</b>
<b>By destination</b>						
Europe	<b>6,846</b>	3,939	2,016	341	506	44
Asia	<b>1,903</b>	1,497	-	309	97	-
North America	<b>1,820</b>	690	84	613	412	21
Russian Federation	<b>981</b>	102	741	2	101	35
	<b>11,550</b>	<b>6,228</b>	<b>2,841</b>	<b>1,265</b>	<b>1,116</b>	<b>100</b>
<b>2005</b>						
<b>By origin</b>						
Russian Federation						
Taimyr Peninsula	<b>6,063</b>	3,143	1,527	654	672	67
Kola Peninsula	<b>642</b>	506	117	5	11	3
United States of America	<b>434</b>	-	-	253	181	-
Europe	<b>30</b>	25	-	2	-	3
	<b>7,169</b>	<b>3,674</b>	<b>1,644</b>	<b>914</b>	<b>864</b>	<b>73</b>
<b>By destination</b>						
Europe	<b>4,529</b>	2,555	1,228	282	414	50
Asia	<b>925</b>	657	-	176	91	1
North America	<b>1,066</b>	327	-	456	283	-
Russian Federation	<b>649</b>	135	416	-	76	22
	<b>7,169</b>	<b>3,674</b>	<b>1,644</b>	<b>914</b>	<b>864</b>	<b>73</b>

## 7. COST OF METAL SALES

	2006	2005
<b>Cash operating costs</b>		
On-mine and concentrating costs (refer to note 8)	1,454	1,243
Smelting costs (refer to note 9)	915	683
Treatment and refining costs (refer to note 10)	453	411
Other costs (refer to note 11)	388	406
Sales of by-products	(672)	(333)
<b>Total cash operating costs</b>	<b>2,538</b>	<b>2,410</b>
Amortisation and depreciation of operating assets (refer to note 12)	568	498
Decrease in metal inventories	52	86
<b>Total</b>	<b>3,158</b>	<b>2,994</b>
<b>8. ON-MINE AND CONCENTRATING COSTS</b>		
Labour	648	519
Consumables and spares	464	434
Repairs and maintenance of equipment	109	98
Insurance	51	52
Tailing pile maintenance and relocation	35	27
Transportation	35	16
Utilities	31	36
Rent expenses	17	14
Sundry on-mine and concentrating costs	64	47
<b>Total (refer to note 7)</b>	<b>1,454</b>	<b>1,243</b>
<b>9. SMELTING COSTS</b>		
Platinum group scrap metals purchased	268	82
Labour	245	201
Consumables and spares	223	193
Insurance	70	48
Repairs and maintenance	45	24
Utilities	28	34
Transportation	13	7
Rent expenses	7	5
Non-ferrous scrap metal purchased	5	87
Sundry smelting costs	11	2
<b>Total (refer to note 7)</b>	<b>915</b>	<b>683</b>

## 10. TREATMENT AND REFINING COSTS

	2006	2005
Labour	167	142
Consumables and spares	146	138
Platinum group metals toll refining cost	77	76
Insurance	18	16
Repairs and maintenance	17	12
Utilities	14	18
Transportation	5	3
Rent expenses	3	2
Sundry treatment and refining costs	6	4
<b>Total (refer to note 7)</b>	<b>453</b>	<b>411</b>
<b>11. OTHER COSTS</b>		
Transportation	143	117
Tax on mining and pollution levies	127	119
Exploration expenses	49	39
Cost of refined metals purchased from third parties	28	91
Other	41	40
<b>Total (refer to note 7)</b>	<b>388</b>	<b>406</b>
<b>12. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS</b>		
Mining and concentrating	338	305
Smelting	165	136
Treatment and refining	51	44
Other	14	13
<b>Total (refer to note 7)</b>	<b>568</b>	<b>498</b>
<b>13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Export customs duties	484	301
Salaries	240	194
Taxes other than mining and income taxes and pollution levies	82	68
Advertising	70	58
Transportation expenses	30	36
Consulting and other professional services	29	27
Legal and audit services	21	29
External research and development	20	14
Depreciation	19	17
Commission paid	12	10
Repairs and maintenance	12	9
Insurance	10	12
Other	61	66
<b>Total</b>	<b>1,090</b>	<b>841</b>

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#### 14. OTHER NET OPERATING EXPENSES

	2006	2005
Impairment of property, plant and equipment (refer to note 18)	87	10
Maintenance of social sphere facilities	78	69
Donations	68	49
Foreign exchange loss/(gain), net	33	(1)
Loss on disposal of property, plant and equipment	21	28
Change in provision for tax penalties	19	15
Change in allowance for value added tax recoverable	9	15
Change in allowance for doubtful debts	5	(10)
Operating profit of non-mining entities	(28)	(16)
Other	(14)	(3)
<b>Total</b>	<b>278</b>	<b>156</b>

#### 15. FINANCE COSTS

	2006	2005
Interest expense on borrowings	60	75
Unwinding of discount on decommissioning obligations (refer to note 30)	19	12
Interest expense on pension obligations (refer to note 29)	7	8
Foreign exchange (gain)/loss on revaluation of borrowings, net	(65)	26
<b>Total</b>	<b>21</b>	<b>121</b>

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

	2006	2005
Income on disposal of shares of OJSC "Krasnoyarskaya generatsiya"	117	-
Interest income on bank deposits and loans advanced	74	43
Dividend income on available-for-sale investments	6	9
Income from associates (refer to note 20)	3	2
Loss on disposal of shares of Gold Fields Limited	(317)	-
Change in allowance for promissory notes and loans advanced	(83)	(4)
Impairment of investments in associates (refer to note 20)	(36)	-
Other	10	9
<b>Total</b>	<b>(226)</b>	<b>59</b>

Change in allowance for promissory notes and loans advanced mostly represents provision against loan provided by the Group to a related party in the amount of USD 70 million (refer to note 37).

#### 17. INCOME TAX

	2006	2005
Current tax expense	1,893	911
Deferred tax benefit	(88)	(73)
<b>Total</b>	<b>1,805</b>	<b>838</b>

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation of 24%, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:

	2006	2005
<b>Profit before income tax from continuing operations</b>	<b>6,777</b>	<b>3,116</b>
Profit before income tax from a discontinued operation	1,005	125
<b>Profit before income tax from continuing and discontinued operations</b>	<b>7,782</b>	<b>3,241</b>
Theoretical income tax at 24%	1,868	778
Impact of specific tax rates	(291)	(21)
Tax effect of permanent differences	171	118
Permanent difference on impairment of investments	29	1
Taxable losses of subsidiaries not carried forward	2	6
Change in valuation allowance	38	7
<b>Income tax at effective rate of 23% (2005: 27%)</b>	<b>1,817</b>	<b>889</b>
Less: Income tax attributable to a discontinued operation (refer to note 42)	(12)	(51)
<b>Income tax expense attributable to continuing operations</b>	<b>1,805</b>	<b>838</b>

The corporate income tax rates in other countries where the Group has a significant taxable presence vary from 0% to 39%.

#### 18. PROPERTY, PLANT AND EQUIPMENT

##### Cost

##### Balance at 31 December 2004

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Construction-in-progress	Total
Balance at 31 December 2004	5,258	2,717	152	1,312	9,439
Additions	-	-	-	780	780
Acquired on acquisition of subsidiaries (refer to note 36)	397	39	1	8	445
Disposed of on disposal of subsidiaries	(5)	(9)	-	(1)	(15)
Transfers from capital construction-in-progress	167	375	19	(561)	-
Decommissioning asset raised (refer to note 30)	135	9	-	-	144
Disposals	(26)	(69)	(9)	(20)	(124)
Reclassified to non-current assets of disposal group	(799)	(296)	(9)	(145)	(1,249)
Effect of translation to presentation currency	(172)	(96)	(4)	(59)	(331)

##### Balance at 31 December 2005

Balance at 31 December 2005	4,955	2,670	150	1,314	9,089
Additions	-	-	-	769	769
Acquired on acquisition of subsidiaries (refer to note 36)	200	107	-	8	315
Transfers from capital construction-in-progress	247	326	7	(580)	-
Decommissioning asset raised (refer to note 30)	9	-	-	-	9
Disposals	(29)	(81)	(2)	(2)	(114)
Effect of translation to presentation currency	428	256	14	126	824

##### Balance at 31 December 2006

##### Accumulated depreciation and impairment

##### Balance at 31 December 2004

Balance at 31 December 2004	(786)	(685)	(18)	(98)	(1,587)
Charge for the year	(316)	(260)	(11)	-	(587)
Eliminated on disposals	7	36	2	-	45
Impairment	(6)	-	-	(15)	(21)
Eliminated on reclassification to non-current assets of disposal group	73	64	1	6	144
Effect of translation to presentation currency	30	28	-	4	62

##### Balance at 31 December 2005

Balance at 31 December 2005	(998)	(817)	(26)	(103)	(1,944)
Charge for the year	(306)	(262)	(11)	-	(579)
Eliminated on disposals	8	38	2	-	48
Impairment (refer to note 14)	(92)	(8)	-	13	(87)
Effect of translation to presentation currency	(101)	(84)	(2)	(9)	(196)

##### Balance at 31 December 2006

##### Carrying value

Balance at 31 December 2006	(1,489)	(1,133)	(37)	(99)	(2,758)
<b>31 December 2005</b>	<b>3,957</b>	<b>1,853</b>	<b>124</b>	<b>1,211</b>	<b>7,145</b>
<b>31 December 2006</b>	<b>4,321</b>	<b>2,145</b>	<b>132</b>	<b>1,536</b>	<b>8,134</b>

Included in property, plant and equipment at 31 December 2006 are non mining assets with a carrying value of USD 1,237 million (31 December 2005: USD 651 million).

## 19. INTANGIBLE ASSETS

	Goodwill	Software and other	Total
<b>Cost</b>			
<b>Balance at 31 December 2004</b>	-	28	28
Acquired on acquisition of subsidiaries (refer to note 36)	14	-	14
Additions	-	15	15
Disposals	-	(2)	(2)
Effect of translation to presentation currency	-	(2)	(2)
<b>Balance at 31 December 2005</b>	14	39	53
Acquired on acquisition of subsidiaries (refer to note 36)	10	-	10
Additions	-	27	27
Disposals	-	(1)	(1)
Effect of translation to presentation currency	1	4	5
<b>Balance at 31 December 2006</b>	25	69	94
<b>Accumulated amortisation and impairment</b>			
<b>Balance at 31 December 2004</b>	-	(4)	(4)
Charge for the year	-	(7)	(7)
Eliminated on disposals	-	2	2
Effect of translation to presentation currency	-	-	-
<b>Balance at 31 December 2005</b>	-	(9)	(9)
Charge for the year	-	(11)	(11)
Eliminated on disposals	-	-	-
Effect of translation to presentation currency	-	(1)	(1)
<b>Balance at 31 December 2006</b>	-	(21)	(21)
<b>Carrying value</b>			
<b>31 December 2005</b>	14	30	44
<b>31 December 2006</b>	25	48	73

## 20. INVESTMENTS IN ASSOCIATES

	2006	2005
<b>Balance at beginning of the year</b>	95	162
Acquired during the year	151	-
Disposed of during the year	(39)	-
Change in classification due to increase in shareholding	-	(9)
Share of post-acquisition profits (refer to note 16)	3	2
Impairment of investments in associates (refer to note 16)	(36)	-
Reclassified from/(to) investments held for sale	56	(56)
Reclassified to investments available-for-sale	(35)	-
Effect of translation to presentation currency	13	(4)
<b>Balance at end of the year</b>	208	95

Details of the Group's associates are as follows:

Name of associate	Carrying value of investment	Total assets	Total liabilities	Sales	(Loss)/ profit
<b>2006</b>					
Smart Hydrogen Inc.	112	224	-	-	(76)
OJSC "Krasnoyarskenergo"	30	143	(31)	225	6
OJSC "Norilskgazprom"	30	140	(36)	122	16
OJSC "Kolenergo"	15	85	(27)	100	-
Other	21	226	(106)	972	(20)
	<b>208</b>	<b>818</b>	<b>(200)</b>	<b>1,419</b>	<b>(74)</b>
<b>2005</b>					
OJSC "Krasnoyarskaya generatsiya"	37	465	(74)	86	(4)
OJSC "Norilskgazprom"	28	145	(54)	97	14
OJSC "Krasnoyarskenergo"	23	278	(38)	475	4
Other	7	124	(36)	130	-
	<b>95</b>	<b>1,012</b>	<b>(202)</b>	<b>788</b>	<b>14</b>

Smart Hydrogen Inc. is a joint venture formed in April 2006 by the Group and Interros Holding Company, a party related by means of common ownership and control. The Group owns 50% of Smart Hydrogen Inc. Through this entity in June 2006 the principal investors acquired a 35% stake in Plug Power Inc., a US designer of environmentally clean and reliable energy products.

At 31 December 2006 management reviewed the carrying value of the Group's investment in Smart Hydrogen Inc. and determined that the recoverable amount of the investment is less than its carrying amount. Accordingly, the carrying amount was reduced to the recoverable amount and an impairment loss of USD 36 million was recognised in the income statement (refer to note 16).

In October 2005 and March 2006 the Group became a shareholder in OJSC "Krasnoyarskaya generatsiya" and OJSC "Krasnoyarskiye magistralniye seti", accordingly, as a part of reorganisation of OJSC "Krasnoyarskenergo". In November 2006 the Group sold its share in OJSC "Krasnoyarskaya generatsiya" for a cash consideration of USD 156 million (refer to note 37).

On 9 December 2005 the Board of Directors of the Company approved a decision to sell its investment in OJSC "Kolenergo". At 31 December 2005 this investment was classified as held for sale

and included in current investments in securities (refer to note 21). However, in September 2006 management has changed its plan to sell this investment. Accordingly, the Group ceased to classify investment in OJSC "Kolenergo" as held for sale, and adjusted its carrying value as if this asset had not been classified as held for sale. As a result of reclassification of this investment from investments held for sale to investments in associates, income from associate for the year ended 31 December 2006 was recognised in profit from continuing operations.

In November 2006 the Group's investments in OJSC "Kolskaya generiruyuschaya kompaniya" and OJSC "Apatitskaya TEC" were exchanged for 208,928 million shares of OJSC "Territorial Generation Company No. 1" (OJSC "TGK-1") as a part of the reorganisation of RAO "UES of Russia". Investment in OJSC "TGK-1" was classified as investment in securities available-for-sale (refer to note 21).

OJSC "Krasnoyarskenergo" and OJSC "Kolenergo" are public entities that are listed on the Russian Stock Exchange. At 31 December 2006 market value of the Group's investment in OJSC "Krasnoyarskenergo" amounted to USD 164 million (31 December 2005: USD 66 million), and market value of the Group's investment in OJSC "Kolenergo" amounted to USD 51 million.

	2006	2005
<b>21. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS</b>		
<b>Non-current</b>		
Securities available-for-sale	2,331	615
Long-term deposits	268	5
Long-term accounts receivable	9	25
Long-term loans advanced and other	7	45
<b>Total non-current</b>	<b>2,615</b>	<b>690</b>
<b>Current</b>		
Short-term loans advanced	45	5
Securities available-for-sale	35	71
Securities held for trading	22	-
Investments held for sale (refer to note 20)	-	56
Other	2	2
<b>Total current</b>	<b>104</b>	<b>134</b>
	<b>Shareholding</b>	
Non-current securities available-for-sale consisted of shares of the following companies:		
RAO "UES of Russia"	3.5%	1,580 611
OJSC "OGK-3"	14.6%	572 -
OJSC "Polyus Gold"	1.0%	95 -
OJSC "TGK-1"	7.2%	79 -
OJSC "Samara Bearing Plant"	5.6%	5 4
<b>Total</b>		<b>2,331 615</b>

At 31 December 2006 short-term loans advanced included a loan to OJSC "Norilskgazprom" in the amount of USD 21 million, at interest rate of 6.4%, repayable in 2007. At 31 December 2005 this loan in the amount of USD 37 million was recognised within long-term loans advanced.

Current securities available-for-sale mostly comprised U.S. federal agency notes, commercial papers and bonds.

Interest rates on long-term deposits held in banks vary from 6.1% to 7.4%.

	2006	2005
<b>22. OTHER NON-CURRENT ASSETS</b>		
Value added tax recoverable	82	137
Non-current metal inventories	-	9
	<b>82</b>	<b>146</b>
Less: Allowance for value added tax recoverable	(38)	(52)
<b>Total</b>	<b>44</b>	<b>94</b>
<b>23. INVENTORIES</b>		
Refined metals		
Joint products at net production cost	361	389
By-products at net realisable value	135	78
Work-in-process at net production cost	273	254
<b>Total metal inventories</b>	<b>769</b>	<b>721</b>
Stores and materials at cost	732	639
Less: Allowance for obsolete and slow-moving items	(30)	(59)
<b>Net stores and materials</b>	<b>702</b>	<b>580</b>
<b>Total inventories</b>	<b>1,471</b>	<b>1,301</b>

	2006	2005
<b>24. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	611	339
Advances to suppliers	54	46
Other receivables	157	116
	<b>822</b>	<b>501</b>
Less: Allowance for doubtful debts	(77)	(61)
<b>Total</b>	<b>745</b>	<b>440</b>
<b>25. OTHER CURRENT ASSETS</b>		
Value added tax recoverable	510	453
Prepaid insurance	97	27
Customs duties	55	29
Prepaid income tax	27	22
Other taxes	10	25
Other prepaid expenses	8	11
<b>Total</b>	<b>707</b>	<b>567</b>
<b>26. CASH AND CASH EQUIVALENTS</b>		
Current accounts - RUR	185	137
- foreign currencies	263	47
Bank deposits - RUR	15	-
- foreign currencies	1,618	639
Restricted cash	5	18
Other cash and cash equivalents	92	81
<b>Total</b>	<b>2,178</b>	<b>922</b>

	2006	2005
<b>27. SHARE CAPITAL</b>		
<b>Authorised, issued and fully paid capital</b>		
31 December 2006: 190,627,747 ordinary shares at par value of RUR 1 each	8	-
31 December 2005: 213,905,884 ordinary shares at par value of RUR 1 each	-	9
<b>Total</b>	<b>8</b>	<b>9</b>
<b>Treasury shares</b>		
31 December 2006: 9,209,834 ordinary shares	(999)	-
31 December 2005: 25,198,963 ordinary shares	-	(1,457)
<b>Total</b>	<b>(999)</b>	<b>(1,457)</b>
On 27 March 2006 23,278,137 treasury shares were cancelled by the Company.		
On 28 December 2006 7,498,950 ordinary shares were bought back from shareholders at RUR 3,510 per share for a total consideration of USD 999 million.		
As part of restructuring of the Group that took place in 2001-2002, shareholders of OJSC "RAO "Norilsk Nickel", a subsidiary of the Group, were entitled during certain periods to swap their shares for shares in OJSC "MMC Norilsk Nickel". During the year ended 31 December 2006 209,942 shares had been swapped.		
Number of ordinary shares in issue at end of the year	181,417,913	188,706,921
Weighted average number of ordinary shares in issue during the year	188,767,177	201,242,833

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**28. LONG-TERM BORROWINGS**

7.125% Guaranteed notes due 2009, net of direct expenses on issuance

<u>2006</u>	<u>2005</u>
499	499

On 30 September 2004 Norilsk Nickel Luxemburg S.A., a wholly owned special purpose subsidiary of the Group, issued USD 500 million 7.125% notes. The notes were issued at par value with an interest payable semi-annually in arrears on 30 March and 30 September, and mature on 30 September 2009. The notes are unconditionally and irrevocably guaranteed by OJSC "MMC Norilsk Nickel".

Syndicated loan arranged by Toronto Dominion	96	109
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A USD 250 million credit facility arranged by Stillwater Mining Company, a subsidiary of the Group, at LIBOR + 3.25% per annum. Repayments commenced in 2004, with the final instalment due on 30 July 2010. Substantially all the property and assets of Stillwater Mining Company are pledged as security for this credit facility. The loan agreement requires that 50% of the company's annual excess cash flow, any proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions, be offered to repay this loan.

Exempt Facility Reversal Bonds Series 2000 issued through the State of Montana Investment Board	29	29
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USD-denominated bonds with an effective interest rate of 8.57% issued on 6 July 2002 and maturing on 1 July 2020.

Other long-term borrowings	11	6
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Less: Current portion repayable within one year and shown under current liabilities (refer to note 32)	(3)	(8)
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<b>Total</b>	<b>632</b>	<b>635</b>
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Long-term borrowings are repayable as follows:

Due in the second year	4	2
Due in the third year	502	2
Due in the fourth year	93	500
Due in the fifth year	-	98
Due thereafter	33	33
<b>Total</b>	<b>632</b>	<b>635</b>

**29. EMPLOYEE BENEFIT OBLIGATIONS****Non-current**

Lifelong professional pension plan	42	37
Joint corporate pension plan	21	24
Mother's rights program	1	2
Six pensions plan	1	1
	<b>65</b>	<b>64</b>

Less: Current portion of employee benefit obligations	(8)	(8)
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<b>Total non-current</b>	<b>57</b>	<b>56</b>
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**Current**

Accrual for annual leave	143	120
Wages and salaries	92	72
Current portion of employee benefit obligations	8	8
Other	16	12

<b>Total current</b>	<b>259</b>	<b>212</b>
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**Defined benefit plans**

Present value of funded defined benefit obligation	121	104
Fair value of plan assets	(11)	-

Fair value of obligation	110	104
Unrecognised actuarial losses	(45)	(40)

	<b>65</b>	<b>64</b>
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Amounts recognised in the income statement were as follows:

Interest expense (refer to note 15)	7	8
Additional cost arising from new plan members	4	6
Net actuarial losses recognised during the year	3	2
Current service costs	2	1

<b>Total</b>	<b>16</b>	<b>17</b>
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Movements in the present value of the defined benefit obligations were as follows:

	Lifelong professional pension plan	Joint corporate pension plan	Mother's rights program	Six pensions plan
<b>Balance at 31 December 2004</b>	<b>41</b>	<b>22</b>	<b>4</b>	<b>3</b>
Cash payments	(5)	(1)	(4)	(2)
Charge for the year	8	6	2	1
Actuarial losses/(gains)	23	9	-	(1)
Effect of translation to presentation currency	(1)	(1)	-	-
<b>Balance at 31 December 2005</b>	<b>66</b>	<b>35</b>	<b>2</b>	<b>1</b>
Cash payments	(7)	(1)	(1)	(1)
Charge for the year	9	6	-	1
Actuarial losses/(gains)	9	(5)	-	-
Effect of translation to presentation currency	4	3	-	-
<b>Balance at 31 December 2006</b>	<b>81</b>	<b>38</b>	<b>1</b>	<b>1</b>

Starting from 2006 all of the Group's pension plans are managed by a non-state Pension Fund "Norilsk Nickel", a related party. Contributions from the Group to this Fund during the year ended 31 December 2006 amounted to USD 11 million (2005: nil).

The major categories of plan assets and the expected rate of return at the balance sheet dates for each category were as follows:

	Expected return		Fair value of plan assets	
	2006	2005	2006	2005
Equity securities	46.7%	n/a	3	-
Bonds	7.9%	n/a	6	-
Promissory notes	6.4%	n/a	1	-
Other	4.9%	n/a	1	-
<b>Weighted average expected return</b>	<b>10.4%</b>	<b>n/a</b>	<b>11</b>	<b>-</b>

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held less expenses on managing the assets. Management of the Group assesses the expected returns based on historical return trends for these assets.

	2006	2005	2006	2005
Key assumptions used in estimation of defined benefit obligations were the following:			<b>Defined contribution plans</b>	
			Amounts recognised in the income statement in respect of defined contribution plans:	
Discount rate	7.0%	7.0%	Pension fund of the Russian Federation	181
Weighted average expected return on plan assets	10.4%	n/a	Stillwater Mining Company savings plan	5
Pre-retirement increases to capital accounts	4.5%	4.5%	<b>Total</b>	<b>186</b>
Future salary increases	6.7%	6.7%		<b>161</b>
Future pension increases	5.2%	5.2%		
Average life expectancy of members from the date of retirement	17 years	17 years		

### 30. ENVIRONMENTAL OBLIGATIONS

	2006	2005
<b>Balance at beginning of the year</b>	<b>269</b>	<b>155</b>
New obligations raised (refer to note 18)	4	105
Change in estimate (refer to note 18)	5	39
Acquired on acquisition of subsidiaries	-	21
Unwinding of discount on decommissioning obligations (refer to note 15)	19	12
Charge to production cost	1	3
Reclassified to non-current liabilities of disposal group	-	(61)
Effect of translation to presentation currency	24	(5)
<b>Balance at end of the year</b>	<b>322</b>	<b>269</b>

Key assumptions used in estimation of environmental obligations were as follows:

	2006	2005
Discount rates	6.6%-7.7%	7.0%-7.7%
Future expected increase of expenses	25.0%	25.0%
Expected closure date of mines	2007-2063	2006-2070

Present value of expected cost to be incurred for settlement of environmental obligations was as follows:

	2006	2005
Due from second to fifth year	41	49
Due from sixth to tenth year	10	34
Due from eleventh to fifteenth year	64	25
Due from sixteenth to twentieth year	83	65
Due thereafter	124	96
<b>Total</b>	<b>322</b>	<b>269</b>

### 31. DEFERRED TAX LIABILITIES

	2006	2005
<b>Balance at beginning of the year</b>	<b>543</b>	<b>740</b>
Recognised in the income statement	(88)	(82)
Change in deferred tax liability arising on revaluation of available-for-sale investments	304	-
Change in deferred tax liability due to acquisition of subsidiaries (refer note 36)	57	89
Reclassified to non-current liabilities of disposal group	-	(169)
Effect of translation to presentation currency	65	(35)
<b>Balance at end of the year</b>	<b>881</b>	<b>543</b>

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2006	2005
Property, plant and equipment	662	593
Accrued operating expenses	(41)	(43)
Valuation of receivables	(2)	(7)
Unrealised profit on intra-group transactions	(86)	(43)
Inventory valuation	59	36
Valuation of investments	307	(10)
Loss carried forward on disposal of investments	(80)	-
Valuation allowance for deferred tax asset	100	55
Other	(38)	(38)
<b>Total</b>	<b>881</b>	<b>543</b>

The unutilised tax losses of the North American operations as at 31 December 2006, which are available for offset against future taxable income earned in the United States of America, amounted to USD 297 million (31 December 2005: USD 285 million), have not been recognised as a deferred tax asset.

At 31 December 2006 the Group does not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 2,531 million (31 December 2005: USD 2,422 million), because it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

### 32. SHORT-TERM BORROWINGS

	2006	2005
RUR-denominated short-term borrowings	9	54
USD-denominated short-term borrowings at floating rates	-	295
USD denominated short-term borrowings at fixed rates	146	-
Current portion of long-term borrowings (refer to note 28)	3	8
<b>Total</b>	<b>158</b>	<b>357</b>

The interest rates on these borrowings vary as follows:

	2006	2005
RUR-denominated short-term borrowings	0.0%	5.5%
USD-denominated short-term borrowings at floating rates	-	LIBOR +0.7%
USD-denominated short-term borrowings at fixed rates	5.8% to 6.0%	-

### 33. TRADE AND OTHER PAYABLES

	2006	2005
Trade payables	191	170
Insurance	107	10
Advances from customers	50	56
Interest	9	11
Other creditors	64	53
<b>Total</b>	<b>421</b>	<b>300</b>

### 34. TAXES PAYABLE

	2006	2005
Income tax	244	38
Provision for tax penalties	52	31
Value added tax	29	60
Property tax	25	21
Tax on mining	16	9
Unified social tax	12	10
Personal income tax	10	9
Other	5	9
<b>Total</b>	<b>393</b>	<b>187</b>

### 35. DIVIDENDS

On 24 November 2006 the Company declared an interim dividend of RUR 56 (USD 2.11) per share in respect of the year ended 31 December 2006. The dividend was paid to shareholders on 29 December 2006. This amount is net of USD 4 million paid to the Group subsidiaries.

On 29 June 2006 the Company declared a final dividend in respect of the year ended 31 December 2005 of RUR 53 (USD 1.98) per share. The dividend was paid to shareholders on 15 August 2006. This amount is net of USD 4 million paid to the Group subsidiaries.

On 30 December 2005 the Company declared an interim dividend of RUR 43 (USD 1.49) per share in respect of the year ended 31 December 2005. The dividend was paid to shareholders on 28 February 2006. This amount is net of USD 3 million paid to the Group subsidiaries.

On 30 June 2005 the Company declared a final dividend in respect of the year ended 31 December 2004 of RUR 28 (USD 0.98) per share. The dividend was paid to shareholders on 31 August 2005. This amount is net of USD 3 million paid to the Group subsidiaries.

	2006	2005
<b>Total</b>	<b>772</b>	<b>492</b>

### 36. ACQUISITION OF SUBSIDIARIES

	2006	2005
<b>Net assets acquired</b>		
Property, plant and equipment (refer to note 18)	315	445
Other assets	19	40
Loans and borrowings	(7)	(37)
Trade and other payables	(6)	(53)
Deferred tax liabilities (refer to note 31)	(57)	(89)
<b>Net assets at date of acquisition</b>	<b>264</b>	<b>306</b>
Decrease in minority interest due to increase of investments in subsidiaries by the Group	2	18
Less: Minority interest	-	(1)
<b>Groups' share of net assets acquired</b>	<b>266</b>	<b>323</b>
Add: Goodwill on acquisition (refer to note 19)	10	14
Less: Pre-acquisition amount invested in subsidiary	-	(9)

	2006	2005
<b>Total consideration</b>	<b>276</b>	<b>328</b>
Satisfied by issuance from treasury shares	(2)	(12)
Satisfied by cash	(274)	(176)
Deferred cash consideration	-	(140)

	2006	2005
Net cash outflow arising on acquisition:		
Cash consideration	(274)	(176)
Cash and cash equivalents acquired	5	1

	2006	2005
<b>Net cash outflow on acquisition of subsidiaries</b>	<b>(269)</b>	<b>(175)</b>

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Holdings in the following companies were acquired:

**Russian gold mining companies**

	2006	2005
OJSC "Aldanzoloto GRK"	-	99.2%
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya"	-	50.0%
OJSC "Yakutskaya Gornaya Kompaniya"	-	100.0%
OJSC "Pervenets"	-	74.0%
OJSC "Lenzoloto"	-	11.2%
OJSC "Matrosov Mine"	-	31.3%

**Other acquisitions**

	2006	2005
OJSC "Taimyrenego"	100.0%	-
LLC "Astron"	71.0%	-
LLC "Astron-S"	71.0%	-
LLC "Nortrans"	100.0%	-
LLC "Zapolyarniy Torgoviy Alians"	100.0%	-
LLC "Terminal"	-	100.0%
LLC "Gornaya Leasingovaya Kompaniya"	-	80.1%

**37. RELATED PARTIES**

Related parties are considered to include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties.

**Transactions with related parties**

	Sale of goods	Purchase of goods	Purchase of services	Purchase of investments
<b>Year ended 31 December 2006</b>				
Company	54	12	71	70
Subsidiaries of the Group	51	154	69	-
<b>Total</b>	<b>105</b>	<b>166</b>	<b>140</b>	<b>70</b>
<b>Year ended 31 December 2005</b>				
Company	52	54	63	47
Subsidiaries of the Group	12	62	37	-
<b>Total</b>	<b>64</b>	<b>116</b>	<b>100</b>	<b>47</b>

During the year ended 31 December 2006 the Group sold property, plant and equipment to related parties for a total cash consideration of USD 19 million.

In November 2006 the Group sold its investment in shares of OJSC "Krasnoyarskaya generatsiya" to related parties for a cash consideration of USD 156 million (refer to note 20).

**Outstanding balances with related parties**

	Loans and borrowings	Investments and cash	Trade receivables	Trade payables
<b>31 December 2006</b>				
Company	-	463	8	63
Subsidiaries of the Group	6	212	4	20
<b>Total</b>	<b>6</b>	<b>675</b>	<b>12</b>	<b>83</b>
<b>31 December 2005</b>				
Company	-	242	2	20
Subsidiaries of the Group	31	214	6	14
<b>Total</b>	<b>31</b>	<b>456</b>	<b>8</b>	<b>34</b>

All balances were unsecured and expected to be settled in cash. No guarantees have been given or received. Allowance for loan provided to a related party amounted to USD 70 million (refer to note 16).

**Compensation of key management personnel**

Remuneration of key management personnel of the Group for the year ended 31 December 2006 amounted to USD 13 million (31 December 2005: USD 14 million).

**38. COMMITMENTS**

**Capital commitments**

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2007:

Maintenance of property, plant and equipment	797
Expansion of property, plant and equipment	508
<b>Total</b>	<b>1,305</b>
2007 budgeted capital expenditure allocated between:	
Contracted	570
Not contracted	735
<b>Total</b>	<b>1,305</b>

Contracted obligations in respect of capital commitments for the period after 2007 amount to approximately USD 264 million.

**Operating leases**

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2051. Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2006 are as follows:

Due in one year	22
Due in the second year	10
Due thereafter	24
<b>Total</b>	<b>56</b>

**Intergovernmental agreement with Kingdom of Norway**

In 2001 the governments of the Russian Federation and Kingdom of Norway signed an intergovernmental agreement in respect of provision of technical assistance in the reconstruction of metallurgical facilities of Pechenganickel Combine, a branch of OJSC "Kolskaya Mining and Metallurgical Company".

Total investment in the reconstruction of metallurgical facilities was agreed to be USD 103 million, financed as follows:

Grants from Kingdom of Norway	31
Loan from Nordic Investment Bank	30
Contribution by the Group	42
<b>Total</b>	<b>103</b>

At 31 December 2006 total investment in reconstruction of metallurgical facilities of Pechenganickel Combine amounted to USD 15 million.

### Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. These contributions are recorded in the period in which they are incurred.

The Group's commitments will be funded from its own cash resources.

### 39. CONTINGENCIES

#### Litigation

Unresolved tax litigation at 31 December 2006 amounted to approximately USD 95 million (31 December 2005: USD 142 million). Management believes that the risk of an unfavourable outcome to the litigation is possible.

In addition, the Group had a number of claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

#### Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regards to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposures at 31 December 2006 to be approximately USD 204 million (31 December 2005: USD 117 million).

#### Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment and the disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with all current existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements and the terms of license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

### Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

### 40. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, operational, credit and liquidity risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

#### Risk management structure

The Group's treasury function is responsible for the management of currency, liquidity, interest rate and credit risk. Within the treasury function, there is an independent risk management unit, responsible for monitoring the treasury's adherence to the Group's risk management policies.

Commodity price risk is managed by the Sales Block of the Group. An independent risk management unit exists within that function to control exposures and ensure they are in line with policies set by management of the Sales Block and senior management of the Group.

### Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's joint products, i.e. nickel, copper, palladium, platinum and gold.

The Group is exposed to commodity price risk as a substantial part of its revenues is derived from long-term contracts with physical off-takers for known volumes of metals, but at prices that will be determined by reference to market prices at the delivery date.

For a certain portion of its revenues the Group manages its exposure to commodity price risk by entering into fixed price sales contracts and cap and floor arrangements for the sale of refined metal to physical off-takers.

#### Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits are adversely impacted by appreciation of RUR against USD. In assessing this risk management takes into consideration changes in metal prices. In 2006 favourable changes in metal prices mitigated the adverse effect of appreciation of RUR against USD.

#### Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is not significant as the majority of the Group's borrowings are at fixed rates.

### Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. The Group has in place an insurance program that is aimed at reducing the following risks related to production activities:

- risk of business interruption;
- risk of damage to core production equipment used in the metallurgical process and other permanent infrastructure as a result of fire or natural disaster, as well as risk of breakages and accidents with key production equipment; and
- risk of loss or damage to domestic and export deliveries of semi-finished and finished goods and imported stores and materials.

In accordance with the statutory requirements the Group insures third party liability under claims resulting from accidents at the Group's production facilities.

### Credit risk

Credit risk is the risk that customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of customers.

The Group is not economically dependent on a limited number of customers for the sale of its products because of the existence of liquid commodity markets for all of its products. Metal sales to the Group's customers are presented below:

	2006				2005			
	Number of customers	%	Turnover, USD million	%	Number of customers	%	Turnover, USD million	%
Largest customer	1	-	825	7	1	-	594	8
Next 9 largest customers	9	2	3,429	30	9	3	2,323	33
<b>Total</b>	<b>10</b>	<b>2</b>	<b>4,254</b>	<b>37</b>	<b>10</b>	<b>3</b>	<b>2,917</b>	<b>41</b>
Next 10 largest customers	10	3	1,940	17	10	3	1,067	15
<b>Total</b>	<b>20</b>	<b>5</b>	<b>6,194</b>	<b>54</b>	<b>20</b>	<b>6</b>	<b>3,984</b>	<b>56</b>
Remaining customers	349	95	5,356	46	314	94	3,185	44
<b>Total</b>	<b>369</b>	<b>100</b>	<b>11,550</b>	<b>100</b>	<b>334</b>	<b>100</b>	<b>7,169</b>	<b>100</b>

Credit is only extended to customers after completion of strict credit approval procedures, thereafter customers are monitored by reference to their financial position.

The Group has a concentration of cash and bank deposits with a related party commercial bank that at 31 December 2006 represented 22% (31 December 2005: 46%) of total cash and bank deposits balances.

The Group believes that there is no other significant concentration of credit risk.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

At 31 December 2006 the Group had in place financing facilities for management of its day to day liquidity requirements with the following banks:

	2006	2005
<b>Committed credit lines</b>		
Societe Generale; Calyon;		
ING Bank N.V., London Branch;		
Mizuho Corporate Bank, Ltd.;		
Sumitomo Mitsui Banking Corporation		
Europe Limited; The Bank of		
Tokyo-Mitsubishi, Ltd.;		
West LB AG; CJSC KB "Citibank"	400	400
OJSC "Sberbank"	-	486
Barclays Capital; BNP Paribas (Suisse) S.A.	-	295
<b>Total committed credit lines</b>	<b>400</b>	<b>1,181</b>
<b>Uncommitted credit lines</b>		
CJSC "Gazprombank"	120	120
CJSC "ING Bank (Eurasia)"	100	100
OJSC "Vneshtorgbank"	100	100
CJSC "West LB Vostok"	76	50
CJSC "BNP Pariba"	50	50
CJSC "Natexis Bank"	50	50
CJSC "Drezdner bank"	50	50
CJSC "Calyon Rusbank"	50	50
OJSC "Bank Uralsib"	50	30
CJSC "Societe Generale Vostok"	40	35
LLC "Deutsche bank"	37	30
OJSC "Eurofinance Mosnarbank"	35	-
CJSC KB "Citibank"	25	25
CJSC "Commerzbank (Eurasia)"	20	20
OJSC KB "MBRD"	20	20
Other	-	14
<b>Total uncommitted credit lines</b>	<b>823</b>	<b>744</b>

	2006	2005
<b>Bank overdraft facilities</b>		
BNP Paribas Suisse (Switzerland)	150	75
ING (Switzerland)	100	100
Rosbank (Russia)	95	-
Credit Suisse (Switzerland)	75	75
Natexis (France)	75	-
Banque Cantonale Vaudoise (Switzerland)	50	50
UBS (Switzerland)	40	-
<b>Total bank overdraft facilities</b>	<b>585</b>	<b>300</b>
<b>Total borrowing facilities</b>	<b>1,808</b>	<b>2,225</b>
Less: Outstanding letters of credit	(194)	(61)
Less: Loans received related to the above facilities	(145)	(312)
<b>Net facilities available</b>	<b>1,469</b>	<b>1,852</b>

### 41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

At 31 December 2006 the estimated fair values of financial instruments, consisting of investments in securities, trade and other receivables, loans advanced and promissory notes, other current assets, derivative financial liabilities and trade and other payables approximates their carrying value due to the short-term nature of these instruments. At 31 December 2006 USD 500 million of corporate bonds due in 2009 had a fair value of 106% or USD 530 million. The fair value of other fixed-rate debt and floating-rate debt approximates its carrying value.

**42. DISCONTINUED OPERATION**

On 30 September 2005 at an Extraordinary General Meeting of shareholders, the majority of shareholders of OJSC "MMC Norilsk Nickel" voted in favour of the spin-off of CJSC "Gold Mining Company Polus" and its subsidiaries (the "Polyus Group") into a new company OJSC "Polyus Gold" by way of a single transaction which was completed on 17 March 2006.

The results of operations and net cash flows of Polyus Group were as follows:

	Period from 1 January 2006 to 17 March 2006	Year ended 31 December 2005
Metal sales	132	473
Cost of metal sales	(71)	(269)
Selling, general and administrative expenses	(15)	(60)
Other net operating expenses	(23)	(29)
Finance costs	(2)	(3)
Net income from investments	984	13
<b>Profit before income tax</b>	<b>1,005</b>	<b>125</b>
Income tax	(12)	(51)
<b>Profit for the period</b>	<b>993</b>	<b>74</b>
Net cash (used in)/generated from operating activities	(56)	52
Net cash generated from/(used in) investing activities	1,963	(296)
Net cash generated from/(used in) financing activities	50	(30)

The major classes of assets and liabilities of Polyus Group were as follows:

	17 March 2006	31 December 2005
Property, plant and equipment and other non-current assets	1,164	1,109
Cash and cash equivalents	2,366	28
Investments in securities and other current assets	772	2,161
Non-current liabilities	(240)	(236)
Trade and other payables	(294)	(237)
<b>Net assets</b>	<b>3,768</b>	<b>2,825</b>
Less: Shares of OJSC "Polyus Gold" received by the Group	(39)	n/a
Less: Minority interest	(31)	n/a
<b>Net assets distributed to shareholders</b>	<b>3,698</b>	<b>n/a</b>

**43. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE****Proposed spin-off of Energy assets**

On 15 May 2007 the Board of Directors of OJSC "MMC Norilsk Nickel" made a decision to spin-off the Group's non-core energy assets into a separate company. The ordinary shares of the newly established company will be distributed among shareholders of OJSC "MMC Norilsk Nickel". The subject of spin-off is the Group's energy assets excluding assets involved in energy supplies for Polar branch of OJSC "MMC Norilsk Nickel". The list of such assets will be finalised in August–September 2007. The spin-off is a subject to final approval by an Extraordinary General Meeting of shareholders in December 2007 and, if approved, is expected to be completed in the first half of 2008.

**Acquisition of Energy assets****Acquisition of shares in TGK-14**

On 30 January 2007 the Group acquired 215,412 million of ordinary shares, or 27.8% of the issued share capital of OJSC "Territorial Generation Company 14" ("TGK-14") for a cash consideration of USD 44 million.

**Acquisition of shares in OGK-3**

On 26 March 2007 in addition to 14.6% of share capital of OJSC "Third Generation Company of the Wholesale Electricity Market" ("OGK-3") (refer to note 21) the Group acquired additional 17,836 million of ordinary shares for a cash consideration of USD 3,121 million. After the completion of the transaction the Group owns 46.6% of OGK-3 share capital.

**Acquisition of nickel business of OM Group, Inc.**

On 1 March 2007 the Group acquired 100% of share capital of OMG Harjavarta Nickel Oy, 100% of share capital of OMG Cawse Proprietary Limited, 20% of share capital of MPI Nickel Proprietary Limited, 4% of ordinary shares of Talvivaaran Kaivososakeyhtio and the debt interest convertible up to a maximum of 7% of ordinary shares of Talvivaaran Kaivososakeyhtio for a cash consideration of USD 505 million, including certain adjustments for working capital and net cash position as determined by the agreement.

At the closing of the transaction the Group entered into five year supply agreement with OM Group, Inc. to supply up to 2,500 metric tons (mt) per year of cobalt metal, up to 2,500 mt per year of cobalt contained in cobalt hydroxide concentrate and up to 1,500 mt per year of cobalt contained in cobalt sulphate solution, along with various nickel and copper based raw materials produced at Harjavarta Nickel Oy.

**44. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES**

Subsidiaries by country of incorporation	Nature of business	Effective % held	
		2006	2005
<b>Russian Federation</b>			
OJSC "RAO "Norilsk Nickel"	Distribution	98.9	98.9
OJSC "Taimyrgaz"	Gas extraction	98.4	98.4
OJSC "Yenisey River Shipping Company"	River shipping operations	43.9	43.9
OJSC "Arkhangelsk Sea Commercial Port"	Sea shipping operations	53.1	53.1
CJSC "NORMETIMPEX"	Distribution	100.0	100.0
OJSC "Kolskaya Mining and Metallurgical Company"	Mining	100.0	100.0
CJSC "Alykel"	Airport	100.0	100.0
LLC "Institut Gypronickel"	Science	100.0	100.0
OJSC "Norilsky Kombinat"	Lessor of equipment	98.8	98.8
OJSC "Kombinat "Severonickel"	Lessor of equipment	98.9	98.9
OJSC "Gornometallurgicheskyy Kombinat "Pechenganickel"	Lessor of equipment	98.9	98.9
LLC "UK "Zapolyarnaya stolitsa"	Utilities	100.0	100.0
CJSC "Kraus-M"	Property holding	100.0	100.0
LLC "Norilsk Telecom"	Telecommunications	100.0	100.0
CJSC "Taimyrskaya Toplivnaya Kompaniya" <sup>1</sup>	Supplier of fuel	100.0	100.0
OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya" <sup>1</sup>	Electricity utilities	51.0	51.0
LLC "Terminal"	Sea shipping operations	100.0	100.0

(1) Established as part of reorganisation of OJSC "MMC Norilsk Nickel".

**Acquisition of LLC "GRK "Bystrinskoye"**

In February 2007 the Group finalised the acquisition of 100% of share capital of LLC "GRK "Bystrinskoye". In the consolidated financial statements for the year ended 31 December 2006, LLC "GRK "Bystrinskoye" was accounted for as a special purpose entity.

**Offers for acquisitions of assets****OGK-3**

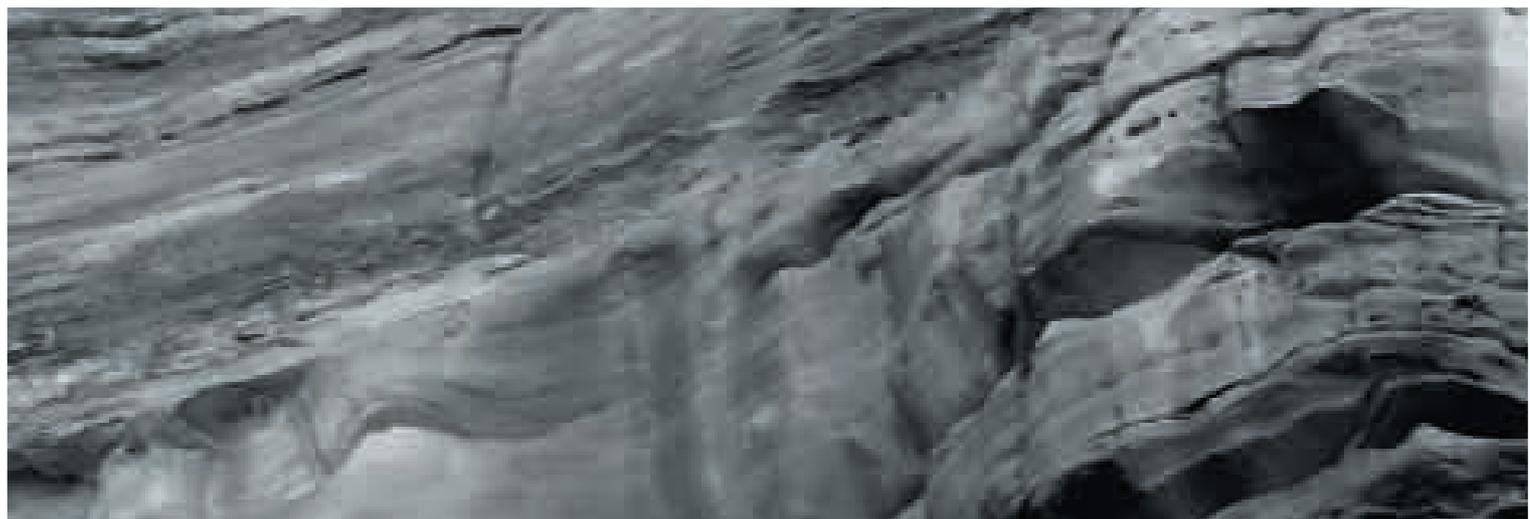
On 2 May 2007 the Group submitted an offer to shareholders of OGK-3 to acquire additional 25,347 million of ordinary shares at 4.54 RUR per share. Total consideration is estimated to be approximately USD 4.5 billion (at exchange rate on 2 May 2007). The offer remains open to 18 July 2007.

**LionOre Mining International Limited**

On 23 May 2007 the Group submitted an offer to shareholders of LionOre Mining International Limited ("LionOre") to acquire 100% of share capital at 27.5 Canadian dollar (USD 25.4 at exchange rate on 23 May 2007) for one LionOre ordinary share. Assuming all ordinary shares are acquired, the transaction is valued at approximately 6.8 billion Canadian dollar (USD 6.2 billion at exchange rate on 23 May 2007). The acquisition will be financed through existing cash resources and credit facilities. The offer remains open to 18 June 2007, unless extended or withdrawn.



APPENDIXES }





## Appendixes

44. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES  
(continued)

Subsidiaries by country of incorporation	Nature of business	Effective % held	
		2006	2005
LLC "Norilsknickelremont" <sup>1</sup>	Repairs	100.0	-
LLC "Zapoliarnaya stroitel'naya kompaniya" <sup>1</sup>	Construction	100.0	-
LLC "Noril'skiy obespechivaushiy complex" <sup>1</sup>	Supplier of inventory	98.8	-
LLC "GRK "Bystrinskoye" <sup>2</sup>	Mining	-	-
CJSC "Gold Mining Company Polus" <sup>3</sup>	Mining	-	100.0
OJSC "Matrosov Mine" <sup>3</sup>	Mining	-	88.4
OJSC "Lenzoloto" <sup>3</sup>	Mining	-	68.2
CJSC "Tonoda" <sup>3</sup>	Mining	-	100.0
LLC "LZRK" <sup>3</sup>	Management company	-	100.0
OJSC "Pervenets" <sup>3</sup>	Mining	-	100.0
CJSC "Vitimenergo" <sup>3</sup>	Electricity utilities	-	100.0
OJSC "Aldanzoloto GRK" <sup>3</sup>	Mining	-	99.2
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya" <sup>3</sup>	Mining	-	50.0
OJSC "Yakutskaya Gornaya Kompaniya" <sup>3</sup>	Mining	-	100.0
OJSC "Taimyrenergo"	Lessor of equipment	98.8	-
<b>China</b>			
Norilsk Nickel (Asia) Limited	Distribution	100.0	100.0
<b>Great Britain</b>			
Norimet Limited	Investment holding	100.0	100.0
Norilsk Nickel Europe Limited	Distribution	100.0	100.0
<b>Luxembourg</b>			
Norilsk Nickel Finance Luxembourg S.A.	Financing	100.0	100.0
<b>Switzerland</b>			
Norilsk Nickel Holding S.A.	Investment holding	100.0	100.0
Metal Trade Overseas S.A.	Distribution	100.0	100.0
<b>United States of America</b>			
Stillwater Mining Company	Mining	54.5	54.9
Norilsk Nickel USA	Distribution	100.0	100.0
<b>Cyprus</b>			
Norilsk Nickel (Cyprus) Limited <sup>5</sup>	Investment holding	100.0	-
<b>Associates by country of incorporation</b>			
<b>Russian Federation</b>			
OJSC "Norilskgazprom"	Gas extraction	29.4	29.4
OJSC "Krasnoyarskenergo"	Electricity utilities	25.7	25.7
OJSC "Kolenergo"	Electricity utilities	24.9	24.9
OJSC "Krasnoyarskaya generatsiya"	Electricity utilities	-	25.5
<b>British Virgin Islands</b>			
Smart Hydrogen Inc. <sup>5</sup>	Holding company	50.0	-

(1) Established as part of reorganisation of OJSC "MMC Norilsk Nickel".

(4) Acquired in 2006 (refer to note 36).

(2) Special purpose entity of the Group.

(5) Established in 2006.

(3) Disposed of on disposal of Polyus Group.

## Appendix 1

REPORT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE  
OF THE FEDERAL COMMISSION FOR THE SECURITIES MARKET<sup>(1)</sup>

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
<b>General Meeting of the Shareholders</b>			
1.	Not less than 30 days prior notice of a General Meeting given to shareholders regardless of the issues on the agenda, unless legislation provides for a longer notice.	Complied	According to Clause 7 of the Regulation on the General Meeting, Notice of the meeting shall be given to shareholders in the manner and in time determined by the Federal law "On Joint Stock Companies" and the Company's Charter.  According to the Charter, Clause 5.4, Para. 1, notice of a General Meeting shall be published in Izvestia, Rossiyskaya Gazeta and Taimyr newspapers not later than 30 days prior to the General Meeting. If a General Meeting is held by vote in absentia, notice of the Meeting shall be given in the above publications at least 30 days prior to the deadline for the collection of ballots.
2.	Access of the shareholders to the list of persons entitled to attend the General Meeting, starting from the date of announcement of the General Meeting until the closing of the General Meeting held in person, and in the case of a General Meeting held by correspondence – until the deadline for the collection of voting ballots.	Complied	In accordance with Article 51 of the Federal Law "On Joint Stock Companies" Clause 12 of the Regulation on the General Meeting stipulates that Access to the list of persons authorized to participate in the Meeting shall be made available by the Company at the request of persons included in such list and having at least 1% of the votes.
3.	Access of the shareholders to information (materials) to be provided during the preparation for the General Meeting through electronic media, including the Internet.	Complied	The shareholders have access to such materials 20 days before the date of the General Meeting at shareholder assistance offices or on the corporate Internet site (in Russian and English).

## Notes:

(1) This report on compliance with the Corporate Governance Code was prepared in accordance with the Methodical recommendations approved by the Directive of the FCSM of Russia No. 03-849/p dated 30 April 2003.

(2) For the purposes of this Report, Complied/Not complied answers in respect of a specific provision of the Corporate Governance Code should be interpreted as compliance/non-compliance by the Company with the principal (material), part of the provision in accordance with the Company's Charter or by-laws effective at the time of preparation of this Annual Report and/or based on the existing corporate governance practices at the Company. For the purposes of this Report, not applicable in respect of a specific provision of the Corporate Governance Code should be understood as non-applicability of the recommendation to the Company due to the absence of the respective institute/procedure in the Company.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
4.	Possibility for a shareholder to put an issue on the agenda of the General Meeting or require a General Meeting to be called without presenting an extract from the shareholder register where title to shares is recorded in the shareholder register system, and by presenting only a statement from the deposit account where the title to shares is recorded in a deposit account.	Complied	When collecting proposals for the agenda of the General Meeting, including those regarding the candidates of the Board of Directors, the Company requests confirmation from the shareholder register on its own.
5.	The Charter or internal by-laws of the company contain a requirement on the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Audit Commission and the external auditor of the company at the General Meeting.	Not complied	Such persons are usually present at the General Meetings held by the Company; however, the Charter and by-laws have no provisions stipulating their responsibility to be present at the General Meetings.
6.	Obligatory presence of the nominees for the positions of members of the Board of Directors, the General Director, members of the Management Board, members of the Audit Commission and external auditor during consideration by the General Meeting of their election and appointment.	Complied	<p>According to Article 29 of the Company's Regulation on the General Meeting, if the agenda of the Meeting includes election of the directors and/or approval of the auditor, the persons included in the list of nominees for voting director and/or authorized representatives of the auditors (auditor), proposed for approval by the Meeting should be necessarily invited to the Meeting.</p> <p>According to Clause 6.3.3.9 of the Charter, formation and termination of authorities of the executive bodies of the Company are included in the responsibilities of the Board of Directors.</p>
7.	The by-laws of the company establish a registration procedure for the participants at the General Meeting.	Complied	According to Clause 19 of the Company's Regulation on the General Meeting, the Registrar of the Company exercising the functions of the Auditing Commission, verifies the authorities and registered persons participating in the Meeting... and the time of the start of the registration is determined by the Board of Directors (Regulation on the General Meeting, Clause 4).

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
<b>Board of Directors</b>			
8.	The company's Charter provides for the authority of the Board of Directors to approve annual financial statements and operating plans.	Complied	Charter of the Company, Clause 6.3.3.1.
9.	The company has a risk management procedure approved by the Board of Directors.	Complied	<p>The Group has implemented a number of projects on identification and assessment of technical and operational risks. As a result, the Corporate Risk Management Framework approved at the meeting of the Board of Directors in December 2005 (the minutes of meeting No. GMK/27-пр-сд, dated 16.12.2005) was developed. The above Framework covers:</p> <ul style="list-style-type: none"> <li>• identification and classification of risks managed under the corporate risk management system;</li> <li>• methodological risk identification and assessment approaches;</li> <li>• acceptable levels of risk (tolerance levels);</li> <li>• risk management methods;</li> <li>• distribution of liability in risk management;</li> <li>• control and reporting.</li> </ul> <p>Additionally, the Board of Directors approved the Register of risks and the Program of activities to reduce technical and operational risks classified as Critical until 2012.</p>
10.	The company's Charter provides for the right of the Board of Directors to make a decision on suspending the authorities of the General Director appointed by the General Meeting.	Complied	Charter of the Company, Clause 6.3.3.9.
11.	The Charter of the company provides for the right of the Board of Directors to establish requirements for the qualifications and the level of compensation of the General Director, members of the Management Board, and managers of the key structural divisions of the company.	Complied	Charter of the Company, Clauses 6.3.3.9, 6.3.3.30, 6.3.3.31. The Board of Directors has such authorities in respect of the General Director, members of the Management Board, staff of the Internal Control Department and the Corporate Secretary.
12.	The company's Charter provides for the right of the Board of Directors to approve the terms of the contracts with the General Director and members of the Management Board.	Complied	Charter, Clause 6.3.3.9.
13.	The Charter and by-laws of the company contain a requirement that votes of the members of the Board of Directors who act as the General Director and members of the Management Board should not be taken into account when the terms of the contracts with the General Director (managing entity, manager) and members of the Management Board are approved.	Complied	Charter, Clause 6.2.5.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
14.	The Board of Directors includes at least 3 independent directors meeting the requirements of the Code of Corporate Conduct.	Complied	The Board includes 4 independent directors. The Group uses the most conservative criteria to determine the independence of the members of its Board of Directors.
15.	There are no persons on the Board of Directors convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Complied	According to Clause 5.3 of the Charter, proposals made by shareholders regarding candidates to the Board of Directors should include, among other, the following information on such candidates: <ul style="list-style-type: none"> <li>• past convictions for crimes in the economic sphere and crimes against the government.</li> </ul>
16.	There are no persons on the Board of Directors who serve as members, the General Director (manager), members of the management body or employees of any competitor of the company.	Complied	Regulation on the Board of Directors, Clause 1.5
17.	The company's Charter contains a requirement that the Board of Directors be elected by cumulative vote.	Complied	According to Clause 6.1.2 of the Charter, Members of the Board of Directors shall be elected by the Annual General Meeting of Shareholders in the manner contemplated by the Federal Law. In accordance with Par. Clause 4 of Article 66 of the Law "On Joint Stock Companies" members of the Board of Directors are elected by a cumulative vote.
18.	The by-laws of the company include the obligation of the members of the Board of Directors to refrain from any actions that will or may potentially lead to a conflict of interests with the company, and in the case of such conflict – their obligation to disclose information on such conflict to the Board of Directors.	Complied	Regulation on the Board of Directors, Clause 4.1.
19.	The by-laws of the company provide for the obligation of the members of the Board of Directors to notify the Board of Directors in writing of their intention to perform any transactions and disclose information on any transactions performed with securities of the company or subsidiaries (associates) of the company.	Complied	Regulation on the Board of Directors, Clause 4.1.
20.	The by-laws of the company contain a requirement that a meeting of the Board of Directors should be held at least once in six weeks.	Complied	Charter, Clause 6.2.2. Regulation on the Board of Directors, Clause 3.1.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
21.	Meetings of the Board of Directors of the company were held at least once in six weeks in the year for which the annual report is presented.	Complied	During the reporting year meetings of the Board of Directors were held at least once in six weeks. There were 33 meetings of the Board of Directors in 2006.
22.	The by-laws of the company establish a procedure for conducting meetings of the Board of Directors.	Complied	Regulation on the Board of Directors, section 3 Meetings of the Board of Directors of the Company.
23.	The by-laws of the company include a provision on the need to have approval of the Board of Directors for the company's transactions amounting to 10% and more of the company's assets value, other than transactions performed in the ordinary course of business.	Complied	According to Clause 6.3.3.33. of the Charter, the Board of Directors decides on any transactions for an amount of 2 (two) and more percent of the carrying value of the Company's assets.
24.	The by-laws of the company provide for the right of the members of the Board of Directors to receive information necessary for the performance of their functions from the executive bodies and managers of the key structural divisions, and liability of the latter for non-provision of such information.	Complied	Regulation on the Board of Directors, Clause 1.6.
25.	There is a strategic planning committee of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the Nomination and Compensation Committee).	Not complied	According to Clause 6.3.3.1 of the Company's Charter, the responsibilities of the Board of Directors include identification of priorities in the operations of the Company, the vision and strategy for the development of the Company and approaches to their implementation.  The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors.
26.	There is a committee (Audit Committee) of the Board of Directors that recommends an external auditor to the Board of Directors and communicates with the external auditor and the internal Audit Commission of the company.	Complied	On 8 October 2004, the Board of Directors approved the Regulation on the Audit Committee of the Board of Directors of MMC Norilsk Nickel.  At the first meeting of the new Board of Directors, which was held following the Annual General Meeting of Shareholders on 29 June 2006, the Committee was re-elected: <ul style="list-style-type: none"> <li>• independent member of the Board of Directors, Guy de Selliers (Chairman),</li> <li>• non-executive member of the Board of Directors A.E. Bougrov;</li> <li>• independent member of the Board of Directors K.L. Ugolnikov.</li> </ul> In accordance with Clause 2.3 of the Regulation on the Audit Committee of the Board of Directors, the following matters (along with other powers) fall within the Committee's responsibilities: <ul style="list-style-type: none"> <li>• preparation of recommendations for selection of an independent external auditor for the Board of Directors;</li> <li>• interaction with the Company's Auditing Commission.</li> </ul>

№	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
27.	The Audit Committee includes only independent and non-executive directors.	Complied	In accordance with Clause 3.2 of the Regulation on the Audit Committee of the Board of Directors, the Audit Committee may include only independent (meeting independence criteria set out in Clause 6.2.8 of the Company's Charter) and non executive (those who are not the sole executive body of the Company and (or) members of the collective executive body of the Company) members of the Board of Directors.
28.	The Audit Committee is chaired by an independent director.	Complied	In accordance with Clause 3.4 of the Regulation on the Audit Committee of the Board of Directors, the Audit Committee may be chaired only by an independent member of the Board of Directors.  On 29 June 2006, the Board of Directors elected Mr. Guy de Selliers, an independent director, the Chairman of the Audit Committee of the Board of Directors.
29.	The by-laws of the joint stock company provide for the access of all the members of the Audit Committee to any documents and information of the company subject to non-disclosure of confidential information.	Complied	Regulation on the Board of Directors (Clause 1.6) provides for the right of all directors to obtain any information relating to the activities of the Company from any divisions and functions of the Company and the responsibility of the directors (Clause 1.5) not to disclose confidential information that became known to them about the activities of the Company and not to disclose insider information.  Regulation on the Audit Committee of the Board of Directors (Clause 6.2) provides for the right of members of the Audit Committee to request information and documents pertaining to matters within the responsibilities of the Audit Committee from the Board of Directors, the Management Board, the General Director, the Revision commission and the independent external auditor of the Company.
30.	There is a committee (Nomination and Compensation Committee) of the Board of Directors that is responsible for the determination of the criteria for the selection of candidates to the Board of Directors and development of the company's compensation policies.	Not complied	The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors including members of the Board of Directors.  The Company does not have a Nomination and Compensation Committee of the Board of Directors.
31.	The Nomination and Compensation Committee is headed by an independent director.	Not applicable	The Company does not have a Nomination and Compensation Committee of the Board of Directors.  Additionally, in accordance with Clause 1.8 of the Regulation on the Board of Directors ... Committees of the Board of Directors shall be chaired by members of the Board of Directors that are not members of the executive bodies of the Company, and they shall include independent directors.

№	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
32.	There are no executives of the company in the Nomination and Compensation Committee.	Not applicable	The Company does not have a Nomination and Compensation Committee of the Board of Directors.
33.	There is a risk committee of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the Nomination and Compensation Committee).	Not complied	The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors including members of the Board of Directors.  The Company does not have a Risk Committee of the Board of Directors.
34.	There is a committee for the settlement of corporate conflicts of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the Nomination and Compensation Committee).	Not complied	The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors including members of the Board of Directors.  The Company does not have a committee of the Board of Directors for the settlement of corporate conflicts.
35.	There are no executives of the company in the committee for the settlement of corporate conflicts.	Not applicable	The Company does not have a committee of the Board of Directors for the settlement of corporate conflicts.
36.	The committee for the settlement of corporate conflicts is headed by an independent director.	Not applicable	The Company does not have a committee of the Board of Directors for the settlement of corporate conflicts.  Additionally, in accordance with Clause 1.8 of the Regulation on the Board of Directors ... Committees of the Board of Directors shall be chaired by members of the Board of Directors that are not members of the executive bodies of the Company, and they shall include independent directors.
37.	The company has internal by-laws approved by the Board of Directors providing for the procedure of formation and operation of the committees of the Board of Directors.	Complied	The Audit Committee formation and operation procedures are set out in the Regulation on the Audit Committee of the Board of Directors, approved by the Board of Directors (the Minutes of Meeting No. ГМК/32-пр-сд of 8 October 2004).
38.	The company's Charter provides for a procedure to determine the quorum of the Board of Directors that would ensure obligatory participation of independent directors at the Board meetings.	Complied	Charter, Clause 6.2.8.

№	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
<b>Executive bodies</b>			
39.	The company has a collective executive body (Management Board).	Complied	Charter of the Company, section 7 Executive bodies of the Company.
40.	The Charter or by-laws of the company contain provisions on the need to have approval of the Management Board for real estate transactions and loans received by the company unless such transactions are major deals or are performed in the ordinary course of business.	Complied	Charter, Clauses 7.8.3., 7.8.6, 6.3.3.33
41.	The by-laws of the company establish procedures for the approval of transactions which are outside the scope of the company's financial and operational plan.	Not complied	Virtually all operations outside the scope of the Company's financial and operational plan are considered by the Company's Board of Directors.  In accordance with clause 6.3.3.33 of the Company's Charter, the responsibilities of the Company's Board of Directors include decisions on transactions in the amount of 2% (two) or more of the book value of the Company's assets according to the accounting data as at the latest reporting date.
42.	There are no persons in the executive bodies who serve as members, the General Director (manager), members of the management body or employees of any competitor of the company.	Complied	The recommendation is complied with; however, the Charter and by-laws of the Company contain no provisions that would require compliance with the limitations established by the recommendations from the members of the Company's executive bodies.
43.	There are no persons in the management bodies convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market. If the functions of the sole executive body are performed by a managing entity or a manager – the General Director and members of the Management Board of the managing entity or manager meet the requirements established for the General Director and members of the Management Board of the company.	Complied	The recommendation is complied with; however, the Charter and by-laws of the Company contain no provisions that would require compliance with the limitations established by the recommendations from the members of the Company's executive bodies.

№	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
44.	The Charter or by-laws of the company contain a prohibition for the managing entity (manager) to perform similar functions for a competitor or have any other property relations with the company other than the provision of management services.	Not applicable	The functions of the sole executive body of the Company have not been transferred to a managing organization (manager).
45.	The by-laws of the company include the obligation of the members of the executive bodies to refrain from any actions that will or may potentially lead to a conflict of interests with the company and in the case of such conflict – their obligation to inform the Board of Directors on such conflict.	Not complied	The by-laws of the Company do not provide for such obligation. Additionally, according to the Charter (Clause 7.9), the General Director and members of the Management Board, in exercising their rights and responsibilities, shall act in the interests of the Company, and exercise their rights and responsibilities in respect of the Company faithfully and reasonably.
46.	The Charter or by-laws of the company contain criteria for the selection of the managing entity (manager).	Not applicable	The functions of the sole executive body of the Company have not been transferred to a managing organization (manager).
47.	Executive bodies provide monthly reports on their activities to the Board of Directors.	Not complied	Reports on the Company's operations are provided to the Board of Directors on a quarterly basis.
48.	The contracts made by the company with the General Director (managing entity, manager) and members of the Management Board stipulate liability for violation of the provisions on the use of confidential and insider information	Complied	In accordance with Clause 9.5 of the Charter, Members of executive bodies of the Company shall be liable for disclosure of confidential and insider information in accordance with the current legislation of the Russian Federation.  In accordance with Clause 7.9 of the Charter, the General Director and members of the Management Board shall be liable to the Company for losses incurred by the Company as a result of their wrongful acts (omissions) in accordance with the laws of the Russian Federation.  In accordance with Clause 6.1 of the Regulation on Insider Information, for unlawful disclosure and use of insider information of the Company, General Director and members of the Management Board shall be held liable in accordance with the current legislation, by-laws of the Company and the terms of agreements concluded with the Company.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
<b>Secretary of the Company</b>			
49.	There is a special official in the company (company Secretary) whose function is to ensure that the company's bodies and officials comply with procedural requirements guaranteeing the exercise of the legal rights and interests of the company's shareholders.	Complied	Charter, Clause 6.5. On 11 August 2006, the Board of Directors approved the appointment of P.R. Sukholinsky as the Secretary of MMC Norilsk Nickel.
50.	The Charter or by-laws of the company prescribe a procedure for the appointment (election) of the company Secretary and responsibilities of the company Secretary.	Complied	Charter, Clauses 6.3.3.31, 6.3.3.33, 6.4., 6.5.
51.	The company's Charter contains requirements to the candidate for the position of the company Secretary.	Not complied	These requirements are not defined in the Charter.
<b>Major corporate actions</b>			
52.	The Charter or by-laws of the company contain a requirement on approval of any major deal before it is concluded.	Complied	Charter, Clause 6.6.
53.	Obligatory engagement of an independent appraiser to determine the market value of any property that is subject to major transactions.	Complied	Charter, Clause 6.7.
54.	In the event of acquisition of any large stakes in the company (takeover), the Charter of the company prohibits taking any actions aimed at the protection of interests of the executive bodies (members of such bodies) and members of the Board of Directors, and also such actions that make the position of shareholders worse than their current position (in particular, prohibition of a decision by the Board of Directors to issue additional shares, securities convertible into shares or securities granting right to acquire shares in the company before the end of the expected time of the acquisition of shares, even if the right to take such decision is granted by the Charter).	Not complied	These requirements are not defined in the Charter. Additionally, according to the Charter (Clause 7.9), the General Director and members of the Managing Board, in exercising their rights and responsibilities, shall act in the interests of the Company, and exercise their rights and responsibilities in respect of the Company faithfully and reasonably.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
55.	The company's Charter contains a requirement on obligatory engagement of an independent appraiser to determine the current market value of shares and potential changes in their market value as a result of takeover.	Not complied	The Group's shares are traded on the leading Russian stock exchanges: on the Moscow Interbank Currency Exchange (MICEX) and Russian Trading System (RTS), and in the form of ADRs over-the-counter in the United States, on the electronic OTC section of the London Stock exchange and Berlin stock exchange, which determine their current market value.
56.	The Charter of the company contains no exemption of the acquirer from the obligation to offer buyout of the company's ordinary shares (other securities convertible into ordinary shares) to the shareholders upon takeover.	Complied	On 24 June 2004, the Annual General Meeting of Shareholders made the decision to exclude the provision from the Company's Charter (Para. 2 of Clause 4.3) exempting the acquirer (of 30% or more of the Company's shares) to offer buyout of the Company's shares to other shareholders.
57.	The Charter or by-laws of the company contain a requirement on obligatory engagement of an independent appraiser to determine the proportion for the conversion of shares on reorganization.	Not complied	This requirement is not defined in the Charter or by-laws of the Company.
<b>Disclosure</b>			
58.	There is an internal document approved by the Board of Directors determining policies and procedures used by the company for the disclosure of information (Regulation on Information Policies).	Not complied	No such regulation has been approved by the Company's Board of Directors.
59.	The by-laws of the company contain a requirement to disclose purposes of placement of shares, persons that intend to acquire shares placed, including large stakes, and participation of officials of the company in the acquisition of the shares placed.	Not complied	This requirement is not defined in the by-laws of the Company.
60.	The by-laws of the company contain a list of information, documents and materials that should be provided to shareholders for the decision on the issues put for the consideration of the General Meeting.	Complied	Charter, Clause 5.7; Regulation on the General Meeting, Clause 9.
61.	The company has a web site and regularly discloses information about the company on the web site.	Complied	Charter, Clause 5.4.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
62.	The by-laws of the company contain a requirement to disclose information on the deals of the company with persons that are senior executives of the company in accordance with the Charter, and deals of the company with entities where senior executives of the company directly or indirectly hold 20 or more percent of the share capital or on which such persons may otherwise exercise significant influence.	Not complied	<p>This requirement is not defined in the by-laws of the Company.</p> <p>In accordance with Clause 8.6.1 (Para. д) of the Regulation on Information Disclosure by Issuers of Emission Securities, approved by the Resolution of the FSFM of Russia No. 05-5/пз-н on 16 March 2005, the Company discloses information on a deal with interested parties if the price of the deal is equal to or exceeds 5% of the carrying value of assets of the Company as per its financial statements for the last reporting date before the deal is approved by an authorized body of the Company as stipulated by the Russian law.</p>
63.	The by-laws of the company contain a requirement to disclose information on all transactions that may affect the market value of the company's shares.	Not complied	<p>This requirement is not contained in the by-laws of the Company.</p> <p>In accordance with the requirements of the Regulation on Information Disclosure by Issuers of Emission Securities approved by the Resolution of FSFM of Russia No. 05-5/пз-н on 16 March 2005, the Company discloses information that may affect the market value of the Company's shares and information in the form of material events reports.</p> <p>Additionally, the Company discloses, on a regular basis, information on all significant transactions through dissemination of press-releases and posting information on the corporate web-site.</p>
64.	There is an internal document approved by the Board of Directors on the use of significant information on the activity, shares and other securities of the company and transactions with such shares and other securities, which is not publicly available and the disclosure of which may have material impact on the market value of shares and other securities of the company.	Complied	The Regulation on Insider Information, approved by the Board of Directors on 30 December 2004, is in effect in the Company.

No	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
<b>Control of financial and economic operations</b>			
65.	There are internal control procedures over the financial and operational activities of the company approved by the Board of Directors.	Complied	Clause 1.3.4 of the Regulation on internal control over financial and operating activities of MMC Norilsk Nickel approved by the Board of Directors of the Group on 14 July 2006.
66.	There is a special division in the company ensuring compliance with the internal control procedures (internal control service).	Complied	<p>The current version of the Charter (Clause 6.3.3.27, 6.3.3.28, 6.3.3.29) provides for the creation of an internal control service at the Company, and includes approval of the Regulations of the service, requirements to the candidates for officers of the service as well as decision making regarding the appointment of the head of such service in the responsibilities of the Board of Directors.</p> <p>The Company has a division ensuring compliance with internal control procedures – the Internal Control Department. This department does not fully comply with the requirements for the internal control service, however it fully complies with listing requirements of the leading Russian stock exchanges (RTS, MICEX) based on the requirements of the Regulation on the Organization of Trade in the Securities Market approved by the Resolution of FSFM of Russia No. 06-68/пз-н on 22 June 2006.</p>
67.	The by-laws of the company contain a requirement that the structure and members of the internal control service should be determined by the Board of Directors.	Complied	<p>Charter, Clauses 6.3.3.27, 6.3.3.28, 6.3.3.29.</p> <p>The Company has a division ensuring compliance with the internal control procedures – the Internal Control Department. This department does not fully comply with the requirements for the internal control service, however it fully complies with listing requirements of the leading Russian stock exchanges (RTS, MICEX) based on the requirements of the Regulation on the Organization of Trade in the Securities Market approved by the Resolution of FSFM of Russia No. 06-68/пз-н on 22 June 2006.</p>
68.	There are no persons in the internal control service convicted of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Complied	The recommendation has been complied with; however, the by-laws of the Company contain no provisions that would require compliance with the limitations established by the recommendations from the staff of the Company's Internal Control Department.

№	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
69.	There are no persons in the internal control service who serve as members of the executive bodies of the company, as well as members, the General Director (manager), members of the management bodies or employees of any competitor of the company.	Complied	The recommendation is complied with; however, the by-laws of the Company contain no provisions that would require compliance with the limitations established by the recommendations from the staff of the Company's Internal Control Department.
70.	The by-laws of the company establish dates for the submission of documents and materials to the internal control service for the assessment of financial and operational transactions performed, and liability of officials and employees of the company for failure to provide them in time.	Not complied	This requirement is not defined in the by-laws of the Company.
71.	The by-laws of the company provide for the obligation of the internal control service to communicate any violations detected to the Audit Committee, and where there is no such committee to the Board of Directors.	Complied	In accordance with Clause 3.4 of the Regulation on internal control over financial and operating activities of MMC Norilsk Nickel approved by the Board of Directors of the Group on 14 July 2006, the Head of the Internal Control Department shall inform the Audit Committee of the Board of Directors and the General Director of the identified breaches of internal control procedures.
72.	The company's Charter contains a requirement on preliminary assessment of the practicality of transactions not envisaged in the company's financial and operational plan (unusual transactions) by the internal control service.	Not complied	The Company's Charter contains no such requirement.
73.	The by-laws of the company establish a procedure for the agreement of any unusual transactions with the Board of Directors.	Not complied	Actually all unusual transactions are considered by the Company's Board of Directors.
74.	There is an internal document determining the procedure of audits of the financial and operating activities by the internal audit commission, approved by the Board of Directors.	Complied	Regulation on the internal audit commission, section 5 Procedure of audits (inspections).

№	Provision of the Corporate Governance Code	Complied/ Not complied <sup>2)</sup>	Notes
75.	The Audit Committee performs an assessment of the auditor's report before it is presented to the shareholders in the General Meeting.	Complied	Clause 2.3.1 (e) of the Regulation of the Audit Committee of the Board of Directors provides that it is within the responsibilities of the Audit Committee to review financial statements and results of audits, discuss them with external auditors and management of the Company before they are presented to the Board of Directors of the Company.  In accordance with Clause 5.7 of the Charter, the review of the Auditor's Report, prepared by the Audit Committee constitutes information (materials) to be made available to persons eligible to participate in a Meeting in the course of preparation for the Meeting.
<b>Dividends</b>			
76.	There is an internal document approved by the Board of Directors used as guidance by the Board of Directors in developing recommendations on the size of dividends (Regulation on Dividend Policies).	Complied	The minutes of meeting of the Board of Directors No. GMK/18-пр-сд dated 4 June 2002.
77.	The Regulation on Dividend Policies contains a procedure for the determination of the minimum share of the net profit of the company used for the payment of dividends, and conditions under which dividends are not paid or are not paid in full on preferred shares for which the size of dividends is determined in the company's Charter.	Complied	The minutes of meeting of the Board of Directors meeting No. GMK/18-пр-сд dated 4 June 2002.  The recommendations regarding terms of dividend payment on preferred stock are not applicable to the Company due to the absence of this class of shares.
78.	Publication of information on dividend policies of the company and any amendments thereto in a periodical stipulated in the company's charter for publication of announcements on General Meetings, and on the web site of the company in the Internet.	Complied	Information on the Dividend Policy is placed in the Company's annual reports, social reports, quarterly issuer's reports, on the Company's web-site and is distributed by other means.

## Appendix 2

INTERESTED PARTY TRANSACTIONS OF MMC NORILSK NICKEL IN 2006<sup>(1)</sup>

Date of transaction Description of transaction

## Transactions with OAO AKB Rosbank (approved by the Company's Board of Directors)

10.02.2006	Transfer of property (1,200,000 g of refined platinum bullion).
28.02.2006	Transfer of property (500,000 g of refined platinum bullion).
18.04.2006	Signing the Additional Agreement to the Contract for cash settlement services on 11 July 1997. Signing the Additional Agreement to the Contract for opening and maintaining a current account in Russian Roubles No. 14636/RUR/01 of 21 December 1998. Signing Additional Agreement No. OVR/061/05 to the Contract for opening and maintaining a current account in Russian Roubles, No. 14636/RUR/01 of 21 December 1998. Signing the Additional Agreement to the Contract for opening and maintaining a current account in foreign currency, No. 14636/USD/01 of 21 December 1998. Signing Additional Agreement to the Contract for opening and maintaining a current account in foreign currency, No. 14636/GBP/03 of 26 June 2002. Signing the Additional Agreement to the Contract for opening and maintaining a current account in foreign currency, No. 14636/EUR/02 of 20 February 2002.
15.08.2006	Deposit of USD 100 million for a period of 2 months.
16.10.2006	Deposit of USD 100 million for a period of 3 months.
19.10.2006	Deposit of USD 60 million in the North-West branch of AKB Rosbank for a period of 3 months.
25.10.2006	Signing Additional Agreement No. OVR/034/06 to the Contract No. 14636/RUR/01 for cash settlement services of 21 December 1998. Signing Additional Agreement No. 1 to the Contract for brokerage services No. PT-0000-30337-HH/841-2005 of 25 May 2005. Signing the Additional Agreement to the Contract No. 30-03-02/68-K-ГМК/376ДГ for issuance and maintenance of the corporate plastic cards, ROSBANK VISA BUSINESS and EUROCARD/MASTERCARD BUSINESS, of 21 June 2001. Signing Additional Agreement to the Contract No. 53-02/81-K-ГМК/106ДГ for issuance and maintenance of corporate "Payment card with an overdraft limit", VISA BUSINESS and EUROCARD/MASTERCARD BUSINESS of 22 April 2002. Signing the General Agreement for guarantee operations.
10.11.2006	Deposit of USD 50 million in the North-West branch of AKB Rosbank for a period of 3 months.
08.12.2006	Signing Additional Agreement No.1 to the General Agreement on Deposit Transactions No. RDK/2004/01/023-HH/881-2004.
13.12.2006	Obtaining a bank guarantee on the General Agreement for guarantee operations.
27.12.2006	Addendum to the Partnership Agreement No. HH/917-2004 of 9 August 2004.

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[1] In 2006, the Company did not make major transactions in accordance with Federal Law On Joint Stock Companies.

Date of transaction Description of transaction

## Other transactions (approved by the Company's Board of Directors)

08.02.2006	Signing an Agreement for compensation and expense reimbursement with the independent Director, Guy de Selliers. Signing an Agreement for compensation and expense reimbursement with the independent Director, Heinz Schimmelbusch. Signing an Agreement for compensation and expense reimbursement with the independent Director, K.L. Ugolnikov. Signing an Agreement for compensation and expense reimbursement with independent Director V.I. Dolgikh.
10.04.2006	Provision of assistance in the form of a voluntary donation to the Foundation "National organization of financial accounting and reporting standards".
20.07.2006	Loan to OJSC Yenisey River Shipping Company. Signing the Additional Agreement to Loan Agreement No. HH/1674-2005 of 23 December 2005 with OJSC Yenisey River Shipping Company.
01.06.2006	Provision of services to OJSC Yenisey River Shipping Company for transportation and performance of accompanying operations for goods in 2006. Provision of services to OJSC Yenisey River Shipping Company for shipment and transportation of river sand from Seredysk island (Cherva).
06.06.2006	Provision of services to OJSC Yenisey River Shipping Company for transportation of technical sulfur.
18.07.2006	Receipt of cash (loan) from RAO Norilsk Nickel.
24.10.2006	Signing an Agreement for compensation and expense reimbursement with the independent Director, Guy de Selliers. Signing an Agreement for compensation and expense reimbursement with independent Director Heinz Schimmelbusch. Signing an Agreement for compensation and expense reimbursement with the independent Director, K.L. Ugolnikov. Signing an Agreement for compensation and expense reimbursement with the independent Director, V.I. Dolgikh.
27.10.2006	Sublease of non-residential buildings to RAO Norilsk Nickel for a period of up to 30 December 2006.
07.12.2006	Receipt of cash (loan) from RAO Norilsk Nickel.

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## Appendix 3

## GLOSSARY

**ADR**

American Depositary Receipt; a security representing the right of ownership in the deposited securities of a foreign company, certified by receipts issued by a US depositary bank.

**Anode**

A positively charged electrode in an electrolytic tank.

**Bio-oxidation (bioleaching)**

The technology of dissolution of metals from ores (concentrates and rock) by naturally occurring microorganisms that oxidize sulphide minerals.

**Blasting operations**

Detonating explosives in natural rock formations for the purpose of controlled destruction and removal or changing its structure and form.

**Cathode**

A negatively charged electrode in an electrolytic tank.

**Concentrate**

A product resulting from ore concentration with a high grade of the extracted mineral. The concentrate is named after the prevailing metal (copper, nickel, etc.).

**Concentration**

Artificial improvement in the mineral grades in the rock for metallurgic purposes by removing a major portion of waste rock not containing any beneficial minerals.

**Conversion**

Autogenous pyrometallurgical process, where ferrous and other detrimental impurities are oxidized and residue as slag. The result of the conversion is blister copper (copper concentrate smelting) or high grade matte (copper and nickel concentrate smelting).

**Cuprous ores**

Ores containing from 20 to 70% sulphides. Mineralization is as follows: nickel - 0,2-2,5%, copper - 1-15%, platinum group metals - 5-50 g/t.

**Deposit stripping**

Permanent mining that opens access to the entire mineral deposit from the surface or its part of it, and provides for the preparatory mining necessary to support the production.

**Disseminated ores**

Ores containing from 5 to 50% sulphides, from 0.2 to 1.5% nickel, from 0.3 to 2% copper, from 2 to 10 g/t of platinum group metals.

**Drying**

Removal of moisture from concentrates, performed in designated drying furnaces (to a moisture level below 9%).

**Electrolysis**

A series of electrochemical oxidations through reactions at electrodes in contact with an electrolyte, by the passage of an electric current from an external source.

**Filtration**

The process of reducing the moisture of the concentrate by moving liquids or gases through a porous medium.

**Flash smelter**

An autogenous smelter for processing dry concentrates. Smelting in a furnace is done in a flow of crushed rock and gas oxidizer (air, oxygen) while retaining suspended melted metal particles. The heat generated by the oxidizing reaction is used.

**Floatation**

A process of concentration by selectively attaching air bubbles to mineral particles within pulp. Dry mineral particles attach poorly to the air bubbles and rise through the suspension to the top of the pulp, producing foam. The minerals that moisten well do not attach to the bubbles and remain in the pulp. Thus, the metals are separated.

**Gas condensate**

Products produced from natural gas fields and representing a mixture of hydrocarbon liquids.

**High-grade matte**

A metallurgical semi-product produced as a result of a matte conversion. Depending on the chemical composition, the following types of high-grade matte are distinguished: copper, nickel and copper-nickel.

**Horizon**

All workings located along a specific layer, and designated for mining.

**Indicated mineral resource**

An Indicated Mineral Resource is a part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information, gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity, but are spaced closely enough for continuity to be assumed.

**Inferred Mineral Resource**

An Inferred Mineral Resource is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and has an assumed, but not verified, geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, which is limited or of uncertain quality and reliability.

**Matte**

Intermediate product in the form of alloys of ore sulphides and non-ferrous metals with varying chemical compositions. Matte is the main product in which precious and auxiliary metals are accumulated.

**Measured mineral resource**

A Measured Mineral Resource is the part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

**Metal extraction**

Estimation of the completeness of extraction, defined as the ratio between the amount of extracted substance converted to an end product and its amount in the feed material (in percentage or unit fractions).

**Metal grade**

The ratio between the amount of metal in the material and the total gross weight of the material, expressed as percentage or grams per tonne (g/t).

**Mine**

A mining location for extraction of ores by open or subsurface mining.

**Mineral deposit**

A mass of naturally occurring mineral material near to the surface or deeper underground, which in amount, quality and conditions are suitable for economic use.

**Mineral resource**

A Mineral Resource is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form and quantity that there are reasonable prospects for its eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided, in order of increasing geological confidence into Inferred, Indicated and Measured categories.

**Open mining**

The process of extracting minerals by surface excavations in open mining.

**Ore**

Natural minerals containing metals or their compounds in economically valuable amounts and forms.

**Ore body**

Natural occurrence of ores linked to a certain structural and geologic element or a combination of such elements.

**Ore mixture**

A mixture of materials in a certain proportion needed to achieve the required chemical composition in an end product. The metallurgical ore mixture may include ores, ore concentrates and agglomerates, return slag, dust from dust collecting units, metals (mostly in scrap).

**Ore reserves**

An Ore Reserve is the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include a consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate, at the time of the reporting, that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

**Oxide**

A compound of a chemical element with oxygen.

**Probable ore reserves**

A Probable Ore Reserve is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate, at the time of reporting, that extraction could reasonably be justified.

**Proved ore reserves**

A Proved Ore Reserve is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate, at the time of reporting, that extraction could reasonably be justified.

**Pyrometallurgical processes**

Metallurgical processes performed at high temperatures. In accordance with the technological characteristics, the following types of pyrometallurgical processes are distinguished: roasting, smelting and conversion.

**Refining**

The processing of extracting high purity precious metals by separating and removing impurities.

**Rich ores**

High-sulphide grade (over 70%) ores. Mineralization is as follows: nickel – 2-5%, copper – 2-25%, platinum group metals – 5-100 g/t.

**Roasting**

A metallurgical process in which ores are prepared for subsequent operations (concentration, agglomeration and smelting), aimed at changing the physical features and chemical composition; conversion of beneficial minerals into an extractable form; and the removal of impurities.

**Skip (Hoisting facility)**

A device in the form of an automatically unloading case that is moved along the pulleys of a skip-winding machine, designed to transport minerals or rock along vertical and reclining shafts to elevate an ore mixture.

**Slag**

Mixed oxides that are produced from waste ore materials and fluxing substances as a result of smelting.

**Slime**

Powder product containing precious metals, precipitated during electrolysis of copper and other metals.

**Slurry**

A mixture of crushed minerals with water or a water solution.

**Smelting**

A pyrometallurgical process performed at temperatures enabling the complete melting of the processed metal.

**Suction system**

A mechanical device used to draw away (removed by force of suction) pollutant emissions and gases from workplaces and to get samples of air or gas to test its contents and dust condition.

**Sulphides**

A compound of metals and sulphur.

**Tailing pit**

A complex of hydraulic structures used to receive and store mineral waste/tailings.

**Tailings**

Waste materials left over after concentration operations containing primarily waste rock with a minor amount of precious metals.

**Thickening**

The separation of liquid (water) from solid particles within a dispersion system (pulp, suspension or colloid) based on natural precipitation of solid particles under gravity in waste basins, thickeners and centrifugally in cyclones.

**Underground (sub-surface) mining**

A complex of operations performed for the stripping, preparing of a deposit and extracting of the valuable minerals (ores, geological materials and coals) from the earth.

**Vanukov furnace**

An autogenous smelter for the processing of concentrates. Smelting is performed in a bath of liquid melted slag, which is intensively and turbulently mixed by a mixture of air and oxygen. Heat generated by the oxidizing reaction is also used.

**Waste heat boiler**

A heat-retrieval unit used to produce steam without a furnace using the hot by-product gas from metallurgical operations, industrial furnaces, power generators or combustion engines.

**Workings**

The general term for parts of a mine or quarry that have been being excavated during mining.

**Abbreviations and acronyms****CHOP**

Private Security Company

**CRU**

Commodities Research Unit

**CUSIP**

An identification number assigned to all stocks and registered bonds. The Committee on Uniform Securities Identification Procedures (CUSIP) oversees the entire CUSIP system. This system is used in the US and Canada.

**ESPC**

Enriched Stored Pyrrhotite Concentrate

**FCSM**

Federal Commission on the Securities Market

**FSFM**

Federal Service for Financial Markets

**GFMS**

Gold Fields Mineral Services

**IFRS**

International Financial Reporting Standards

**IISI**

International Iron and Steel Institute

**IOB**

International Order Book  
London Stock Exchange trading floor for the most liquid foreign stocks

**ISO**

International Organization for Standardization

**ISIN**

A 12-marking code that uniquely identifies a specific securities issue. The organization that allocates ISINs in any particular country is the country's respective National Numbering Agency (NNA).

**OTC Market**

Over the Counter Market in US

**KPMP**

Krasnoyarsk Precious Metal Plant

**MICEX**

Moscow Interbank Currency Exchange

**MMC**

Mining and Metallurgical Company

**MSA**

Matte Separation Area

**OGK**

Wholesale Generating Company

**PGM**

Platinum group metals in a complex or in any combination of platinum, palladium, rhodium, ruthenium, osmium and iridium

**RAS**

Russian Accounting Standards

**RTS**

Russian Trading System

**SEC**

US Securities and Exchange Commission

**SEDOL**

An identification code, consisting of seven alphanumeric characters, that is assigned to all securities trading on the London Stock Exchange and on other smaller exchanges in the UK

**SPC**

Stored Pyrrhotite Concentrate

**TGK**

Territorial Generating Company

**WBMS**

World Bureau of Metal Statistics

**Appendix 4****CONVERSION OF MEASUREMENTS UNITS**

Length	
1 kilometer	0.6214 miles
1 meter	3.2808 feet
1 centimeter	0.3937 inches
Area	
1 square meter	10.7639 square feet
1 square kilometer	0.3861 square miles
1 hectare	2.4710 acres
Weight	
1 kilogram	2.2046 pounds
1 tonne	1,000 kilograms
1 short ton (ton)	907.18 kilograms
1 troy ounce	31.1035 grams



## Appendix 5

## EVENT CALENDAR

Date	Event
<b>January</b>	
1 January	Beginning of the fiscal year
January	Preliminary results of the operational activities of the prior year
<b>April</b>	
April	Preliminary results of the operational activities of the first quarter of the current year
<b>May</b>	
May	Date of the composition of a list of persons entitled to participate in the Annual General Meeting of Shareholders
<b>June</b>	
Beginning of June	Results of the audited consolidated IFRS financial statements for the prior year
June	Annual report
June	Social report
End of June	Annual General Meeting of Shareholders
<b>July</b>	
July	Preliminary results of the operational activities for the first half of the current year
<b>October</b>	
October	Preliminary results of the operational activities for nine months of the current year
Beginning of October	Results of the consolidated IFRS financial statements for the first half of the current year
<b>December</b>	
31 December	End of the fiscal year

# Contact information

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[www.nornik.ru/en](http://www.nornik.ru/en)

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## Registrar

ZA0 "National Registration Company"  
FCSM License No. 10-000-1-00252, dated 6 September 2002 and effective indefinitely.  
[www.nrcreg.ru](http://www.nrcreg.ru)

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Helpdesk operating hours:  
Monday - Thursday  
from 10:00 a.m. to 4:30 p.m.,  
Friday from 10:00 a.m. to 3:00 p.m.,  
without breaks

## Norilsk division

Address: 16 Leninsky Prospekt, Norilsk, 663305, Russia  
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Lunch break from 1:00 p.m. to 2:00 p.m.

## Shareholder assistance offices

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## ADR Depository

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Fax: +1 (212) 571-30-50/1/2  
[www.bankofny.com](http://www.bankofny.com)

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**Deloitte & Touche CIS**  
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Fax: +7 (495) 787-06-01  
[www.deloitte.com](http://www.deloitte.com)

# Other publications

- MMC Norilsk Nickel Social report  
<http://www.nornik.ru/en/investor/report/>
- MMC Norilsk Nickel Fact Book  
<http://www.nornik.ru/en/investor/report/>
- Norilsk Nickel Magazine  
<http://www.nn.nornik.ru/eng/>

If you want to receive the printed versions of the above publications, please forward your request to the Investor Relations Department:

Address: 22 Voznesensky Pereulok,  
Moscow, 125993, Russia.  
Tel.: +7 [495] 786-83-20  
E-mail: [dengauyu@nornik.ru](mailto:dengauyu@nornik.ru)

You can order the publications on the Company's web site at:  
[www.nornik.ru/en/](http://www.nornik.ru/en/)



# Feedback

22 Voznesensky Pereulok  
Moscow, 125993, Russia

MMC Norilsk Nickel  
Investor Relations Department

MMC Norilsk Nickel is seeking to maximize compliance with shareholder and investor requirements and would appreciate your assistance in improving the Group's information disclosure by answering the questions below.

Please fax the completed form to: +7 (495) 797-86-13, or send it by post to: 22 Voznesensky Pereulok, Moscow, 125993, Russia, MMC Norilsk Nickel, Investor Relations Department.

You can also complete this form on the Company's web site at: <http://www.nornik.ru/en/investor/report/annual/>

1. Please provide your assessment of MMC Norilsk Nickel Annual Report for 2006, in terms of:

Information disclosure	<input type="checkbox"/> 5	<input type="checkbox"/> 4	<input type="checkbox"/> 3	<input type="checkbox"/> 2	(5) «excellent» (4) «good» (3) «satisfactory» (2) «unsatisfactory»
Data search convenience	<input type="checkbox"/> 5	<input type="checkbox"/> 4	<input type="checkbox"/> 3	<input type="checkbox"/> 2	
Content and structure	<input type="checkbox"/> 5	<input type="checkbox"/> 4	<input type="checkbox"/> 3	<input type="checkbox"/> 2	
Design and format	<input type="checkbox"/> 5	<input type="checkbox"/> 4	<input type="checkbox"/> 3	<input type="checkbox"/> 2	
Wording	<input type="checkbox"/> 5	<input type="checkbox"/> 4	<input type="checkbox"/> 3	<input type="checkbox"/> 2	

2. What section of the Annual Report was the most interesting for you?

3. What additional information would you like to find in MMC Norilsk Nickel next annual report?

4. Your comments

5. Which category do you fall under?

- Shareholder / Investor
- Company employee
- Analyst
- Government official
- Journalist
- Academic / Student
- Other

6. Would you like to receive MMC Norilsk Nickel annual reports in the future?

YES  NO

If YES, please provide your contact details:

Thank you!  
We will take all your recommendations into consideration.