

## **EXPLANATORY NOTE**

### **Ref.: Liability insurance for members of the Board of Directors and Management Board of MMC Norilsk Nickel and indemnification of their damages.**

The Code of Corporate Conduct approved by FCSM on April 4, 2002 (No. 421/p) recommends that companies insure their directors against liability so as in the event when any actions of the Board members entail damages to the company or any third parties, these damages can be reimbursed by insurance company. In the FCSM's opinion, which is based on global business practice, liability insurance is reasonable not only from the viewpoint of civil liability efficiency but also because it helps the Board in engaging highly qualified specialists who otherwise would be scared by the probability of significant claims against them.

In line with proposed recommendations, we have reviewed the proposals of several insurance companies engaged in D&O liability insurance. Proposals were presented by ZAO AIG Insurance and Re-insurance and Soglasiye Insurance Company LLC. Soglasiye IC guarantees 100% re-insurance of risks insured with first-class western insurance companies.

D&O liability insurance implies entering into Indemnity Agreements with each member of the Board of Directors and Management Board. Under these agreements, all members will be indemnified by MMC Norilsk Nickel against damages that they may incur in connection with their duties as directors and managers. The Company's payments under these agreements will be compensated by insurance companies to the max. amount of USD 20 mln, excluding damages within franchise limits that will be covered by MMC Norilsk Nickel.

The insurance premium will not exceed the amount of USD 1 mln.

The insurers will provide adjusted estimates and proposals upon receiving our approved Annual Report and accounting statements for 2005.

Final decision on choosing the insurance company will be made after receiving their firm proposals and based on the outcome of discussions regarding each individual policy.

Thus, we suggest that the AGM consider and vote the following items:

1. The cost of liability insurance services for the members of the Board of Directors and the Management Board of MMC Norilsk Nickel.
2. Approval of the interest party transaction related to liability insurance for members of the Board of Directors and Management Board of MMC Norilsk Nickel.
3. The value of property, being the subject of Indemnity Agreements with members of the Board of Directors and Management Board of MMC Norilsk Nickel.
4. Approval of the interrelated interest party transactions whereby members of the Board of Directors and Management Board of MMC Norilsk Nickel will be indemnified against damages.

These matters are to be resolved at the AGM, as required by Article 83 of Federal Law *On Joint-Stock Companies*, since all members of the Board of Directors are interested parties in these transactions, and total related expenses reaching USD 340 mln may exceed 2% of the Company's balance sheet value.