

**REPORT OF THE BOARD OF DIRECTORS  
of MMC Norilsk Nickel  
containing the Board's opinion regarding the issues included in the agenda of  
AGM to be held on June 29, 2006**

**1. Re.: Approval of MMC Norilsk Nickel's Annual Report and annual accounting statements, including profit-and-loss statement, for the year 2005.**

Recommendation:

The Board of Directors recommends approving the Company's Annual Report and annual accounting statements, including profit-and-loss statement, for the year 2005.

Opinion of the Board of Directors:

Opinion of the Board is based on the preliminary review of the following documents: MMC Norilsk Nickel's 2005 Annual Report; annual accounting statements; conclusions of Rosexpertiza LLC, the Auditor of the Company's accounting reports prepared in accordance with Russian Accounting Standards (RAS); conclusion of the Revision Commission of MMC Norilsk Nickel regarding the Company performance in 2005; opinion of Deloitte & Touche, the independent Auditor of the Company's financial statements prepared in accordance with IFRS. IFRS compliant financial statements had been reviewed by the Audit Committee of the Board of Directors.

Having analyzed the information provided, and relying on the opinion of the aforementioned auditors, the Board comes to the conclusion that both RAS and IFRS compliant financial statements are prepared in accordance with appropriate reporting rules and regulations, and they fairly present the financial position of the Company in 2005.

The Annual Report is prepared in compliance with Federal Law *On Joint Stock Companies*, recommendations of the Federal Commission on Securities Market (FCSM) regarding the contents of the annual report (Resolution # 17/ps of March 31, 2002), FCSM Corporate Governance Code, and FCSM Resolution #03-849/r of April 30, 2003 regarding the contents of the Report on Compliance with Corporate Governance Code.

Since the spin off Company's gold assets actually took place in 2006, the information on MMC Norilsk Nickel performance (without its gold operations) is presented in 2005 Annual Report separately from information on ZAO Polyus.

The Company's 2005 Annual Report is comprised of the following sections:

- Brief description of MMC Norilsk Nickel and gold assets;
- Corporate mission and strategy;
- Key operational and financial indicators;
- Address by General Director;
- Address by Chairman of the Board of Directors;

- Review of 2005 achievements and plans for 2006-2007;
- Description of risks;
- MMC Norilsk Nickel without gold assets;
- Gold assets of MMC Norilsk Nickel (ZAO Polyus);
- Personnel and social policy;
- Corporate governance report;
- Audited IFRS compliant financial statements of MMC Norilsk Nickel for 2005 (will be presented upon signing);
- Audited IFRS compliant financial statements of ZAO Polyus for 2005 (will be presented upon signing);
- Information for shareholders;
- Report on Compliance with FCSM Corporate Governance Code;
- Interested party transactions.

## **2. Distribution of dividends on the shares of MMC Norilsk Nickel in 2005.**

### Recommendation:

The Board of Directors recommends approving the distribution of final dividend based upon 2005 results in the amount of RUR 96.49 per share, including RUR 43 of interim dividend paid earlier.

### Opinion of the Board of Directors:

Based on the results of the Company performance in the first 9 months of 2005, the Extraordinary General Meeting on December 30, 2005 approved the distribution of interim dividends in the amount of RUR 43 per common share (USD 1.51 at USD/RUB exchange rate of 1/28.48). This payout was carried out in February of 2005. Total sum of interim dividends paid to shareholders amounted to RUB 8.7 bln (about USD 304 mln at USD/RUB exchange rate of 1/28.48).

Market situation for our core metals was extremely favourable throughout 2005. Average LME prices as compared to those of 2004:

- Ni price increased by 6.4% reaching USD 14 733 per ton;
- Cu price increased by 28.5% reaching USD 3 684 per ton;
- Pt price increased by 6% reaching USD 897 per ounce;
- Au price increased by 8.3% reaching USD 444 per tr.oz.

The Company's net profit in 2005 (under IFRS reporting) reached USD 2 352 mln.

Taking into account our outstanding financial results in 2005, the Board of Directors recommends approving the payout of dividends in the amount of RUB 53.49 per share or RUB 10.2 billion (USD 377.7 mln).

Thus, the Company confirms that the dividend policy, approved by the Board of Directors in 2002, in accordance with which 20-25% of the Company's net profit as reported under IFRS may be used for dividend payout to shareholders, remains unchanged.

### **3. Elections to the Board of Directors of MMC Norilsk Nickel**

#### Recommendation:

The Board of Directors recommends the following persons for the election to the Board:

- Bugrov A.E.
- Guy de Selliers
- Dolgikh V.I.
- Klishas A.A.
- Morgan R.T.
- Prokhorov M.D.
- Salnikova E.M.
- Ugolnikov K.L.
- Heinz Schimmelbusch

#### Opinion of the Board of Directors:

The Board of Directors may be comprised of 9 members, while the shareholders have nominated 12 candidates for the election. All above-listed nominees recommended by the Board were already elected to the Board in the past.

Guy de Selliers, Dolgikh V.I., Ugolnikov K.L. and Heinz Schimmelbusch are independent candidates to the Board of Directors. Prokhorov M.D. and Morgan R.T. represent the Company's management, and Klishas A.A., Bugrov A.E. and Salnikova E.M. are representatives of Interros Holding Company.

All candidates are recognized professional experts, and they can use their business experience and knowledge in the areas of financing, production and strategy development for increasing the Board efficiency in performing its duties.

Recommending the aforementioned nominees, the Board of Directors is guided by the necessity to secure succession in the Board membership and involvement of independent directors.

### **4. Elections to the Revision Commission of MMC Norilsk Nickel.**

#### Recommendation:

The Board of Directors recommends supporting the election of candidates listed in the bulletin.

### **5. Appointment of the Auditor of MMC Norilsk Nickel's Russian accounting statements**

#### Recommendation:

The Board of Directors recommends approving the appointment of Rosexperiza LLC the Auditor of Russian accounting statements of MMC

Norilsk Nickel.

**6. Remuneration and compensation of expenses incurred by independent directors – members of the Board of Directors of MMC Norilsk Nickel.**

Recommendation:

The Board of Directors recommends that the Annual General Meeting of shareholders approve the remuneration of independent directors in the amount of RUB 750 000 per quarter for each director, and RUB 1 250 000 per quarter for independent director – chairman of the Audit Committee of the Board of Directors. The Board further recommends approving compensation of directors' documented expenses related to their duties on the Board of Directors of MMC Norilsk Nickel (travel, accommodation, meals, interpreter services) in the max amount of RUB 2 million a year for each director.

Opinion of the Board of Directors:

Pursuant to Federal Law *On Joint Stock Companies* (Article 64, p. 2), the amount of remuneration and compensation for expenses incurred by the members of the Board of Directors in relation with their duties on the Board, should be approved by the General Meeting of shareholders.

The amount of an independent director's remuneration is equivalent to USD 110 000 per year before tax at 1:27 USD/RUB exchange rate, and this sum assumes the withholding by MMC Norilsk Nickel of personal income tax of 30% applicable to non-residents of the Russian Federation and 13% for residents. The aforementioned amount was established on the basis of a survey of independent directors' remuneration paid by leading international mining and metallurgical companies, which was carried out for MMC Norilsk Nickel by PriceWaterhouseCoopers.

The amount of annual compensation of an independent director's expenses has been calculated assuming his/her personal participation in five Board meetings per year, plus payments for accommodation in Moscow hotels (up to USD 500 per day), first class air tickets, ground transportation, meals and interpreting.

**7. The cost of liability insurance services for the members of the Board of Directors and the Management Board of MMC Norilsk Nickel.**

Recommendation:

The Board recommends establishing the maximum cost of liability insurance services for members of the Board of Directors and Management Board of MMC Norilsk Nickel in the amount of USD 1 000 000 (one million), with total liability limit of USD 20 000 000 (twenty million).

**8. Approval of the transaction related to liability insurance for members of the Board of Directors and Management Board of MMC Norilsk Nickel.**

Recommendation:

The Board of Directors recommends approving of the transaction that represents an interested-party transaction for all members of the Board of Directors and Management Board of MMC Norilsk Nickel, whereby one of Russian insurance companies will insure these individuals (beneficiaries) against liability for the period of one year, with total liability limit of USD 20 000 000 (twenty million), and maximum insurance premium of USD 1 000 000 (one million).

Opinion of the Board of Directors:

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. The insurance premium is not exceeding USD 1 mln.

**9. The value of property being the subject of Indemnity Agreements with members of the Board of Directors and Management Board of MMC Norilsk Nickel.**

Recommendation:

The Board of Directors recommends that the value of property being the subject of inter-related transactions involving indemnification of members of the Board of Directors and Management Board against damages that these individuals may incur in connection with their duties on the aforementioned boards should not exceed USD 20 mln under each of the transactions.

**10. Approval of interrelated interest party transactions whereby members of the Board of Directors and Management Board of MMC Norilsk Nickel will be indemnified against damages.**

Recommendation:

The Board of Directors recommends approving inter-related transactions that are interested party transactions for all members of the Board of Directors and Management Board of MMC Norilsk Nickel, whereby the Company will be liable for indemnification of these individuals against damages arising out of their duties on the aforementioned boards, with maximum liability limit of USD 20 mln per person.

Opinion of the Board of Directors:

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.