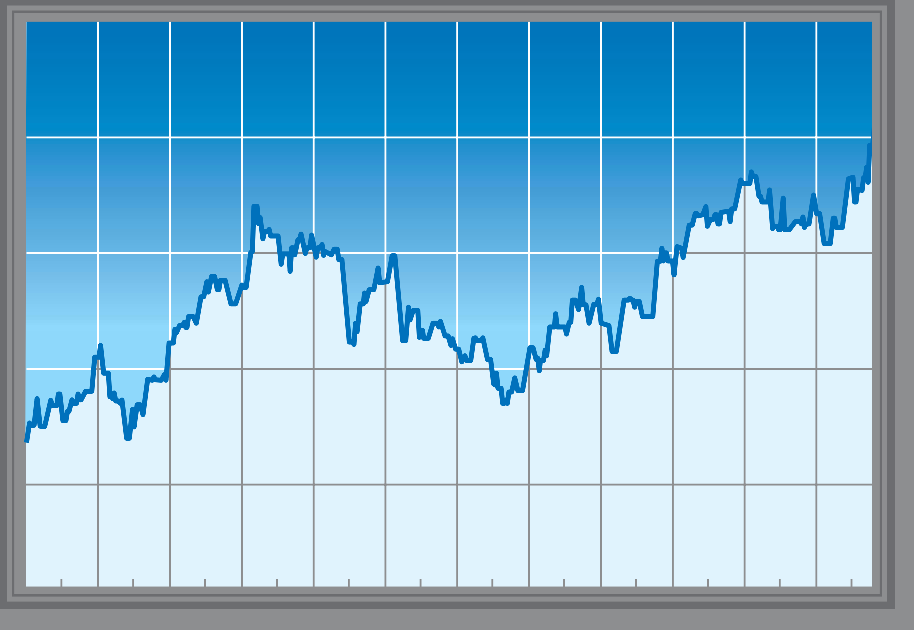
OJSC «MMC NORILSK NICKEL»



AUDITED CONSOLIDATED

ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2002

NORILSK NICKEL

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Statement of management's responsibilities for and approval of the consolidated annual financial statements for the year ended 31 December 2002

The following statement, which should be read in conjunction with the auditor's responsibilities stated in the report of the independent auditors, set out on page 2, is made with a view to distinguishing the respective responsibilities of Management and the auditors in relation to the consolidated annual financial statements of OJSC Mining Metallurgical Company Norilsk Nickel (the Company) and its subsidiaries ("the Norilsk Nickel Group" or "the Group").

Management is responsible for the preparation of consolidated annual financial statements that present fairly the financial position of the Norilsk Nickel Group and the results of its operations, changes in equity and cash flows for the year ended 31 December 2002 in compliance with International Accounting Standards. In preparing the consolidated annual financial statements, Management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Norilsk Nickel Group will continue in business for the foreseeable future.

Management is also responsible for:

- the design, implementation and maintenance of an effective and sound system of internal controls, throughout the Norilsk Nickel Group;
- keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Norilsk Nickel Group and which enable them to ensure that the consolidated annual financial statements of the Norilsk Nickel Group comply with statements on International Accounting Standards;
- keeping statutory accounting records in compliance with Russian law and legislation;
- taking such steps as are reasonably open to them to safeguard the assets of the Norilsk Nickel Group; and to prevent and detect fraud and other irregularities.

The consolidated annual financial statements for the year ended 31 December 2002 were approved on 31 May 2003 by:

General Director M. D. Prokhorov

Deputy
General Director D. A. Glotov

Moscow,
31 May 2003

Report of the independent auditors to the members of OJSC "Mining Metallurgical Company Norilsk Nickel"

We have audited the consolidated annual financial statements for the year ended 31 December 2002, of OJSC "Mining Metallurgical Company Norilsk Nickel" and its subsidiaries set out on pages 3-65. The Group comprises the companies listed in note 43 to the consolidated financial statements for the year ended 31 December 2002. The consolidated annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform our audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- assessing the accounting principles used in the preparation of the consolidated financial statements;
- assessing the significant estimates made by management in the preparation of the consolidated financial statements; and
- evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the consolidated financial statements fairly present, in all material respects, the financial position of the Group at 31 December 2002, and the results of its operations cash flows and changes in shareholders' equity for the year then ended, in accordance with International Accounting Standards.

Deloitte & Touche

Deloitte & Touche

Moscow, Russia
31 May 2003

Consolidated income statement for the year ended 31 December 2002

	Notes	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Gross metal sales revenues	3	**98,318**	**139,260**	**3,094**	**4,382**
Cost of metal sales	4	(55,655)	(76,277)	(1,751)	(2,400)
Gross profit on metal sales		**42,663**	**62,983**	**1,343**	**1,982**
Selling, general and administrative expenses	10	(17,814)	(21,220)	(561)	(668)
Other net income/(expenses)	11	851	(8,199)	27	(259)
Operating profit		**25,700**	**33,564**	**809**	**1,055**
Gains on derivatives transactions	12	6,837	25,910	215	815
Net finance (costs)/income	13	(489)	3,987	(15)	125
Other non-operating expenses	14	(4,633)	(7,834)	(146)	(245)
Profit before taxation		**27,415**	**55,627**	**863**	**1,750**
Taxation	15	(9,087)	(15,997)	(286)	(503)
Profit after taxation		**18,328**	**39,630**	**577**	**1,247**
Minority interest		239	(340)	7	(11)
Preference share dividend		-	(28)	-	(1)
Profit attributable to ordinary shareholders		**18,567**	**39,262**	**584**	**1,235**
RECONCILIATION BETWEEN ATTRIBUTABLE AND HEADLINE EARNINGS					
Profit attributable to ordinary shareholders		18,567	39,262	584	1,235
Adjusted for:					
Gains on embedded derivative	12	(8,555)	(26,187)	(269)	(824)
Headline earnings		**10,012**	**13,075**	**315**	**411**
Number of ordinary shares in issue (thousands)	**24**	**210,643**	**208,098**		
Weighted average number of ordinary shares in issue (thousands)	**16**	**210,643**	**172,598**		
Fully diluted weighted average number of ordinary shares in issue	**16**	**210,643**	**210,643**		
		RUR	RUR	US cents	US cents
Basic earnings per share:					
- Attributable	**16**	**88.1**	**227.5**	**277.2**	**715.5**
- Headline	**16**	**47.5**	**75.8**	**149.5**	**238.1**
Fully diluted earnings per share:					
- Attributable	**16**	**88.1**	**186.4**	**277.2**	**586.3**
- Headline	**16**	**47.5**	**62.1**	**149.5**	**195.1**
Dividends per share paid	**17**	**25.5**	**1.2**	**80.2**	**3.8**

* USD equivalent figures are provided for information purposes

Consolidated balance sheet as at 31 December 2002

	Notes	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
ASSETS					
Non-current assets		**205,264**	**195,190**	**6,459**	**6,142**
Property, plant and equipment	18	201,804	192,276	6,350	6,050
Other financial assets	19	3,324	2,799	105	88
Deferred tax assets	15	136	115	4	4
Current assets		**104,365**	**149,926**	**3,284**	**4,717**
Inventories	20	58,335	67,111	1,836	2,112
Trade accounts and other receivables	21	11,320	18,544	356	583
Other current assets	22	18,243	20,571	574	647
Other financial assets	19	3,000	12,629	94	397
Cash and cash equivalents	23	13,467	31,071	424	978
Total assets		**309,629**	**345,116**	**9,743**	**10,859**
EQUITY AND LIABILITIES					
Share capital and reserves		**232,150**	**217,988**	**7,305**	**6,860**
Share capital	24	271	271	9	9
Share premium	24	21,713	21,713	683	683
Treasury shares	24	(5)	(10)	-	-
Accumulated profits before proposed ordinary dividend		206,949	193,754	6,512	6,097
Accumulated profits after proposed ordinary dividend		202,307	188,382	6,366	5,928
Proposed ordinary dividend		4,642	5,372	146	169
Shareholders' equity		**228,928**	**215,728**	**7,204**	**6,789**
Minority interest		**3,222**	**2,260**	**101**	**71**
Non-current liabilities		**30,556**	**21,380**	**962**	**673**
Long-term borrowings	25	4,525	159	142	5
Capitalised financial leases	26	148	303	5	10
Deferred tax liabilities	15	25,558	20,804	804	655
Employee benefits	27	325	114	11	3
Current liabilities		**46,923**	**105,748**	**1,476**	**3,326**
Current portion of long-term borrowings	25	2,128	520	67	16
Current portion of capitalised financial leases	26	213	323	7	10
Loan from Ministry of Finance	28	-	23,551	-	741
Derivative financial instruments	29	382	-	12	-
Short-term borrowings	30	12,147	35,174	382	1,107
Employee benefits	27	4,783	6,416	150	202
Trade accounts and other payables	31	10,355	20,648	325	649
Taxes payable	32	9,965	13,069	314	411
Bank overdrafts	33	6,950	6,047	219	190
Total equity and liabilities		**309,629**	**345,116**	**9,743**	**10,859**

* USD equivalent figures are provided for information purposes

Consolidated cash flow statement for the year ended 31 December 2002

	Notes	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Cash flows from operating activities					
Cash flow from operations	34	30,030	19,191	944	604
Interest paid		(3,183)	(3,814)	(100)	(120)
Taxation paid		(7,670)	(11,742)	(241)	(369)
Net cash from operating activities		**19,177**	**3,635**	**603**	**115**
Cash flows used in investing activities					
Acquisition of subsidiaries net of cash acquired	35	(8,661)	-	(273)	-
Purchase of property, plant and equipment		(11,071)	(15,307)	(348)	(482)
Proceeds from sale of property, plant and equipment		128	3,319	4	104
Purchase of non-current investments		(1,268)	(1,395)	(40)	(44)
Proceeds from sale of non-current investments		5,997	2,132	189	67
Purchase of equity securities		(2,995)	(12,455)	(94)	(392)
Proceeds from sale of equity securities		3,137	13,889	98	437
Net cash used in investing activities		**(14,733)**	**(9,817)**	**(464)**	**(310)**
Cash flows used in financing activities					
Cash proceeds from short-term borrowings		49,717	63,599	1,564	2,001
Cash repayments of short-term borrowings		(70,423)	(36,103)	(2,216)	(1,136)
Cash proceeds from long-term borrowings		7,139	-	225	-
Cash repayments of long-term borrowings		(634)	-	(20)	-
Cash payments for outstanding lease liability		(323)	(251)	(10)	(8)
Registration costs		-	(48)	-	(1)
Dividends paid	17	(5,331)	(319)	(168)	(10)
Net cash (used in) / generated from financing activities		**(19,855)**	**26,878**	**(625)**	**846**
Effect of inflation on cash and cash equivalents		**(3,096)**	**(3,710)**	**(97)**	**(116)**
Net (decrease) / increase in cash and cash equivalents		(18,507)	16,986	(583)	535
Cash and cash equivalents at beginning of year	23	**25,024**	**8,038**	**788**	**253**
Cash and cash equivalents at end of year	23	**6,517**	**25,024**	**205**	**788**

* USD equivalent figures are provided for information purposes

Consolidated statement of changes in shareholders' equity for the year ended 31 December 2002

RUR - Millions

	Ordinary shares
Balance at 1 January 2001 - unaudited	**1,314**
Replacement of parent company as result of reorganization	(1,043)
Registration costs	-
Minority remaining in subsidiary after reorganization	-
Balance after the reorganisation of the Group – representing the consolidated equity of MMC Norilsk Nickel at 1 January 2001 - unaudited	**271**
Profit for the year	-
Dividends paid	-
Valuation of property, plant and equipment[1]	-
Balance at 31 December 2001 - unaudited	**271**
Profit for the year	-
Dividends paid	-
Re-issue from treasury shares	-
Balance at 31 December 2002	**271**

[1] An independent professional assessment of the value of property, plant and equipment was obtained with effect from 31 December 2001. This step was necessitated by the rare circumstances that the detailed records of the acquisition dates of property, plant and equipment were not available or capable of being estimated.

USD - Millions*

Balance at 1 January 2001 as restated - unaudited	**41**
Replacement of parent company as result of reorganization	(32)
Registration costs	-
Minority remaining in subsidiary after reorganization	-
Balance after the reorganisation of the Group – representing the consolidated equity of MMC Norilsk Nickel at 1 January 2001, unaudited	**9**
Profit for the year	-
Dividends paid	-
Valuation of property, plant and equipment[1]	-
Balance at 31 December 2001 - unaudited	**9**
Profit for the year	-
Dividends paid	-
Re-issue from treasury shares	-
Balance at 31 December 2002	**9**

[1] An independent professional assessment of the value of property, plant and equipment was obtained with effect from 31 December 2001. This step was necessitated by the rare circumstances that the detailed records of the acquisition dates of property, plant and equipment were not available or capable of being estimated.

* USD equivalent figures are provided for information purposes

Preference shares	Treasury shares	Share premium	Realization reserve	Accumulated profits	Total
92	**(543)**	**9,877**	**11,797**	**99,473**	**122,010**
(92)	533	11,884	(11,282)	-	-
-	-	(48)	-	-	(48)
-	-	-	(515)	-	(515)
-	**(10)**	**21,713**	**-**	**99,473**	**121,447**
-	-	-	-	39,262	39,262
-	-	-	-	(259)	(259)
-	-	-	-	55,278	55,278
-	**(10)**	**21,713**	**-**	**193,754**	**215,728**
-	-	-	-	18,567	18,567
-	-	-	-	(5,372)	(5,372)
-	5	-	-	-	5
-	**(5)**	**21,713**	**-**	**206,949**	**228,928**

3	**(17)**	**311**	**371**	**3,131**	**3,840**
(3)	17	373	(355)	-	-
-	-	(1)	-	-	(1)
-	-	-	(16)	-	(16)
-	**-**	**683**	**-**	**3,131**	**3,823**
-	-	-	-	1,235	1,235
-	-	-	-	(8)	(8)
-	-	-	-	1,739	1,739
-	**-**	**683**	**-**	**6,097**	**6,789**
-	-	-	-	584	584
-	-	-	-	(169)	(169)
-	-	-	-	-	-
-	**-**	**683**	**-**	**6,512**	**7,204**

1. Basis of presentation

The consolidated annual financial statements have been prepared in compliance with statements on International Accounting Standards (IAS), as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standard Interpretations Committee (SIC) of the IASB.

Reorganization. In early 2000, the Group commenced a reorganization of its operations and legal structure. The steps taken to complete the reorganization are more fully described in Note 40.

The objective of this reorganization was to replace the holding company, RAO "Norilsk Nickel" (NN), with its principal operating subsidiary, OAO "Norilskaya Gornaya Kompaniya" (NGK) (later renamed "MMC "Norilsk Nickel" (MMC)), as a parent Company of the Group.

As part of this reorganization, shareholders in NN were given the option to swap their shares in NN for shares in MMC. On 17 July 2002 the option to swap lapsed. At this date shareholders holding 3,263,368 ordinary shares in NN and representing 1.73 % of NN's issued share capital had not exercised their right to swap.

With the lapse of the swap option as of 17 July 2002 the reorganization was completed. The corresponding figures have been presented as if the reorganization had been completed at 31 December 2001. Management considered, taking into account the continuity of ownership of NN and MMC throughout the reorganization process, that this presentation is appropriate and would best present to shareholders the financial position of the economic entity in which they had an interest. Those shareholders of NN who did not exercise the swap option have been recorded as minority interests in the consolidated financial statements. This presentation is consistent with that of the prior year (refer to note 16 and 24).

2. Significant accounting policies

The consolidated annual financial statements are prepared on the historical cost basis, except for the:

- valuation of property, plant and equipment in accordance with both IAS 16 "Property, plant and equipment" and IAS 29 "Financial Reporting in Hyperinflationary Economies" (which is more fully described in note 2(d));
- mark to market valuation of by-products in accordance with IAS 2 "Inventories" (which is more fully described in note 2(g));
- mark to market valuation of financial instruments in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" (which is more fully described in note 2(h));
- restatement of non-monetary assets and liabilities and the income statement, in accordance with IAS 29, to take account of the effects of hyper-inflation (which is more fully described in note 2(b)).

The Group's accounting policies, which are consistent with those applied in the previous year, are set out below.

(a) Basis of consolidation

Subsidiaries. The consolidated financial statements incorporate the financial statements of the holding company, and its subsidiaries from the date that control effectively commenced until the date that control effectively ceased.

Control is presumed to exist when the parent:

- owns, directly or indirectly through subsidiaries, more than 50% of the voting equity of an enterprise;
- owns, directly or indirectly through subsidiaries, less than 50% of the voting equity of an enterprise, but has the power to:
  - govern the financial and operating polices of the enterprise under a statute or an agreement,
  - appoint or remove the majority of the members of the board of directors, or equivalent governing body, or
  - cast the majority of votes at meetings of the board of directors or equivalent governing body.

Subsidiaries that meet the definition of control are not consolidated by the Group if:

- control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future;
- it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

Such subsidiaries are accounted for as investments (refer to 2 (h)).

The assets and liabilities of all subsidiaries have been measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

The annual financial statements of subsidiaries are prepared for the same accounting periods; where necessary, adjustments are made to the annual financial statements of subsidiaries to bring the accounting policies used by them, in line with those of the Group.

All intra-group balances, transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

Foreign operations. Monetary assets and liabilities of foreign operations are translated at the closing exchange rate. Non-monetary items carried at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date the latest fair value was determined. Income statement items are translated at an average rate of exchange for the year. Gains and losses on transaction are charged to Income Statement.

Associates. An associate is an entity over which the Group exercises significant influence. Associates are equity accounted from the date significant influence commences until the date significant influence effectively ceases.

Results of associates are equity accounted based on their most recent financial statements. Any losses of associates are brought to account in the consolidated financial statements until the investment in such associates is written down to a nominal amount. Thereafter, losses are accounted for only insofar as the Group is committed to providing financial support to such associates.

The carrying value of the investments in associates, represents the cost of each investment, including unamortised goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of associates is reviewed on a regular basis and if any impairment in value has occurred, it is written off in the period in which these circumstances are identified.

Unrealised gains and losses resulting from transactions with associates are eliminated against the investment in the associate. The carrying amount of such investments is reduced to recognize any impairment in the value of individual investments.

Acquisitions and goodwill arising thereon. Where an investment in a subsidiary or an associate is made, any excess of the purchase price over the fair value of the assets, liabilities and attributable mineral reserves is recognized as goodwill. Goodwill, which represents mineral resources is amortized on a systematic basis, which recognizes the depletion of the resources over the lesser of the life of the mine or 20 years.

Goodwill, in respect of non-mining subsidiaries is disclosed as goodwill. Goodwill, relating to associates is included within the carrying value of the investment in associates.

The unamortised balance is reviewed on a regular basis and, if impairment in the value has occurred, it is written off in the period in which the circumstances are identified.

On disposal of a subsidiary, or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill. Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable acquired assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that negative goodwill:

- is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise;
- is attributable to identifiable acquired depreciable assets, it is recognized as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets;
- exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Accounting records. The companies of the Group maintain their accounting records in accordance with the laws of their country of incorporation. The consolidated annual financial statements have been prepared from the local statutory accounting records and have been adjusted to comply with IAS.

Presentation currency. The measurement currency of the consolidated financial statements is the Russian rouble ("RUR") as adjusted for hyperinflation. For information purposes the Group has chosen to also present its financial statements in US dollars ("USD").

As the Russian rouble is the currency of a hyperinflationary economy, all financial statement items presented in USD have been translated from roubles at the exchange rate in effect at the close of business on the 31 December 2002. The relevant exchange rate as quoted by Central Bank of Russian Federation was USD 1 = RUR 31.78.

The Russian rouble is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of Russian rouble amounts to US dollars should not be construed as a representation that Russian rouble amounts have been, could be, or will be in the future, converted into US dollars at the exchange rate shown, or at any other exchange rate.

(b) Hyperinflation accounting

The principal operations of the Group are based in the Russian Federation where the accounting records are maintained in Russian roubles. The economy of the Russian Federation is considered to be a hyperinflationary economy in terms of IAS 29. Accordingly, the Group's historical cost financial statements, including corresponding figures, have been restated to account for changes in the general purchasing power of the Russian rouble and, as a result, are stated in terms of the measurement unit current at the balance sheet date.

The restatement was calculated from conversion factors derived from the consumer price index reported by GOSCOMSTAT (State Statistical Committee of Russia). The conversion factors used in the preparation of the accompanying financial statements are as follows:

31 December 1992	386.172
31 December 1993	40.771
31 December 1994	13.002
31 December 1995	5.604
31 December 1996	4.599
31 December 1997	4.144
31 December 1998	2.246
31 December 1999	1.643
31 December 2000	1.368
31 December 2001	1.151
31 December 2002	1.000

The indices have been applied to the historical costs of transactions and balances as follows:

- corresponding figures as at 31 December 2001 and for the year then ended have been restated by applying the change in the index to 31 December 2002;
- income statement transactions have been restated by applying the change in the index from the approximate date of the transactions to 31 December 2002;
- gains and losses arising from the restatement of monetary assets or liabilities positions have been included in the income statement; and
- non-monetary assets and liabilities have been restated by applying the change in the index from

the date of the transaction, or if applicable from the date of their most recent revaluation, to 31 December 2002.

Cessation of hyperinflation in Russia. The characteristics of the economic environment of the Russian Federation indicate that it has ceased to be hyperinflationary. Accordingly, with effect from 1 January, 2003 the Group will discontinue application of the provisions of IAS 29, and the carrying amounts of all non-monetary assets and liabilities will thereafter be treated as cost.

(c) Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than the Russian rouble at the balance sheet date are translated to Russian roubles at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in currencies other than the Russian rouble, which are stated at historical cost, are translated to Russian roubles at the exchange rate ruling at the date of the transaction. Income statement transactions in currencies other than the Russian rouble are recorded in Russian roubles at the exchange rate ruling at the date of the transaction. Gains or losses resulting from changes in exchange rates are recognized in the income statement.

(d) Property, plant and equipment

Valuation of assets. Property, plant and equipment were valued by independent, professionally qualified valuers. The effective date of the valuation was 31 December 2001. The basis for valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined at their market value. However as most property, plant and equipment are of a specialized nature, they were valued at their depreciated replacement cost. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation including physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

New replacement costs were determined by the valuers based on the market prices for construction work and materials and equipment similar to the assets being valued. In certain cases, the valuer used indices that reflected market cost trends for different asset types over the period from the date of acquisition of an asset to the valuation date. The indices were derived from a number of sources including:

- indices for different groups of commodities published on a regular basis by the State Statistical Committee of Russia;
- construction price bulletins which monitor trends in construction prices in various regions of Russia; and
- the market research performed by the valuers for different types of equipment.

Mining assets. Mining assets are recorded at valuation at 31 December, 2001 with additions thereafter at cost less accumulated amortization and impairments. Cost includes pre-production expenditure incurred during the development of the mine and the present value of future decommissioning costs. Cost also includes finance charges capitalised during the construction period where such costs are financed by borrowings. Amortization is provided on the straight-line basis over the economic useful lives of these assets at the following rates:

Mine development, buildings and construction	15-70 years
Machinery and equipment	5-30 years

(i) Mine development costs. Mine development costs are capitalised to capital work-in-progress and transferred to mining property, plant and equipment when the mining venture reaches commercial production quantities.

Capitalised mine development costs includes expenditure incurred to:

- develop new mining operations,
- define further mineralization in existing ore bodies,
- expand the capacity of a mine;

- maintain existing production capacity.

Where funds have been borrowed specifically to finance a project, the amount of interest capitalised represents the actual borrowing costs incurred.

Mine development costs are amortized on a straight-line basis using the life of mine method, based on estimated proven and probable mineral reserves, over:

- the lesser of 70 years;
- their expected useful lives, to estimated residual values.

Proven and probable mineral reserves reflect estimated economically recoverable quantities in accordance with Russian geological engineering reserve standards which can be recovered in future from known mineral deposits.

(ii) Mine infrastructure. Plant, equipment and buildings are amortised over the lesser of their useful lives or the life of mine.

(iii) Mineral rights, and ore reserves. Mineral rights are amortized using the life of mine method based on estimated proven and probable mineral reserves.

Proven and probable ore reserves are measured mining resources which are transferred to mine development costs and amortized from the date on which commercial production begins.

If the recoverable amount of any of the above assets is less than the carrying value, an allowance is made for the impairment in value.

(iv) Commencement of amortization. Amortisation is charged on new mining ventures from the date on which the mining ventures reach commercial production quantities.

(v) Commencement of depreciation. All assets used in exploration, development or pre-production are depreciated and their depreciation is treated as a direct cost incurred during the exploration or development stage.

Once production has reached commercial quantities, depreciation is charged against the income statement.

(vi) Reassessment of life of mine and write downs. The Group regularly reviews:

- amortization and depreciation rates and methods;
- useful lives and recoverable values of the mine and associated buildings, machinery and equipment.

Any reduction in the recoverable value of property, plant and equipment, and any subsequent reinstatement of the recoverable value, as an adjustment to the carrying values of the individual assets in the period to which the recoverable amount change occurs are recorded, and taken to the income statement.

Recoverable amounts are determined on the basis of the present values of net future cash flows. Changes in the present value of these future cash flows occur mostly from:

- fluctuating long-term metal prices;
- revised estimates of the grade or extent of the mineral resource; and
- changes in future expected operating costs.

The Group reflects all changes in estimates of the remaining life of the mine or of depreciable assets in amortization and depreciation calculations and discloses material impact of any changes in estimates in the year in which they are made. The impact of any changes are determined and recorded prospectively from the first day of the current reporting period.

During the estimation of the remaining life of an area of interest for the purpose of amortisation and depreciation calculations, the Group considers amongst others, the following:

- the volume of remaining recoverable mineral resources or the remaining mining lease period;
- limitations which could arise from the potential for changes in technology, demand and product substitution.

Because of the uncertainty of these estimates the Group uses a time limitation for these calculations. In this case, straight-line basis of amortization is used.

Construction in progress. Construction in progress comprises costs directly related to construction of buildings, mine and other structures and plant and machinery. Depreciation of these assets commences when the assets are put into production. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether an appropriate provision should be made.

Non-mining assets. Non-mining assets are stated at historical cost less accumulated depreciation.

Depreciation is provided on the straight-line basis over the economic useful lives of these assets at the following annual rates:

- Buildings, plant 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 cost, with the related lease obligation recognized at the same value.

Capitalised leased assets are depreciated over their estimated useful lives.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the liability to the lessor.

(e) Exploration, research, evaluation, development and construction expenditure

Exploration (including geophysical, topographical, geological and similar type of expenditure), evaluation, development and construction expenditure is written off in the period in which it is incurred, unless it is deemed that such expenditure will lead to a capital project, in which case the expenditure is capitalised and written off over the lesser of the expected useful life of the asset or thirty years.

Once a capital project is approved such expenditure is accumulated for each area of interest or mineral resource and includes direct and indirect expenditure specifically related to that area. Any general and administrative expenditure that does not have connection with an area of interest or mineral resource is written off as incurred.

Development expenditure is carried forward from before the start of production in each area of interest only if it can be recovered from future cash flows or sale of that area of interest. All carried forward development expenditure is written off if the recoverable amount of the mineral resource is less than its present carrying value.

Exploration and evaluation expenditure once written off before development and construction starts is not subsequently capitalised, even if a commercial discovery occurs.

(f) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication that those assets' values have been impaired. If any such indication exists, the assets' recoverable amounts are estimated and compared to their net book value in order to determine the extent of the impairment loss, if any.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognized in the income statement.

The recoverable amount of the Group's investments is their fair value.

The recoverable amount of other assets is the amount, which the Group expects to recover from the future use of an asset, including its residual value on disposal.

An impairment loss in respect of an investment or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the original carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Inventories

Refined metals. Refined metal inventories are measured at the lower of net cost of production, on the weighted average basis, or net realisable value. The net cost of production per ton or ounce is broadly determined as follows, for joint products, i.e. nickel, copper, palladium, platinum and gold, are measured by dividing the saleable mine output into the total on-mine, smelting, treatment and refining cost of production less net revenue from sales of by-products in proportion to the contribution of these metals to gross sales revenue.

By-products, i.e. cobalt, ruthenium, rhodium, iridium, silver and other minor metals are measured at net realizable value.

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 a provision for obsolete items.

(h) Financial instruments

Financial instruments recognized on the Group's balance sheet include investments, loans receivable, trade and other receivables, cash and cash equivalents, equity instruments, 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 will be derecognised and a gain or loss recognized 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.

Investments. Investments, other than investments in subsidiaries and associates, are initially measured at cost on the trade date basis, which is the fair value of the consideration given for them, including transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- held-for-trading;
- available-for-sale.

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Investments held-for-trading are included in current assets.

All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

Available-for-sale and held-for-trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that the Group may incur on their sale or other disposal. Gains or losses on measurement to fair value of investments are recognised in net profit or loss for the period. Where a quoted market price does not exist, these instruments are measured at management's estimate of fair value.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Loans receivable. Loans receivable are measured at amortised cost using the effective interest rate method.

Trade and other receivables. Trade and other receivables originated by the Group are measured at amortised cost less provision for doubtful debts.

Cash and cash equivalents. Cash and cash equivalents comprise cash balances and cash deposits 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.

Equity instruments. Equity instruments are initially measured at their cost. Equity instruments are subsequently remeasured to their fair market value.

Borrowings. Loans and borrowings are measured initially at cost, net of any transaction costs incurred. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables. Trade and other payables are subsequently measured at net amortised cost.

Derivative financial instruments. The Group engages in activities using derivatives related to metal prices, these activities are not formally designated as hedges, and, as such, are accounted for as financial instruments held for trading.

Derivatives are initially measured at cost and associated transaction costs are charged to the income statement when incurred. Subsequently, these instruments are remeasured to their fair value.

All commodity derivative contracts are marked to market at financial reporting intervals and any changes in their fair values are included in gains/losses on derivative financial instruments.

Gains and losses arising on all contracts not spanning a reporting interval or being closed out within a reporting period are recognized and included in gains/losses on derivative financial instruments at the time that the contract expires.

Before adoption of IAS 39, the Group's derivatives were recorded at cost with no remeasurement to fair value. Upon adoption and where remeasurement has resulted in an adjustment to the previous, carrying amount this has been shown as a charge to the opening balance of retained earnings as at 1 January 2001 (refer to note 28).

The Group enters into metal lease transactions in terms of which it leases out portions of its refined metal stock to participants in the financial markets. Under these transactions, the Group leases refined metal, and the loan counterparty returns the physical refined metal back to the Group at the end of the term of the contract, plus interest.

The Group retains the risks and rewards of ownership associated with the refined metal on these transactions and these transactions are not reflected as stock movements in the financial statements, and there is no recognition of the loans on the face of the balance sheet. The interest earned is recorded in the category "interest received".

The Group enters into refined metal sales and repurchase agreements as a source of short-term funding. The substance of these transactions is similar to that of secured borrowings and accordingly the liability is recognized at inception based on the consideration received and it is subsequently measured at amortised cost. Interest is recorded in the category "interest paid".

(i) Borrowing costs. Borrowing costs relating to major qualifying capital projects under construction are capitalised during the construction period during which they are incurred. Once the qualifying capital project has been fully commissioned, the associated borrowing costs are expensed, as and when incurred in the income statement.

Foreign exchange differences from foreign currency borrowings used to fund major qualifying capital projects are expensed as incurred, except for cases when such foreign exchange differences resulted from severe currency devaluation against which no hedge is possible or to the extent that the differences represent borrowing costs. Hedging costs on such borrowings related directly to qualifying mine development or construction are capitalised.

Borrowing costs relating to operating activities are expensed in the income statement as and when incurred.

(j) Provisions. Provisions are recognized when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(k) Employee benefits

Short-term employee benefits. Remuneration to employees in respect of services rendered during a reporting period is recognized as an expense in that reporting period. Provision is made for accumulated leave.

The Group pays injury tax on behalf of its current employees. These contributions are made as the employees render service to the Group. These amounts are expensed in the income statement as and when incurred. The Government reimburses employees for all expenses incurred in the event of injuries at work.

The Group pays unified social tax on behalf of its current employees which is charged against the income statement as and when incurred. The contribution is made as the employees render service to the Group.

Post-employment benefits

(i) Six pensions plan. The Group reimburses retired employees of the Group, previously located in Norilsk industrial region for travel expenses to their place of residence. The Group pays a monthly allowance equal to an amount of six times the State pension benefit payment, for the immediate two years subsequent to their retirement. These monthly allowances are granted at the discretion of the Group's management, providing that the employee had met certain criteria during his working life and within established yearly budgets. The liability is recognized at the date when the Group's management admits the employee to the plan.

(ii) Lifelong professional pension plan. The Group reimburses retired employees of the Group, previously located in Norilsk industrial region for travel expenses to their place of residence. Subsequent to their retirement, the Group pays a monthly allowance equal to an amount of two times the State pension benefit payment for their remaining lives. These monthly allowances are granted at the discretion of the Group's management, providing that the employee had met certain criteria during his working life and within established yearly budgets. The liability is recognized at the date when the Group's management admits the employee to the plan.

These post employment benefits are valued on an annual basis, any adjustments are recorded in income during the period in which they arise. The principal assumptions used in calculating these liabilities relate to:

- the discount rates used in determining the present value of benefits;
- projected rates of remuneration growth; and
- life expectancy of members.

No other post retirement benefits are provided.

(l) Mineral resource tax credits.

Until 2002 the Government of the Russian Federation reimbursed part of the exploration costs and ecological charges as deduction from mineral resource taxes payable and ecological charges respectively. These credits are recognized as income over the periods necessary to match them with the related costs, which they are intended to compensate.

(m) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Treasury shares

Treasury shares are recorded as a deduction from equity at cost as adjusted for hyperinflation.

(o) Revenue recognition

- Revenue from the sale of metals is recognized when the risks and rewards of ownership are transferred to the buyer. Gross sales revenue represents the net invoiced value for all joint product metals supplied to customers, and excludes sales and value-added taxes.
- Interest is recognized using the effective interest rate method.
- Dividends are recognized when the right to receive payment is established, i.e. on the last day of registration in respect to dividends declared, with the exception of cumulative redeemable preference shares whose dividends are accrued on a daily basis.

(p) Expenses

Operating lease payments. Payments made under operating leases are recognized in the income statement in the period they are due in accordance with lease terms. Lease incentives received are recognized in the income statement as an integral part of the total lease payments made.

Net financing gains/(losses). Net financing gains (losses) comprise interest payable on borrowings and finance leases, interest receivable on funds invested, gain or loss on net monetary positions and foreign exchange gains and losses that are recognized in the income statement.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

(q) Dividends declared

Dividends and related taxation thereon are recognized as a liability in the period in which they have been declared and become legally payable.

Dividends are recognized at the date they are declared by the shareholders in general meeting. Accumulated profits legally distributable by the Group are based on amounts available for distribution in accordance with applicable legislation and as reflected in the statutory financial statements of the individual entities that make up the Group. These amounts may differ significantly from the amounts calculated on the basis of IAS.

(r) Segmental information

The Group predominantly operates in a single industry having operations in Russia and Europe. It is engaged in:

- nickel, copper, palladium, platinum and gold production;
- marketing and sales; and
- exploration for these minerals and acquisition of minerals' properties.

Its reportable segments are based on the geographic location of these operations.

3. Gross metal sales revenues

2002
RUR Millions

	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Kola Peninsula	**7,760**	6,452	1,020	96	107	85
Taimyr Peninsula	**83,412**	42,651	21,808	4,252	12,188	2,513
Severoeniseysk[1]	**971**	-	-	-	-	971
Other	**6,175**	4,573	-	1,602	-	-
	98,318	**53,676**	**22,828**	**5,950**	**12,295**	**3,569**
By destination						
Russian Federation	**9,913**	2,185	4,159	-	-	3,569
Europe	**71,394**	39,095	16,879	3,826	11,594	-
Asia	**8,046**	6,278	16	1,356	396	-
North America	**8,437**	5,590	1,774	768	305	-
Other	**528**	528	-	-	-	-
	98,318	**53,676**	**22,828**	**5,950**	**12,295**	**3,569**

2001 (Unaudited)
RUR Millions

	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Kola Peninsula	**10,302**	8,047	2,073	-	-	182
Taimyr Peninsula	**113,057**	34,192	19,462	41,453	17,289	661
Other	**15,901**	10,931	4,970	-	-	-
	139,260	**53,170**	**26,505**	**41,453**	**17,289**	**843**
By destination						
Russian Federation	**4,234**	1,892	1,478	21	-	843
Europe	**128,507**	45,038	24,748	41,432	17,289	-
Asia	**3,337**	3,337	-	-	-	-
North America	**2,727**	2,448	279	-	-	-
Other	**455**	455	-	-	-	-
	139,260	**53,170**	**26,505**	**41,453**	**17,289**	**843**

[1]ZAO "Polyus", a gold producer, was acquired with effect from 1 November 2002. Revenues have only been included from the date of acquisition.

2002
USD Millions*

	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Kola Peninsula	**245**	203	32	3	4	3
Taimyr Peninsula	**2,624**	1,342	686	134	383	79
Severoeniseysk[1]	**31**	-	-	-	-	31
Other	**194**	144	-	50	-	-
	3,094	**1,689**	**718**	**187**	**387**	**113**
By destination						
Russian Federation	**312**	68	131	-	-	113
Europe	**2,246**	1,230	531	120	365	-
Asia	**253**	198	-	43	12	-
North America	**265**	175	56	24	10	-
Other	**18**	18	-	-	-	-
	3,094	**1,689**	**718**	**187**	**387**	**113**

2001 (Unaudited)
USD Millions*

	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Kola Peninsula	**324**	253	65	-	-	6
Taimyr Peninsula	**3,558**	1,076	613	1,304	544	21
Other	**500**	344	156	-	-	-
	4,382	**1,673**	**834**	**1,304**	**544**	**27**
By destination						
Russian Federation	**135**	60	47	1	-	27
Europe	**4,042**	1,417	778	1,303	544	-
Asia	**105**	105	-	-	-	-
North America	**86**	77	9	-	-	-
Other	**14**	14	-	-	-	-
	4,382	**1,673**	**834**	**1,304**	**544**	**27**

[1]ZAO "Polyus", a gold producer, was acquired with effect from 1 November 2002. Revenues have only been included from the date of acquisition.

Financial information relating to the Group's consolidated segments as at 31 December 2002 is as follows:

2002
RUR Millions

	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-eniseysk[1]	Europe[2]	**Total**
Segment results						
Revenue from external customers	-	8,700	2,289	971	86,358	**98,318**
Revenue from transactions with other segments	-	65,921	2,931	-	(68,852)	**-**
Operating profit	(1,174)	23,523	352	371	2,628	**25,700**
(Loss)/profit before taxation	(1,712)	25,909	116	340	2,762	**27,415**
Interest income	168	1,885	20	-	84	**2,157**
Interest expense	(58)	(2,934)	(114)	-	(310)	**(3,416)**
Loss on derivative trading transactions	-	-	-	-	(1,718)	**(1,718)**
Significant non-cash items						
Amortisation	(97)	(11,091)	(1,998)	(83)	(3)	**(13,272)**
Other non-cash expense	(556)	(337)	(136)	(8)	-	**(1,037)**
Capital cash expenditures	**(1,906)**	**(9,686)**	**(577)**	**(169)**	(1)	**(12,339)**
Carrying amount of segment assets/ (liabilities)						
Property, plant and equipment	7,272	164,454	19,881	8,146	2,051	**201,804**
Net operating assets	(142)	50,446	2,795	1,212	3,131	**57,442**
Total assets	8,263	248,610	26,004	10,789	15,963	**309,629**
Segment liabilities	(1,255)	(62,641)	(5,113)	(142)	(8,328)	**(77,479)**
Average number of employees	968	65,813	17,280	459	25	84,545

[1]ZAO "Polyus", a gold producer, was acquired with effect from 1 November 2002. Revenues have only been included from the date of acquisition.
[2]Excluding Russian Federation.

2001 (Unaudited)
RUR Millions

	Corporate and other	Taimyr Peninsula	Kola Peninsula	Europe[1]	**Total**
Segment results					
Revenue from external customers	-	57,174	2,293	79,793	**139,260**
Revenue from transactions with other segments	-	57,197	7,466	(64,663)	**-**
Operating profit	(1,286)	32,766	1,574	510	**33,564**
(Loss) / profit before taxation	(1,471)	57,383	(370)	85	**55,627**
Interest income	169	367	28	125	**689**
Interest expenses	(189)	(2,097)	(338)	(535)	**(3,159)**
Loss on derivative trading transactions	-	-	-	(277)	**(277)**
Significant non-cash items					
Amortisation	(97)	(11,122)	(1,996)	-	**(13,215)**
Other non-cash expenses	(436)	(3,119)	(338)	-	**(3,893)**
Capital cash expenditures	**(2,290)**	**(11,456)**	**(2,956)**	**-**	**(16,702)**
Carrying amount of segment assets/(liabilities)					
Property, plant and equipment	3,071	167,876	21,308	21	**192,276**
Net operating assets	3,019	38,015	(1,648)	4,792	**44,178**
Total assets	9,496	293,941	28,988	12,691	**345,116**
Segment liabilities	(4,898)	(100,691)	(13,609)	(7,930)	**(127,128)**
Average number of employees	1,782	69,776	17,824	17	89,399

[1]Excluding Russian Federation.

2002
USD Millions*

	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-eniseysk[1]	Europe[2]	**Total**
Segment results						
Revenue from external customers	-	274	72	31	2,717	**3,094**
Revenue from transactions with other segments	-	2,074	92	-	(2,166)	**-**
Operating profit	(37)	741	10	12	83	**809**
(Loss) / profit before taxation	(54)	815	4	11	87	**863**
Interest income	5	59	1	-	3	**68**
Interest expense	(1)	(92)	(4)	-	(10)	**(107)**
Loss on derivative trading transactions	-	-	-	-	(54)	**(54)**
Significant non-cash items						
Amortisation	(3)	(348)	(63)	(3)	-	**(417)**
Other non-cash expenses	(17)	(11)	(4)	-	-	**(32)**
Capital cash expenditures	**(60)**	**(305)**	**(18)**	**(5)**	**-**	(388)
Carrying amount of segment assets/ (liabilities)						
Property, plant and equipment	229	5,175	626	256	64	**6,350**
Net operating assets	(4)	1,587	88	38	99	**1,808**
Total assets	260	7,824	818	339	502	**9,743**
Segment liabilities	(39)	(1,971)	(162)	(4)	(262)	**(2,438)**

[1]ZAO "Polyus", a gold producer, was acquired with effect from 1 November 2002. Revenues have only been included from the date of acquisition.
[2]Excluding Russian Federation.

2001 (Unaudited)
USD Millions*

	Corporate and other	Taimyr Peninsula	Kola Peninsula	Europe[1]	**Total**
Segment results					
Revenue from external customers	-	1,799	72	2,511	**4,382**
Revenue from transactions with other segments	-	1,800	235	(2,035)	**-**
Operating profit	(40)	1,029	50	16	**1,055**
(Loss) / profit before taxation	(46)	1,805	(12)	3	**1,750**
Interest income	5	12	1	4	**22**
Interest expense	(6)	(65)	(11)	(17)	**(99)**
Loss on derivative trading transactions	-	-	-	(9)	**(9)**
Significant non-cash items					
Amortisation	(3)	(350)	(63)	-	**(416)**
Other non-cash expenses	(14)	(98)	(11)	-	**(123)**
Capital cash expenditures	**(72)**	**(361)**	**(93)**	**-**	**(526)**
Carrying amount of segment assets/ (liabilities)					
Property, plant and equipment	97	5,282	670	1	**6,050**
Net operating assets	95	1,197	(52)	151	**1,391**
Total assets	299	9,249	912	399	**10,859**
Segment liabilities	(154)	(3,167)	(428)	(250)	**(3,999)**

[1]Excluding Russian Federation.

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions

4. Cost of metal sales

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Cash operating costs	45,054	46,784	1,418	1,472
On-mine costs (refer to note 5)	22,682	22,558	714	710
Smelting costs (refer to note 6)	13,148	14,267	414	449
Treatment and refining costs (refer to note 7)	9,224	9,959	290	313
Amortisation of operating assets (refer to note 8)	12,276	11,757	386	370
Other costs (refer to note 9)	9,606	22,896	302	720
Decrease/(increase) in metal inventories	1,640	(5,160)	52	(162)
Production cost of metal delivered to settle the loan from the Ministry of Finance (refer to note 28)	(12,921)	-	(407)	-
Total	**55,655**	**76,277**	**1,751**	**2,400**

5. On-mine costs

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Consumables and spares	10,086	8,565	317	270
Labour	9,328	10,086	294	317
Utilities	1,023	1,103	32	35
Tailing pipe maintenance and moving	777	729	24	23
Insurance	768	860	24	27
Repairs and maintenance	506	867	16	27
Sundry on-mine costs	194	348	7	11
Total (refer to note 4)	**22,682**	**22,558**	**714**	**710**

6. Smelting costs

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Consumables and spares	5,125	6,388	161	201
Labour	4,775	4,852	150	153
Utilities	1,283	865	40	27
Insurance	801	818	25	26
Repairs and maintenance	655	873	21	27
Tailing pipe maintenance and moving	376	236	12	7
Sundry smelting costs	133	235	5	8
Total (refer to note 4)	**13,148**	**14,267**	**414**	**449**

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions

7. Treatment and refining costs

Consumables and spares	3,426	3,598	108	113
Labour	3,220	3,775	101	119
Platinum group metals toll refining cost	1,492	1,654	47	52
Utilities	709	341	22	11
Repairs and maintenance	240	414	8	13
Insurance	60	81	2	3
Sundry treatment and refining costs	77	96	2	2
Total (refer to note 4)	**9,224**	**9,959**	**290**	**313**

8. Amortization of operating assets

Mining	6,749	6,444	212	203
Smelting	3,998	3,824	126	120
Treatment and refining	1,529	1,489	48	47
Total (refer to note 4)	**12,276**	**11,757**	**386**	**370**

9. Other costs

Cost of metals purchased from third parties	6,203	15,901	195	500
Transport of metals	2,006	640	63	20
Tax on mining	1,340	6,355	42	200
Other	57	-	2	-
Total (refer to note 4)	**9,606**	**22,896**	**302**	**720**

10. Selling, general and administrative expenses

Export customs duties	4,641	7,512	146	236
Taxes other than mining and income tax	4,496	4,027	141	127
Salaries and wages	2,501	2,468	79	78
Transport expenses	987	1,701	31	54
Other professional services	663	718	21	23
Legal and audit services	430	185	14	6
Impairment of goodwill	-	158	-	5
Other	4,096	4,451	129	139
Total	**17,814**	**21,220**	**561**	**668**

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions

11. Other net income/(expenses)

Bad debts recovered/(expensed)	1,046	(1,104)	32	(35)
Foreign exchange gains/(losses)	527	(820)	17	(26)
Other non-mining entities operating profit	225	630	7	20
Loss on disposal of property, plant and equipment	(396)	(529)	(12)	(17)
Tax penalties	(384)	(7,075)	(12)	(223)
Other	(167)	699	(5)	22
Total	**851**	**(8,199)**	**27**	**(259)**

12. Gains on derivative transactions

Gains on embedded derivative				
Gain on settlement of embedded derivative (Ministry of Finance loan, refer to note 28)	5,994	-	188	-
Gain on fair valuation of embedded derivative (Ministry of Finance loan, refer to note 28)	2,561	26,187	81	824
	8,555	**26,187**	**269**	**824**
Metal trading				
Realized trading loss	(1,177)	(588)	(37)	(19)
Unrealised trading (loss)/profit	(541)	311	(17)	10
Total	**6,837**	**25,910**	**215**	**815**

13. Net finance (costs) / income

Interest received	2,157	689	68	22
Dividends received	619	1	19	-
Net monetary gain	368	7,319	12	230
Loss on disposal of investments	(156)	(2,988)	(5)	(95)
Profit on trading equity securities	142	1,434	4	45
Interest expense	(3,416)	(3,159)	(107)	(99)
Other	(203)	691	(6)	22
Total	**(489)**	**3,987**	**(15)**	**125**

14. Other non-operating expenses

Expenses on maintenance of social sphere facilities	(1,952)	(2,714)	(61)	(85)
Donations	(2,831)	(5,302)	(89)	(167)
Other	150	182	4	7
Total	**(4,633)**	**(7,834)**	**(146)**	**(245)**

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions

15. Taxation

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Current tax expense				
Current year	(6,117)	(13,900)	(193)	(437)
Deferred tax expense				
Current year	(2,970)	(3,100)	(93)	(98)
Effect of changes in domestic tax rates	-	1,003	-	32
Total deferred tax expense	**(2,970)**	**(2,097)**	**(93)**	**(66)**
Total income tax expense	**(9,087)**	**(15,997)**	**(286)**	**(503)**

The tax rates applied in Russia to assessable income for the year ended 31 December 2002 and 2001 were 24% and 35% respectively. In 2001, the Russian regional tax authorities in the region where the Group's main production assets are located elected not to apply the additional regional tax of 5%. As a result the tax rate applied to the Group's assessable income in this region was 30%.

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Profit before tax	**27,415**	**55,627**	**863**	**1,750**
Notional income tax at 24% (2001 – 30%)	(6,580)	(16,688)	(207)	(525)
Effect of changes in tax rate	-	1,003	-	32
Adjustments to previous periods	(236)	-	(7)	-
Impact of specific tax rates	(68)	78	(2)	2
Tax effect of permanent differences	(2,885)	(9,378)	(91)	(295)
Income tax concessions	682	8,988	21	283
Total income tax expense	**(9,087)**	**(15,997)**	**(286)**	**(503)**

Deferred tax assets and liabilities

Movement in deferred tax assets and liabilities during the year:

2002 *RUR Millions*	2001 (Unaudited)	Recognized in tax expense	Change in deferred tax (liability) asset due to acquisition of subsidiary	Recognized in gain on monetary position	2002
Property, plant and equipment	(20,780)	(1,985)	(1,604)	-	(24,369)
Accrued operating expenses	1,528	189	-	(213)	1,504
Bad debt provision	1,576	(526)	19	(173)	896
Inventory valuation	(520)	(2,622)	(45)	-	(3,187)
Difference between cash and accrual basis	(2,878)	2,205	-	229	(444)
Interest-bearing loans and borrowings	3,692	(3,441)	-	(251)	-
Tax losses carried forward	-	207	9	(15)	201
Other	81	(45)	21	22	79
Valuation allowance	(3,388)	3,048	-	238	(102)
Net deferred tax liability position	**(20,689)**	**(2,970)**	**(1,600)**	**(163)**	**(25,422)**
Represented by:					
Deferred tax assets	**115**				**136**
Deferred tax liabilities	**(20,804)**				**(25,558)**

2002 *USD* Millions*					
Property, plant and equipment	(654)	(62)	(52)	-	(768)
Accrued operating expenses	48	6	-	(7)	47
Bad debt provision	50	(17)	1	(6)	28
Inventory valuation	(16)	(83)	(1)	-	(100)
Difference between cash and accrual basis	(91)	69	-	8	(14)
Interest-bearing loans and borrowings	116	(108)	-	(8)	-
Tax losses carried forward	-	7	-	-	7
Other	3	(1)	1	1	4
Valuation allowance	(107)	96	-	7	(4)
Net deferred tax liability position	**(651)**	**(93)**	**(51)**	**(5)**	**(800)**
Represented by:					
Deferred tax assets	**4**				**4**
Deferred tax liabilities	**(655)**				**(804)**

16. Earnings per share

The calculation of basic attributable earnings per share is based on profit attributable to ordinary shareholders of RUR 18,567 million (USD* 584 million) (2001: RUR 39,262 million, USD* 1,235 million) and a weighted average of 210,643,516 (2001: 172,598,092) ordinary shares of MMC Norilsk Nickel in issue during the year and the weighted net results of the reorganization of the Group, calculated as follows:

	2002 Shares '000	2001 (Unaudited) Shares '000
Ordinary shares		
At beginning of the year, net of treasury shares	208,098	77,903
Re-issue from treasury shares in full	2,545	-
Effect of re-organisation of the Group - weighted	-	94,695
Weighted average number of ordinary shares	**210,643**	**172,598**

The calculation of fully diluted attributable earnings per share is based on profit attributable to ordinary shareholders of RUR 18,567 million (USD* 584 million) (2001: RUR 39,262 million, USD* 1,235 million) and a diluted weighted average number of ordinary shares in issue during the year calculated as follows:

Weighted average number of ordinary shares	210,643	172,598
Effect of re-organisation of the Group	-	38,045
Fully diluted weighted average number of ordinary shares	**210,643**	**210,643**

The calculation of basic and fully diluted headline earnings per share has been calculated on a profit attributable to ordinary shareholders of RUR 10,012 million (USD* 315 million) (2001: RUR 13,075 million, USD* 411 million) adjusted for the non-recurring profit realized in the revaluation and settlement of the loan with the Ministry of Finance of RUR 8,555 million (USD* 269 million) (2001: RUR 26,187 million, USD* 824 million) and a weighted average number of ordinary shares of 210,643,516 (2001: 172,598,092) and a fully diluted weighted average number of ordinary shares of 210,643,516 (2001: 210,643,516) (refer to notes 1 and 24).

17. Dividends

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
On 30 June 2002 the Company declared a dividend of RUR 5,005 million (non-indexed for inflation) (USD* 159 million) in respect of the year ended 31 December 2001. The dividend was paid to shareholders during the year. The dividend comprised RUR 23.4 (non-indexed for inflation) (USD* 0,74) per ordinary share.	5,372	259	169	8

18. Property, plant and equipment

2002 *RUR Millions*	Buildings, structures and utilities	Machinery, equipment and transport	Other	Construction in progress	Total
Cost / valuation					
Balance at 31 December 2001					
At valuation (unaudited)	**107,028**	**48,757**	**1,553**	**34,938**	**192,276**
Additions at cost	-	-	-	11,153	**11,153**
Assets acquired on acquisition of subsidiaries	9,368	2,463	49	290	**12,170**
Transfers from capital work in progress	3,019	7,939	845	(11,803)	-
Disposals	(253)	(102)	(29)	(139)	**(523)**
Balance at 31 December 2002	**119,162**	**59,057**	**2,418**	**34,439**	**215,076**
Accumulated amortisation					
Balance at 31 December 2001 (unaudited)	**-**	**-**	**-**	**-**	**-**
Amortisation charge for the year	(6,810)	(6,291)	(171)	-	**(13,272)**
Balance at 31 December 2002	**(6,810)**	**(6,291)**	**(171)**	**-**	**(13,272)**
Net book value					
31 December 2001 (unaudited)	**107,028**	**48,757**	**1,553**	**34,938**	**192,276**
31 December 2002	**112,352**	**52,766**	**2,247**	**34,439**	**201,804**

2002 - *USD* Millions*					
Cost / valuation					
Balance at 31 December 2001					
At valuation (unaudited)	**3,368**	**1,534**	**49**	**1,099**	**6,050**
Additions at cost	-	-	-	351	**351**
Assets acquired on acquisition of subsidiaries	294	78	1	9	**382**
Transfers from capital work in progress	95	249	27	(371)	-
Disposals	(8)	(3)	(1)	(4)	**(16)**
Balance at 31 December 2002	**3,749**	**1,858**	**76**	**1,084**	**6,767**
Amortisation					
Balance at 31 December 2001 (unaudited)	**-**	**-**	**-**	**-**	**-**
Amortisation charge for the year	(214)	(198)	(5)	-	**(417)**
Balance at 31 December 2002	**(214)**	**(198)**	**(5)**	**-**	**(417)**
Net book value					
31 December 2001 (unaudited)	**3,368**	**1,534**	**49**	**1,099**	**6,050**
31 December 2002	**3,535**	**1,660**	**71**	**1,084**	**6,350**

Corresponding information relating to 2001
No corresponding information relating to the rollforward of property, plant and equipment for the year ended 31 December 2001 has been presented, as property, plant and equipment was valued at 31 December 2001.

Non-mining assets
Included in the above are non-mining assets with a book value of RUR 9,336 million (USD* 294 million) (2001: RUR 2,494 million USD* 78 million).

Leased assets
The Group leases production equipment under a number of finance lease agreements (refer note 26). At the end of the term of the lease the Group takes automatic ownership of the asset. The carrying amount of leased plant and machinery as at 31 December 2002 was RUR 956 million (USD* 31 million) and RUR 1,151 million (USD* 36 million) as at 31 December 2001. The leased equipment secures lease obligations (refer note 26).

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions

19. Other financial assets

Non-current				
Equity securities available-for-sale	1,214	105	38	3
Equity investments	1,731	2,312	55	73
Other	379	382	12	12
	3,324	**2,799**	**105**	**88**
Current				
Equity securities available-for-sale	45	6,546	2	206
Debt securities held-for-trading	278	175	8	6
Loans advanced	466	247	15	8
Bank deposits (roubles)	508	842	16	27
Promissory notes	1,504	4,738	47	147
Other	199	81	6	3
	3,000	12,629	94	397
Total	**6,324**	**15,428**	**199**	**485**

20. Inventories

Refined metals				
Joint products at net production cost	26,144	26,498	822	834
By-products at net realisable value	1,164	1,023	37	32
Work-in-process, at production cost	8,442	9,869	266	311
Total metal inventories	**35,750**	**37,390**	**1,125**	**1,177**
Stores and materials at cost	23,301	30,770	733	968
Less: Provision for obsolescence	(716)	(1,049)	(22)	(33)
Total	**58,335**	**67,111**	**1,836**	**2,112**

By-product inventory with a net realizable value of RUR 617 million (USD* 20 million) has been provided as security for an overdraft of RUR 81 million (USD* 3 million) from ING, Belgium.

Nickel inventory with a cost of RUR 5,449 million (USD* 173 million) has been provided as security for a loan of RUR 6,366 million (USD* 200 million) from a syndicate of banks (refer to note 25).

Metal inventory with a cost of RUR 6,595 million (USD* 221 million) has been provided as security for the overdraft banking facilities of RUR 8,263 million (USD* 260 million) received from the following banks: ING Belgium, ING Switzerland, Banque Cantonale Vaudoise (Lausanne), West LB AG (London), BNP Paribas Suisse (Geneva), ABN Amro (Amsterdam), Natexis Banques Populaires (Paris) (refer to note 33).

		2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
21. Trade accounts and other receivables					
Trade accounts receivable		6,782	8,276	213	260
Advances to suppliers		4,609	8,203	145	258
Promissory notes		61	1,057	2	33
Other receivables		5,198	6,841	164	216
Total		16,650	24,377	524	767
Less: Provision for doubtful debts		(5,330)	(5,833)	(168)	(184)
Total		**11,320**	**18,544**	**356**	**583**
22. Other current assets					
VAT recoverable		13,936	19,034	438	599
Other taxes		2,638	-	83	-
Other		1,669	1,537	53	48
Total		**18,243**	**20,571**	**574**	**647**
23. Cash and cash equivalents					
Restricted cash (see below)		5,104	22,644	161	713
Current accounts	– RUR	1,027	2,609	32	82
	– foreign currency	1,075	2,002	34	63
Bank deposits	– RUR	758	2,079	24	65
	– foreign currency	3,918	383	123	12
Cash in hand		186	249	6	9
Cash at brokers current account – foreign currency		1,363	1,026	43	32
Other cash equivalents		36	79	1	2
		13,467	**31,071**	**424**	**978**
Less: Bank overdrafts (refer to note 33)		(6,950)	(6,047)	(219)	(190)
Net cash and cash equivalents		**6,517**	**25,024**	**205**	**788**

The Group maintains large non-interest bearing cash balances with related commercial banks, which in turn provide borrowings at an interest rate of 18 % per annum (2001: 1.5 % per annum) to subsidiaries of the Group. The cash balances are restricted from use for the duration of the loan agreements.

24. Share capital and treasury shares

This note is to be read in conjunction with notes 1 and 40.

(i) Share capital

	2002 Shares '000	2001 (Unaudited) Shares '000
Authorized share capital		
Ordinary shares of RUR 1 each	260,171	260,171
Issued and fully paid share capital		
Ordinary shares at the beginning of the year	213,906	122,472
Issue of ordinary shares on 23 May 2001 (refer to note 40 (iv))	-	130,195
Ordinary shares at the end of the year	213,906	252,667
Shares cancelled on completion of reorganization (refer to note 40 (v))	-	(38,761)
Ordinary shares at completion of reorganization	**213,906**	**213,906**
Less: Treasury shares held by the Group	(3,263)	(5,808)
Net ordinary shares at completion of reorganization	**210,643**	**208,098**

The share capital recorded in the balance sheet represents 213,906 thousand shares at a par value of RUR 1 each, indexed to the equivalent 2002 value in terms of IAS 29.

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
(ii) Treasury shares				
The treasury shares were acquired by the Group, during the reorganization, at a cost of RUR 1.43 (non-indexed for inflation) (USD* 0.04) per share (a premium of RUR 0.43 (non-indexed for inflation) (USD* 0.01) per share above par value).				
Balance at the beginning of the year	(10)	(543)	-	(17)
Replacement of parent company (refer to note 40 (v))	-	533	-	17
Re-issue from treasury shares (refer to note 40 (v))	5	-	-	-
Balance at the end of the year	**(5)**	**(10)**	**-**	**-**

	2002 Shares '000	2001 (Unaudited) Shares '000
Held at the beginning of the year (refer to note 40 (v))	5,808	44,569
Shares cancelled on completion of reorganization (refer to note 40 (v))	-	(38,761)
Re-issue from treasury shares (refer to note 40 (v))	(2,545)	-
Held at the end of the year	**3,263**	**5,808**

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions

25. Long-term borrowings

Syndicated loan from Credit Swiss First Boston International, ING Bank, Standard Bank London Limited and Natexis Banques Popularies.	6,366	-	200	-
A US dollar denominated loan, interest is charged at LIBOR plus 2% per annum. The loan is repayable in nine equal instalments, every three months commencing in June 2003, with a final instalment due in June 2005. The loan is secured by 60,000 tons of nickel (refer to note 20)				
Loan from Agropromstroybank.	-	520	-	16
A US dollar denominated loan. Interest is charged at 6% per annum. The loan was repaid in April 2002.				
Other long-term borrowings	287	159	9	5
	6,653	679	209	21
Less: Current portion repayable in 12 months and shown under current liabilities	(2,128)	(520)	(67)	(16)
	4,525	**159**	**142**	**5**
The long-term borrowings are repayable as follows:				
Due on demand or within 12 months	2,128	520	67	16
Due in the second year	3,123	159	98	5
Due in years three to five	1,402	-	44	-
	6,653	**679**	**209**	**21**

26. Capitalised financial leases

(i) Financial lease liabilities

Non-current				
Liability denominated in RUR	106	246	3	8
Liability denominated in foreign currency	42	57	2	2
	148	**303**	**5**	**10**
Current				
Liability denominated in RUR	189	215	6	7
Liability denominated in foreign currency	24	108	1	3
	213	**323**	**7**	**10**
Total	**361**	**626**	**12**	**20**

The average weighted interest rates implied in calculating present values of financial leases in 2002 was 15% (2001-18%) for RUR denominated leases and15% (2001-15%) for USD denominated leases.

The gross value, inclusive of finance charges, of future minimum finance lease payments due under non-cancelable lease contracts are:

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Due within 12 months	271	456	9	14
Due in the second year	103	207	3	7
Due in the third year	42	111	2	4
Due in the fourth year	12	45	-	1
Due in the fifth year	10	12	-	-
Due after five years	16	28	1	1
	454	859	15	27
Less: Amount representing interest	(93)	(233)	(3)	(7)
Present value of minimum lease payments	**361**	**626**	**12**	**20**

The present value of future minimum finance lease payments due under non-cancelable lease contracts are:

Due within 12 months	213	323	7	10
Due in the second year	83	144	2	5
Due in the third year	34	90	2	3
Due in the fourth year	8	37	-	1
Due in the fifth year	8	8	-	-
Due after five years	15	24	1	1
Present value of minimum lease payments	**361**	**626**	**12**	**20**

The lease obligations are secured by leased equipment with a carrying value of RUR 956 million (USD* 31 million) (2001: RUR 1,151 million, USD* 36 million) (refer to note 18).

(ii) Operating leases

The Group leases buildings and office space under operating lease agreements.

The land within the boundaries of the Russian Federation on which the Group's buildings, production and other facilities are located is owned by the State. The Group pays land tax based on the total area and location of land occupied.

The Group's future minimum operating lease payments:

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Due within 12 months	188	250	6	8
Due in the second year	5	-	-	-
	193	**250**	**6**	**8**

27. Employee benefits

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Non-current				
Six pensions plan	86	107	3	3
Lifelong professional pension plan	360	114	12	4
	446	221	15	7
Less: Current portion:				
Six pensions plan	(62)	(89)	(2)	(3)
Lifelong professional pension plan	(59)	(18)	(2)	(1)
Total non-current employee benefits	**325**	**114**	**11**	**3**
Current				
Accrual for annual leave	4,662	6,309	146	198
Add: Current portion of non-current employee benefits	121	107	4	4
Total current employee benefits	**4,783**	**6,416**	**150**	**202**

The average number of employees for the year ended 31 December 2002 was 84,545 (2001: 89,399).

Defined benefit plans

(i) Six pensions plan

Number of members	2002 Members	2001 (Unaudited) Members
At the beginning of the year	2,317	6,121
Additions	485	424
Retirements	(1,868)	(4,228)
At the end of the year	**934**	**2,317**

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Movements in the liability of the year:				
Opening balance of liability	107	398	3	13
Revaluation of opening liability	(15)	(63)	-	(2)
Liability raised	102	74	3	2
IAS 29 inflationary adjustment	1	20	-	-
Payments to members	(109)	(322)	(3)	(10)
Closing balance of liability	**86**	**107**	**3**	**3**
Amounts recognized in income in respect of the plan:				
Revaluation of opening liability	15	63	-	2
Liability raised	(102)	(74)	(3)	(2)
IAS 29 inflationary adjustment	(1)	(20)	-	-
Net expense	**(88)**	**(31)**	**(3)**	**-**

(ii) Lifelong professional pension plan

	2002	2001 (Unaudited)
Number of members	Members	Members
At the beginning of the year	290	-
Additions	757	290
At the end of the year	**1,047**	**290**

Movements in the liability of the year:

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Opening balance of liability	114	-	4	-
Revaluation of opening liability	(15)	-	-	-
Liability raised	259	112	8	4
Interest accrued	45	12	1	-
Payments to members	(43)	(10)	(1)	-
Closing balance of liability	**360**	**114**	**12**	**4**
Amounts recognized in income in respect of the plan:				
Revaluation of opening liability	15	-	-	-
Liability raised	(259)	(112)	(8)	(4)
Interest accrued	(45)	(12)	(1)	-
Net expense	**(289)**	**(124)**	**(9)**	**(4)**

Key assumptions used:	2002	2001
Discount rates used in determining the present value of benefits	17.1%	17.1%
Projected rates of remuneration growth	6.3%	6.3%
Average life expectancy of members from date of retirement	15 years	15 years

28. Loan from Ministry of Finance

During 1994-1995 the Group received a loan from the Ministry of Finance of the Russian Federation to finance the "Summer Purchasing Campaign" for the Norilsk production region. The loan was received in US dollars and accrued simple interest at 3% per annum, payable in metal at the maturity of the loan agreement.

Before 1 January 2001 the Group recognized only the host contract (the cash loan) in its financial statements. Subsequent to the adoption of IAS 39 on 1 January 2001 the Group remeasured the host contract with the Ministry of Finance and recognized an embedded derivative contained therein. The recognition of the embedded derivative, upon the adoption of IAS 39, has been recorded as an adjustment to accumulated profit on 1 January 2001.

The loan was fully settled on 28 August 2002 by physical delivery of metal to the Ministry of Finance of the Russian Federation.

RUR Millions	Total fair value	Host contract	Embedded derivative
Balance at 31 December 2000, before recognition of fair value of embedded derivative – unaudited	**8,890**	**8,890**	**-**
Mark to market adjustment of embedded derivative as at 1 January 2001	46,538	-	46,538
Balance at 1 January 2001, after recognition of fair value of embedded derivative – unaudited	**55,428**	**8,890**	**46,538**
Interest charged for the year	954	218	736
Gain on fair valuation of the derivative (refer to note 12)	(26,187)	-	(26,187)
Net monetary gain on the loan	(6,644)	(893)	(5,751)
Balance at 31 December 2001 – unaudited	**23,551**	**8,215**	**15,336**
Interest charged for the period	307	130	177
Gain on fair valuation of the derivative, immediately prior to settlement (refer to note 12)	(2,561)	-	(2,561)
Net monetary gain on the loan	(2,382)	(397)	(1,985)
Balance at 28 August 2002, date of settlement	**18,915**	**7,948**	**10,967**
Less: Production cost of metal delivered (refer to note 4)	12,921	7,948	4,973
Gain on settlement of the loan (refer to note 12)	**5,994**	**-**	**5,994**

USD Millions*			
Balance at 31 December 2000, before recognition of fair value of embedded derivative – unaudited	**280**	**280**	**-**
Mark to market adjustment of embedded derivative as at 1 January 2001	1,464	-	1,464
Balance at 1 January 2001, after recognition of fair value of embedded derivative - unaudited	**1,744**	**280**	**1,464**
Interest charge for the year	32	9	23
Gain on fair valuation of the derivative (refer to note 12)	(824)	-	(824)
Net monetary gain on the loan	(211)	(29)	(182)
Balance at 31 December 2001 - unaudited	**741**	**260**	**481**
Interest charged for the period	10	4	6
Gain on fair valuation of the derivative, immediately prior to settlement (refer to note 12)	(81)	-	(81)
Net monetary gain on the loan	(75)	(13)	(62)
Balance at 28 August 2002, date of settlement	**595**	**251**	**344**
Less: Production cost of metal delivered (refer to note 4)	407	251	156
Gain on settlement of the loan (refer to note 12)	**188**	**-**	**188**

29. Derivative financial instruments

In the normal course of business the Group enters into transactions using derivative instruments traded on the London Metals Exchange ("LME"). The Group enters into these transactions for the purpose, in some cases, of hedging its above ground stock, and, in other cases, with a trading intent.

Because the derivative transactions entered into with a hedging intent are not formally designated as hedges, in line with the requirements of International Accounting Standards, they do not meet the criteria for the application of hedge accounting. Accordingly, all transactions and balances related to LME activities are accounted for as transactions entered into with a trading intent.

Commodity derivatives

31 December 2002

The Group had the following open commodity derivative contracts:

Contract type	Buys Tons '000	Sells Tons '000	Net open position Tons '000	Fair value RUR Millions	Fair value USD* Millions
Commodity futures					
Copper futures[1]	38	(38)	-	63	2
Nickel futures[2]	55	(83)	(28)	(318)	(10)
Commodity options					
Copper call options[3]	-	-	-	-	-
Nickel call options[4]	-	(4)	(4)	(127)	(4)
Total	**93**	**(125)**	**(32)**	**(382)**	**(12)**

[1] Copper futures are listed and traded on the LME. The lot size included in buys, sells and net position above is 25 tonnes.
[2] Nickel futures are listed and traded on the LME. The lot size included in buys, sells and net position above is 6 tonnes.
[3] Copper options are listed and traded on the LME. The lot size included in buys, sells and net position above is 50 tonnes.
[4] Nickel options are listed and traded on the LME. The lot size included in buys, sells and net position above is 6 tonnes.

The maturity profile of the net positions in commodity derivatives at 31 December 2002 was:

Contract type	Total Tons '000	0-3 Months Tons '000	4-6 Months Tons '000	7-12 Months Tons '000
Copper futures	-	-	-	-
Nickel futures	(28)	(28)	-	-
Copper options	-	-	-	-
Nickel options	(4)	(4)	-	-
Total	**(32)**	**(32)**	**-**	**-**

31 December 2001 (unaudited)
The Group had the following open commodity derivative contracts:

Contract type	Buys Tons '000	Sells Tons '000	Net open position Tons '000	Fair value RUR Millions	Fair value USD* Millions
Commodity futures					
Copper futures[1]	2	(40)	(38)	31	1
Nickel futures[2]	27	(36)	(9)	255	8
Commodity options					
Copper call options[3]	-	(2)	(2)	-	-
Nickel call options[4]	6	(1)	5	(286)	(9)
Total	**35**	**(79)**	**(44)**	**-**	**-**

Fair value of derivative transactions

31 December 2002
The fair value of the open commodity derivative contracts set out above was:

Contract type	Positive mark to market RUR Millions	Negative mark to market RUR Millions	Net mark to market RUR Millions
Copper futures	63	-	63
Nickel futures	381	(699)	(318)
Copper call options	-	-	-
Nickel call options	-	(127)	(127)
	444	**(826)**	**(382)**

31 December 2001 (unaudited)
The fair value of the open commodity derivative contracts set out above was:

Contract type	Positive mark to market RUR Millions	Negative mark to market RUR Millions	Net mark to market RUR Millions
Copper futures	62	(31)	31
Nickel futures	572	(317)	255
Copper call options	-	-	-
Nickel call options	-	(286)	(286)
	634	**(634)**	**-**

Due to the fact that the Group has entered into legally enforceable netting agreements with its counterparties covering its transactions in derivatives on the LME, the mark to market valuation of derivative instruments are presented on a netted basis.

The maturity profile of the net positions in commodity derivatives at 31 December 2001 was:

Contract type	Total Tons '000	0-3 Months Tons '000	4-6 Months Tons '000	7-12 Months Tons '000
Copper futures	(38)	(38)	-	-
Nickel futures	(9)	(5)	(2)	(2)
Copper options	(2)	(2)	-	-
Nickel options	5	6	(1)	-
Total	**(44)**	**(39)**	**(3)**	**(2)**

The mark to market valuation is determined by reference to the closing price quoted on the LME, for each of the contract types that are outstanding as at the year-end date. The fair value adjustment is determined as the difference between the dealing price and the closing price quoted on the LME as at the year-end date.

Contract type	Positive mark to market USD* Millions	Negative mark to market USD* Millions	Net mark to market USD* Millions
Copper futures	2	-	2
Nickel futures	12	(22)	(10)
Copper call options	-	-	-
Nickel call options	-	(4)	(4)
	14	**(26)**	**(12)**

Contract type	Positive mark to market USD* Millions	Negative mark to market USD* Millions	Net mark to market USD* Millions
Copper futures	2	(1)	1
Nickel futures	18	(10)	8
Copper call options	-	-	-
Nickel call options	-	(9)	(9)
	20	**(20)**	**-**

30. Short-term borrowings

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
USD denominated short-term borrowings	6,446	7,311	203	230
RUR denominated short-term borrowings	5,701	27,863	179	877
Total	**12,147**	**35,174**	**382**	**1,107**

The interest rates on these borrowings vary as follows:

- RUR denominated borrowings for 2002 – from 14% to 18% per annum (2001 – from 1.5% to 19% per annum).
- USD denominated borrowings for 2002 – from LIBOR + 3.3% to 9.5% (2001 – from 7.4% to 12%) per annum

Fiduciary loans included in the above balances of RUR 5,087 million (USD* 161 million) (2001: RUR 21,129 million, USD* 665 million) are secured for the duration of the loans, by cash balances (refer to note 23).

31. Trade accounts and other payables

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Trade creditors	6,730	11,591	212	365
Wages and salaries	1,257	1,336	40	42
Advances from customers	238	188	7	6
Interest payable	45	103	1	3
Dividends payable	62	21	2	1
Promissory notes	436	3,707	14	116
Other creditors	1,587	3,702	49	116
Total	**10,355**	**20,648**	**325**	**649**

32. Taxes payable

Taxes payable	6,901	7,879	218	248
Unified social tax	1,244	1,025	39	32
Fines and penalties payable	1,820	4,165	57	131
Total	**9,965**	**13,069**	**314**	**411**

33. Bank overdrafts

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Foreign currency denominated bank overdrafts	6,950	6,047	219	190

The weighted average interest rates for bank overdrafts for 2001 and 2002 are LIBOR+1.25%.

Metal inventory of by-products with a net realizable value of RUR 617 million (USD* 20 million) has been provided as security for the overdraft of RUR 81 million (USD* 3 million) from ING.

Metal inventory with a cost of RUR 6,595 million (USD* 221 million) has been provided as security for the overdraft banking facilities of RUR 8,263 million (USD* 260 million) received from the following banks: ING Belgium, Brussels, Geneva Branch, Banque Cantonale Vaudoise (Lausanne), West LB AG (London), BNP Paribas Suisse (Geneva), ABN Amro (Amsterdam), Natexis Banques Populaires (Paris).

34. Reconciliation of profit before taxation to cash flow from operations

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Profit before taxation	**27,415**	**55,627**	**863**	**1,750**
Adjustments for:				
Interest expense	3,416	3,159	107	99
Amortization	13,272	13,215	417	416
Impairment of goodwill	-	158	-	5
Loss on disposal of property, plant and equipment	396	529	12	17
Loss from other investments	156	2,988	5	95
Gain on trading equity securities	(142)	(1,434)	(4)	(45)
Unrealised loss (gain) on derivative transactions	541	(311)	17	(10)
Change in fair value of embedded derivative	(2,561)	(26,187)	(81)	(824)
Gain on settlement of embedded derivative	(5,994)	-	(188)	-
Gain on net monetary position on financing and investing activities	(2,476)	(9,459)	(78)	(299)
Operating profit before working capital changes	**34,023**	**38,285**	**1,070**	**1,204**
Increase in inventories	(3,282)	(26,811)	(103)	(843)
Decrease in trade and other receivables	7,963	23,057	251	726
(Decrease)/increase in trade and other payables	(11,510)	2,431	(362)	76
Decrease/(increase) in current investments	3,283	(5,563)	103	(175)
Decrease/(increase) in other current assets	2,526	(11,575)	79	(364)
Decrease in employee benefits	(1,422)	(1,641)	(45)	(52)
(Decrease)/increase in taxes payable	(1,551)	1,008	(49)	32
Cash flow from operations	**30,030**	**19,191**	**944**	**604**

35. Acquisition of subsidiaries

	2002 RUR Millions	2001 (Unaudited) RUR Millions	2002 USD* Millions	2001 (Unaudited) USD* Millions
Net assets acquired:				
Property, plant and equipment	12,170	-	382	-
Inventories	865	-	27	-
Trade and other receivables	1,075	-	34	-
Bank and cash balances	67	-	2	-
Other assets	199	-	6	-
Loans and borrowings	(859)	-	(27)	-
Trade payables	(1,117)	-	(35)	-
Deferred taxation	(1,600)	-	(50)	-
Other payables	(80)	-	(2)	-
Net assets at date of acquisition	10,720	-	337	-
Minority interest	(1,663)	-	(52)	-
Groups' share of net assets	9,057	-	285	-
Negative goodwill – written off	(329)	-	(10)	-
Total consideration	8,728	-	275	-
Satisfied by cash	(8,728)	-	(275)	-
Net cash outflow arising on acquisition:				
Cash consideration	(8,728)	-	(275)	-
Bank balance and cash acquired	67	-	2	-
Net cash outflow on acquisition of subsidiaries	**(8,661)**	**-**	**(273)**	**-**

During 2002 the following subsidiaries were acquired:

(i) Yenisey River Shipping Company – 24% to 44%. On 1 October 2002, the Group acquired an additional 20% stake in the share capital of the Yenisey River Shipping Company for a cash consideration of RUR 537 million (indexed Roubles) (USD* 17 million) bringing its total share holding to 44%. The 44% represents 52% of the voting power of the company and therefore it has been consolidated as control exists. This transaction has been accounted for by the purchase method of accounting.

Yenisey River Shipping Company contributed RUR 9 million (USD* 0.2 million) of profit before tax for the period between the date of acquisition and the balance sheet date.

(ii) Gold Mining Company Polyus ("Polyus") – 100%. On 1 November 2002, the Group acquired 100% of the issued share capital of Polyus for cash consideration of RUR 7,397 million indexed Roubles (USD* 233 million). This transaction has been accounted for by the purchase method of accounting.

Polyus contributed RUR 971 million (USD* 30 million) of revenue and RUR 583 million (USD* 18 million) of profit before tax for the period between the date of acquisition and the balance sheet date.

(iii) Kraus-M – 60%. As at 31 December 2002, the Group acquired 60% of the issued share capital of Kraus-M for a cash consideration of RUR 795 million (USD*25 million). This transaction has been accounted for by the purchase method of accounting.

Kraus-M did not contribute any revenues or profits to the current year as the company was acquired on 31 December 2002.

(iv) Torpedo-Zil - 55%. On 31 December 2002, the Group acquired 55% of the issued share capital of Torpedo-Zil for cash consideration of RUR 13 thousand (indexed Roubles) (USD* 409). This transaction has been accounted for by the purchase method of accounting.

Torpedo-Zil did not contribute any revenues or profits to the current year as the company was acquired on 31 December 2002.

36. Related parties

The Company and its subsidiaries, in the ordinary course of business, enter into various sales, purchases and service transactions with its ultimate holding company, its fellow subsidiaries and associates. Material related party transactions not dealt with elsewhere in the financial statements were as follows:

	Sale of goods	Purchase of goods	Purchase of services
RUR Millions			
2002			
With ultimate holding company	50	1,924	1,986
With fellow subsidiaries and associates	-	-	-
	50	**1,924**	**1,986**
2001 (unaudited)			
With ultimate holding company	967	75	52
With fellow subsidiaries and associates	529	-	-
	1,496	**75**	**52**
USD Millions*			
2002			
With ultimate holding company	2	61	62
With fellow subsidiaries and associates	-	-	-
	2	**61**	**62**
2001 (unaudited)			
With ultimate holding company	30	2	2
With fellow subsidiaries and associates	16	-	-
	46	**2**	**2**

37. Commitments

(i) Capital commitments

The total capital expenditure of the Group for the year ending 31 December 2003 is estimated to be RUR 11,186 million (USD* 352 million), which includes the following:

	RUR Millions	USD* Millions
Mining	4,004	126
Enrichment	953	30
Metallurgy	4,576	144
Energy projects	604	19
Other capital expenditure	1,049	33
Total capital expenditure	**11,186**	**352**

(ii) Social commitments

The Group makes contributions to mandatory and voluntary social programs. 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 costs are recorded in the year in which they are incurred (Refer to note 14).

Commitments will be funded from existing cash resources, future cash flows and borrowings.

Investments in related parties	Interest bearing loans and borrowings from related parties	Fiduciary loans and borrowings from related parties	Fiduciary investments/ cash deposits in related parties	Trade receivables owned by related parties	Trade payables owned to related parties
1,045	-	5,065	-	1,063	422
761	135	22	5,104	3,348	130
1,806	**135**	**5,087**	**5,104**	**4,411**	**552**
-	-	19,943	-	1,138	2
1,398	-	1,186	22,644	3,507	194
1,398	**-**	**21,129**	**22,644**	**4,645**	**196**
33	-	160	-	33	13
23	4	1	161	105	4
56	**4**	**161**	**161**	**138**	**17**
-	-	628	-	36	-
44	-	37	713	111	6
44	**-**	**665**	**713**	**147**	**6**

38. Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Management understands that until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(ii) Litigation

Dispute with the Federal Commission for Securities Market of Russia (FCSM). The Arbitration Court of the Moscow City is currently considering case No. A40-4006/01-35-60, which was initiated following FCSM's claim for a purchase and sale transaction to be recognized as null and void. Under this transaction MMC Norilsk Nickel purchased a 100% shareholding in OOO "Interros-Prom" in exchange for 37,900 shares in OAO "Norilskaya Gornaya Kompaniya". The next court session will take place on June 16, 2003.

Management of the Group believes the risk of the FCSM's claim being upheld is low.

Other litigation. Unresolved claims and litigation as at 31 December 2002 total RUR 464 million (USD* 15 million) (2001: RUR 123 million, USD* 4 million).

The remaining claims comprise a large number of small claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that these will be resolved without significant loss to the Group.

(iii) Taxation contingencies

The taxation system in the Russian Federation is at a relatively early stage of development and is characterized by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Russia substantially more significant than in other countries.

The Group has implemented tax planning and management strategies based on existing legislation. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of such legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

(iv) Environmental matters

The Group believes it is currently in compliance with all existing Russian Federation environmental laws and regulations. However, Russian Federation environmental laws and regulations may change in the future. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernize technology to meet more stringent standards.

The Group is obliged in terms of its "use of mineral rights" agreements to rehabilitate the environment to a safe condition viable for economic use. Management is currently unable to reliably calculate the expected costs to restore the environment. As a result no provision for environmental rehabilitation has been raised.

39. Risk management activities

The Group is exposed to price risk, interest rate risk, liquidity risk and credit risk as a result of its normal business and operating activities. The Group has developed and implemented a series of risk management and evaluation procedures to facilitate the measurement and monitoring of these exposures.

In the ordinary course of business, the Group enters into derivative contracts related to exposures to certain of the market variables to which the Group is naturally exposed.

Controlling risk in the group. The Group has a centralized risk management department, based at its head office in Moscow, responsible for the centralized analysis of the amount of exposures and the impact of any risk reduction transactions that the Group enters into.

The risk management department performs analysis related to currency risk, commodity price risk, interest rate risk, liquidity risk and credit risk.

The treasury department is responsible for the centralized management of currency risk, interest rate risk and liquidity risk.

The marketing department, through the Group's trading subsidiaries Norimet, Norgem and Norplat Trading SA is responsible for entering into transactions related to the sale of and derivative transactions related to the metal products of the Group and this department is responsible for the management of commodity price risk.

Concentration of risk. 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. Sales to the Group's top 20 customers are presented below:

2002	Number of customers	%	Turnover RUR Millions	Turnover USD* Millions	%
Largest customers	20	15	43,260	1,361	44
Remaining customers	116	85	55,058	1,733	56
Total	**136**	**100**	**98,318**	**3,094**	**100**
Top 10 customers	10	7	31,748	999	32
Largest customer	1	1	4,894	154	5
2001 (Unaudited)					
Largest customers	20	16	48,741	1,534	35
Remaining customers	104	84	90,519	2,848	65
Total	**124**	**100**	**139,260**	**4,382**	**100**
Top 10 customers	10	8	34,545	1,087	25
Largest customer	1	1	9,343	294	7

Price risk

Currency risk. Currency risk is the risk that the financial results of the Group will be impacted by changes in exchange rates to which the group is exposed.

The currency risks that the Group faces are grouped into two main categories:

(i) Transactions. Almost all of the Group's revenues are denominated in, or indexed to United States Dollars ("USD"), whereas the majority of the Groups direct operating expenses are denominated in Russian Roubles ("RUR").

(ii) Balances. The majority of the Group's borrowings are denominated in USD, whereas direct operating assets of the Group are denominated in RUR, accordingly, there is a level of structural currency risk inherent in the structure of the Group's balance sheet. The currency risk associated with this structural mismatch is largely offset by the fact that the Group's production is priced in USD.

The Group does not generally enter into foreign exchange options or forward contracts to set off its currency risk.

Commodity price risk. Commodity price risk is the risk that the fluctuations in the prices of commodities to which the Group is exposed will lead to a fluctuation of revenues. The financial results of the Group are exposed to the changes in the prices of its joint products, being Nickel, Copper, Palladium, Platinum and Gold. The remainder of the metals produced are considered to be by-products and are not taken into account in the analysis of commodity price risk.

The Group has entered into certain option contracts with its customers related to the physical delivery of a portion of its future productions. The outstanding option contracts entered into with customers for physical delivery at 31 December 2002 are as set out below:

Commodity option contracts	Volume ounces '000	Average price RUR/Ounce	Average price USD*/Ounce
Platinum call options sold	39	19,068	600
Platinum put options purchased	39	12,712	400
Palladium call options sold	130	14,301	450
Palladium put options purchased	130	7,150	225

The option contracts are spread evenly over a 13 month period, and the last contract matures in January 2004. There were no option contracts related to physical delivery of metal outstanding at 31 December 2001.

In addition to contracts related to physical delivery to customers, the group enters into derivative contracts related to contracts quoted on the London Metal Exchange ("LME"). These contracts are not hedges, based on the definitions set out in IAS 39. Refer to note 29, for further detailed descriptions of activities and outstanding contracts as at 31 December 2002 and 2001.

Another component of commodity price risk that is unique to the Group, as a result of their large share of the world market for certain commodities, is linked to their ability to sell their product into the market place. This is addressed in some form by entering into long term delivery contracts with certain off takers. These contracts are generally entered into at floating rates and provide some level of certainty that product produced will be taken up in the market place, without impacting global market prices.

Interest rate risk.

Interest rate risk exists when there is a mismatch between the frequency with which assets and liabilities reprice and is the risk that changes in interest rates will lead to fluctuations in the earnings of the Group. A level of inherent interest rate risk exists, as certain long term capital assets with an indeterminable reprice profile are funded using debt, generally denominated in a foreign currency. The Group does not enter into derivative contracts related to its interest rate exposures.

Liquidity risk

Liquidity risk is the risk that the Group will not have adequate funds available to settle all obligations when they fall due. The Group actively manages and monitors its liquidity position and makes use of a budgeting process to ensure that it plans to have adequate levels of liquid funds available to meet all of its funding requirements. A minimum cash balance is required to be maintained, in addition to the projected net cash flows.

The Group has committed facilities from international banks that may be used as a liquidity backstop, in the event that unplanned events occur that leads to large, unexpected cash flows. In the past, the Group has entered into commodity backed trade finance agreements to finance short-term liquidity requirements, using its physical production to secure debt received in order to reduce its funding cost.

As a liquidity back stop the Group maintains the following committed facilities:

Bank name	Amount of facility RUR Millions	Amount of facility USD* Millions
ING Belgium, Brussels, Geneva Branch (previously Banque Bruxelles Lambert)	2,384	75
Banque Cantonale Vaudoise (Lausanne)	1,589	50
West LB AG (London)	2,860	90
BNP Paribas Suisse (Geneva)	1,112	35
Natexis Banques Populaires (Paris)	1,112	35
Total	**9,057**	**285**

Credit risk

Credit risk is the risk that counterparties that owe the Group funds do not settle all amounts due from them when due. Sources of credit risk include placements of surplus cash (investing activity), metal leases, trade debtors and LME trading activity.

This risk is managed by the adoption of a credit limit setting process and by a risk management process that includes the ongoing monitoring of the position and quality of counterparties from whom the Group has amounts outstanding.

The Group does not generally require security or pledge of collateral from its trade debtors and management is of the opinion that the counterparties with whom they transact are of good credit standing and that no undue concentration of risk exists.

40. Reorganization of corporate structure

Prior to 1 January 2000, RAO "Norilsk Nickel" (NN) was the Group's parent company and its shares were traded on the Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX). NN's principal operating subsidiary at that time was OAO "Norilskaya Gornaya Kompaniya" (NGK) which changed its name on 21 February, 2001 to OAO "MMC "Norilsk Nickel" (MMC).

During 2000, the Group embarked upon a complex reorganization of its corporate structure, the objective of which was to replace NN with MMC as the entity whose shares are publicly held and traded. The reorganization was completed during 2002.

As a result of the reorganization, a more efficient financial, tax and corporate structure for the Group and its operations has been created by:

- making NN a wholly owned subsidiary of MMC and transferring the centre of the Group's market capitalization from NN to MMC, its principal operating company, and
- the addition of a wholly owned marketing and trading network for the Group's base metals' production through its acquisition of OOO "Interros-Prom" and its subsidiaries, including Norimet Limited.

Management believed it was appropriate to prepare consolidated annual financial statements of MMC for the year ended 31 December 2001, to reflect the completed Group restructuring, not withstanding the reorganization framework was only concluded in 2002. This decision was based on the fact that the continuity of ownership of the Group had not been ultimately affected by the reorganisation. In preparing those financial statements those shareholders of NN who did not exercise the swap option were recorded as minority interests in the consolidated annual financial statements of MMC for the year ended 31 December 2001.

The steps involved in the reorganization were as follows:

(i) Exchange of 37.9% of the ordinary shares of MMC (formerly NGK) to gain control over Norimet Limited (United Kingdom). Based on a Board decision dated 11 February 2000 "NN" acquired 100% of the voting shares of OOO "Interros-Prom", on 20 April 2000, through the exchange of 37.9% of the ordinary shares of MMC (formerly NGK). Prior to this transaction NN owned 100% of MMC (formerly NGK), thereby reducing NN's holding in MMC (formerly NGK) to 62.1%.

OOO "Interros-Prom subsequently changed its name to OOO "Norilskinvest".

(ii) Issue of 70,645 ordinary shares of MMC (formerly NGK), in a closed subscription among the 37.9% MMC (formerly NGK) shareholders, who also owned NN shares. On 12 July 2000, at an Extraordinary General Meeting of shareholders of MMC (formerly NGK), the shareholders approved the issue of 70,645 new ordinary shares of MMC (formerly NGK), to be distributed in a closed subscription to the holders of the 37.9% MMC (formerly NGK) shares, in step (i) above.

The new shares were issued, placed and paid for, at the election of the subscribing shareholders, holding the NN shares. The share issue was completed on 14 August 2000 and the results of the share issue was registered by the Krasnoyarsk branch of the Russian Federal Securities Commission on 15 September 2000.

The 70,645, newly issued shares of MMC (formerly NGK), were paid for by exchanging them for 53,421,488 shares of NN. The proportion of the share exchange comprised 1.322 MMC (formerly NGK) shares for 1,000 NN shares. As a result of this share issue, the shareholding of NN in MMC (formerly NGK) further decreased to 36.4%, as NN did not participate in the share issue. MMC's (formerly NGK's) own shareholding in NN comprised 28.3% at the time.

(iii) Issue of 122,301,272 ordinary shares of MMC (formerly NGK), to shareholders of MMC (formerly NGK) in proportion to their existing shareholding in MMC (formerly NGK) for the purpose of reaching an exchange proportion of 1 ordinary MMC (formerly NGK) share for 1 ordinary NN share. On 21 September 2000 at an Extraordinary General Meeting of shareholders of MMC (formerly NGK), the shareholders approved an increase of MMC's (formerly NGK's) share capital to 260,000,000 ordinary shares, of 1 RUR each. These shares were issued on 1 January 2001.

In addition the meeting approved a distribution of 122,301,272 new ordinary shares of MMC (formerly NGK) to existing MMC (formerly NGK) shareholders, in proportion to their existing shareholding. The new shares were issued from NGK's retained earnings as of that date and the purpose of the share issue was to prepare the company for the fourth stage of the reorganization namely, the swap of MMC (formerly NGK) shares for NN shares in proportion of 1 MMC (formerly NGK) share for 1 NN share.

(iv) Issue of 135,113,137 ordinary shares of MMC (formerly NGK) distributed in a closed subscription as part of a Share Swap between MMC (formerly NGK) and NN shareholders and paid for with NN shares. NGK was renamed to MMC. On 21 February 2001 at an Extraordinary General Meeting of shareholders of MMC (formerly NGK) the shareholders approved the issue of 135,113,137 ordinary shares of MMC (formerly NGK) for purposes of exchanging them for all the remaining NN shares, not owned by MMC (formerly NGK) at that point in time, i.e. the "Swap Proposal". These shares were issued on 23 May 2001.

The meeting also approved the change of name of NGK to MMC.

The Swap Proposal was based on an exchange of 1 ordinary MMC share for 1 ordinary or preferred NN share, and was offered to all the remaining shareholders of NN, who at the time had not exercised their option yet. The Swap Proposal was only open for a limited period and expired on 21 August 2001.

Of the 135,113,137 ordinary shares of MMC available for the Swap Proposal, 130,195,492 shares had been issued at the time the offer to swap expired. On 15 September 2001, the Federal Securities Commission registered the placement of the newly issued MMC shares. The remaining balance of 4,917,645 MMC shares were not issued, and are no longer available under the Swap Proposal. After this share issue the issued share capital of MMC comprised 252,667,409 ordinary shares.

As a result of the reorganization NN became the registered owner of 44,569,170 ordinary shares in MMC, which shares were recorded as treasury shares in the annual financial statements of MMC for the year ended 31 December 2001.

(v) Additional share swap. Liquidation of NN's cross-holding of 44,569,170 ordinary shares in MMC and the cancellation of 38,761,525 ordinary shares in MMC. On 29 March 2002 at an Extraordinary General Meeting of shareholders of MMC, the shareholders approved a resolution to cancel 38,761,525 of 44,569,170 ordinary shares in MMC which NN acquired as a result of the re-organization. The remaining 5,807,645 shares were being made available for exchange in terms of a new Swap Proposal. This new Swap Proposal was again offered to NN shareholders, and the offer was open from 17 January 2002 to 17 July 2002. During this period shareholders of NN exchanged an additional 2,544,277 shares of NN for a similar number of shares in MMC.

At the end of the reorganization of the corporate structure 185,736,686 shares of NN have been exchanged for MMC shares, representing 98,3 % of the charter capital of MMC. The remaining 3,263,368 shares not swapped are recorded as treasury shares.

The shareholders in NN who had not exercised their option to swap (representing 1.73 % of NN's issued share capital) are recorded as minority interests in the annual financial statements of MMC. Upon completion of reorganization the issued share capital of MMC comprised of 213,905,884 ordinary shares.

The effect of the reorganization of the corporate structure was that MMC has replaced NN as the holding company of the Group.

41.Exchange rates - russian rouble

Year end rates:	
US Dollar	31.78
Euro	33.11
British pound	50.94
Japanese yen	0.27
Average rates for the year:	
US Dollar	31.34
Euro	29.63
British pound	47.11
Japanese yen	0.25

42. Events subsequent to the balance sheet date

Dividends declared

The Group has proposed a dividend totalling RUR 4,642 million of (RUR 21.7 per share) in respect of the year ended 31 December 2002. Of this amount RUR 71 million is payable to other group companies.

Acquisition of Stillwater Mining Company

On 20 November 2002 - MMC Norilsk Nickel and Stillwater Mining Company ("Stillwater") jointly announced, the signing of definitive agreements whereby the Norilsk Nickel Group will acquire a 51% majority ownership in Stillwater through the issuance of 45.5 million newly issued shares of Stillwater common stock in exchange for USD* 100 million cash and approximately 877 thousand ounces of palladium, valued at RUR 7,659 million (USD* 241 million) based on the 19 November 2002, London PM fix. Also, under the agreement Norilsk Nickel may, under certain circumstances, purchase an additional 10% of Stillwater's currently outstanding shares.

The total investment by Norilsk Nickel will be approximately RUR 10,837 million (USD* 341 million), which represents a value of RUR 238.35 (USD* 7.50) for each Stillwater share. Stillwater shares closed on 30 May 2003 on the New York Stock Exchange at RUR 136.01 (USD 4.28).

The completion of this transaction is dependent upon:

- approval by Russian Central Bank;
- a ruling of the Federal Trade Commission of the United States of America;
- approval by Stillwater's shareholders.

Structured pre-export finance facility for JSC MMC Norilsk Nickel

On 7 February 2003, the Board of Directors and a group of western banks signed a loan facility agreement for RUR 7,945 million (USD* 250 million). The syndicated loan was arranged by Citibank, ING Bank, and Societe Generale. Other syndicated lenders are BNP Paribas, CCF, Credit Lyonnais, Fortis, HSBC, KBC Bank, Moscow Narodny Bank, Natexis and WestLB. ZAO ING Bank (Eurasia) will be servicing settlements as the passport bank. The loan is a three-year pre-export finance facility. It is structured as a combination of a revolving credit line of RUR 3,178 million (USD* 100 million) and a term loan of RUR 4,767 million (USD* 150 million). The pricing of the first and second tranches is 3% and 3,25% p.a. over LIBOR, respectively.

Partial repayment of syndicated loan

In 2003 the Group repaid RUR 3,814 million (USD* 120 million) of the RUR 6,366 million (USD* 200 million) syndicated loan received from Credit Swiss First Boston International, ING Bank, Standard Bank London Limited and Natexis Banques Popularies (refer to note 20 and 25). 36,000 tonnes of nickel were released from the original 60,000 tonnes pledged and subsequently sold by the Group.

43. Investments in significant subsidiaries

RUR Millions

	Country of Incorporation	Nature of business	Shares held '000 2002	Shares held '000 2001 (Unaudited)
Holding company				
OJSC "MMC Norilsk Nickel"	Russia	**A**		
Significant subsidiaries				
RAO "Norilsk Nickel"	Russia	**C**	185,798	183,254
OAO "Taimyrgaz"	Russia	**E**	2,048	1,048
ZAO "Polyus"	Russia	**A**	-	-
OAO "Yenisey River Shipping Company"	Russia	**J**	181	-
OAO "PromEstate"	Russia	**L**	6	6
OAO "Normetimpex" (formerly ZAO "Interrosimpex")	Russia	**D**	5	5
OOO "Norilskinvest"	Russia	B	-	-
OAO "Kola MMC"	Russia	**A**	4,000	4,000
OAO "Olengorsky Mekhanichesky Zavod"	Russia	**G**	149	149
ZAO Alykel	Russia	**N**	-	-
OOO "Norilskiye Metally"	Russia	**D**	-	-
OAO "Institut Gypronickel"	Russia	**H**	23	23
OAO "Norilsky Kombinat"	Russia	**K**	14,673	14,673
OAO "Kombinat "Severonickel"	Russia	**K**	9,860	9,860
OAO "Gornometallurgichesky Kombinat "Pechenganickel"	Russia	**K**	1,236	1,236
OAO "Tuimsky zavod Cvetnykh Metallov	Russia	**F**	827	890
AKB "Monchebank" (formerly OOO "KB "Monchebank")	Russia	**I**	58,976	-
Norimet Ltd.	Great Britain	**C**	500	500
Norilsk Metal Trading SA	Switzerland	**C**	62	62
Norplat Trading SA	British Virgin	**C**	-	-
Norgem SA Belgium	Belgium	**C**	31	31
ZAO Kraus-M	Russia	**L**	6	-
ZAO "FK "Torpedo-ZIL"	Russia	**M**	550	-

Percentage held		Net asset position		Net loan account	
2002	2001 (Unaudited)	2002	2001 (Unaudited)	2002	2001 (Unaudited)
98.3%	96.6%	2,466	4,383	1,976	9,185
93.6%	92.6%	2,830	1,302	(850)	(438)
100.0%	-	4,140	-	-	-
43.9%	-	1,882	-	(99)	-
99.1%	99.1%	61	56	-	-
100.0%	100.0%	130	146	(85)	(201)
100.0%	100.0%	43	48	-	-
100.0%	100.0%	16,623	16,221	380	733
100.0%	100.0%	129	(41)	(82)	2
100.0%	-	(109)	-	(688)	-
100.0%	100.0%	17	-	(274)	(181)
100.0%	100.0%	215	200	84	64
98.1%	96.5%	51,074	49,896	22,759	19,749
98.3%	96.6%	2,049	2,114	811	1,173
98.3%	96.6%	2,827	2,665	1,084	1,668
92.9%	100.0%	52	56	(12)	(80)
62.6%	62.6%	160	169	-	9
100.0%	100.0%	130	146	(7,639)	(9,882)
100.0%	100.0%	66	79	33	(72)
100.0%	100.0%	331	214	(760)	(66)
51.0%	51.0%	51	36	(58)	(159)
60.0%	-	1,324	-	(725)	-
55.0%	-	(113)	-	-	-

USD Millions*

	Country of Incorporation	Nature of business	Shares held '000 2002	Shares held '000 2001 (Unaudited)
Holding company				
OJSC "MMC Norilsk Nickel"	Russia	**A**		
Significant subsidiaries				
RAO "Norilsk Nickel"	Russia	**C**	185,798	183,254
OAO "Taimyrgaz"	Russia	**E**	2,048	1,048
ZAO "Polyus"	Russia	**A**	-	-
OAO "Yenisey River Shipping Company"	Russia	**J**	181	-
OAO "PromEstate"	Russia	**L**	6	6
OAO "Normetimpex" (formerly ZAO "Interrosimpex")	Russia	**D**	5	5
OOO "Norilskinvest"	Russia	**B**	-	-
OAO "Kola MMC"	Russia	**A**	4,000	4,000
OAO "Olengorsky Mekhanichesky Zavod"	Russia	**G**	149	149
ZAO Alykel	Russia	**N**	-	-
OOO "Norilskiye Metally"	Russia	**D**	-	-
OAO "Institut Gypronickel"	Russia	**H**	23	23
OAO "Norilsky Kombinat"	Russia	**K**	14,673	14,673
OAO "Kombinat "Severonickel"	Russia	**K**	9,860	9,860
OAO "Gornometallurgichesky Kombinat "Pechenganickel"	Russia	**K**	1,236	1,236
OAO "Tuimsky zavod Cvetnykh Metallov"	Russia	**F**	827	890
AKB "Monchebank" (formerly OOO "KB "Monchebank")	Russia	**I**	58,976	-
Norimet Ltd.	Great Britain	**C**	500	500
Norilsk Metal Trading SA	Switzerland	**C**	62	62
Norplat Trading SA	British Virgin	**C**	-	-
Norgem SA Belgium	Belgium	**C**	31	31
ZAO Kraus-M	Russia	**L**	6	-
ZAO "FK "Torpedo-ZIL"	Russia	**M**	550	-

Percentage held		Net asset position		Net loan account	
2002	2001 (Unaudited)	2002	2001 (Unaudited)	2002	2001 (Unaudited)
98.3%	96.6%	78	126	62	265
93.6%	92.6%	89	38	(27)	(13)
100.0%	-	130	-	-	-
43.9%	-	59	-	(3)	-
99.1%	99.1%	2	2	-	-
100.0%	100.0%	4	4	(3)	(6)
100.0%	100.0%	1	1	-	-
100.0%	100.0%	523	467	12	21
100.0%	100.0%	4	(1)	(3)	-
100.0%	-	(3)	-	(22)	-
100.0%	100.0%	1	-	(9)	(5)
100.0%	100.0%	7	6	3	2
98.1%	96.5%	1,607	1,438	716	569
98.3%	96.6%	64	61	26	34
98.3%	96.6%	89	77	34	48
92.9%	100.0%	2	2	-	(2)
62.6%	62.6%	5	5	-	-
100.0%	100.0%	4	4	(240)	(285)
100.0%	100.0%	2	2	1	(2)
100.0%	100.0%	10	6	(24)	(2)
51.0%	51.0%	2	1	(2)	(5)
60.0%	-	42	-	(23)	-
55.0%	-	(4)	-	-	-

Nature of business

A	Mining
B	Investment holding
C	Market agent
D	Marketing intermediary
E	Oil & Gas
F	Non ferrous metal production
G	Mechanics
H	Science
I	Banking
J	River ship operations
K	Leasing
L	Property holding
M	Sport club
N	Airport

The following companies were not consolidated in the Group's financial statements:

	Country of incorporation	Percentage held
OAO "Aviakompaniya "Taymyr"[1]	Russia	66,6%
OAO "Rosso"[1]	Russia	51.0%
ZAO "Interrosproduct"[2]	Russia	51.0%
ZAO IRSD[2]	Russia	100.0%
OOO "Torgoviy "Dom Forvater-95"[2]	Russia	56.0%
ZAO "Sam-holding"[2]	Russia	63.9%
ZAO "Pechengskiy molokozavod"[2]	Russia	90.0%
DKHO TKO Zapoljarje [2]	Russia	100.0%
ZAO "Sadko"[2]	Russia	100.0%
DKHO "Norilsktorg"[2]	Russia	100.0%

[1] Control is intended to be temporary because the subsidiaries are acquired and held exclusively with a view to their subsequent disposal in the near future. At year-end the investments in these subsidiaries were recognized as securities held-for-trading.

[2] The subsidiaries operate under severe long-term restrictions, which significantly impair their ability to transfer funds to the parent. All investments in these entities have been written of in full.