Mining and Metallurgical Company Norilsk Nickel

Audited consolidated annual financial statements for the year ended 31 December 2003

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

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MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

The following statement, which should be read in conjunction with the independent auditors' 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 those of the independent auditors in relation to the consolidated annual financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated annual financial statements that present fairly the financial position of the Group at 31 December 2003, and the results of its operations, and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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 IFRS have been followed, subject to any material departures disclosed and explained in the consolidated annual financial statements; and
- preparing the consolidated annual financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated annual financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated annual financial statements for the year ended 31 December 2003 were approved on 31 May 2004 by:

M. D. Prokhorov	**D. A. Glotov**
General Director	Deputy General Director

Moscow
31 May 2004

Deloitte.

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Report of the independent auditors
to the management of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel"

We have audited the consolidated annual financial statements for the year ended 31 December 2003 of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), set out on pages 3-61. The consolidated annual financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated annual 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 annual financial statements are free of material misstatement.

An audit includes:

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

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

Audit opinion

In our opinion, the consolidated annual financial statements fairly present, in all material respects, the financial position of the Group at 31 December 2003, and the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte & Touche
Moscow, Russia
31 May 2004

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003
US Dollars million

	Notes	2003	2002
Metal sales revenues	4	**5,196**	**3,094**
Cost of metal sales	5	(2,870)	(1,751)
Gross profit on metal sales		**2,326**	**1,343**
Selling, general and administrative expenses	11	(750)	(561)
Other net operating (expenses)/income	12	(60)	27
Operating profit		**1,516**	**809**
Net (losses)/gains on derivative transactions	13	(44)	215
Net finance costs	14	(10)	(27)
Net income from investments	15	7	12
Other non-operating expenses	16	(131)	(146)
Profit before taxation		**1,338**	**863**
Taxation	17	(493)	(286)
Profit after taxation		**845**	**577**
Minority interest	29	16	7
Net profit for the year		**861**	**584**

RECONCILIATION BETWEEN NET PROFIT FOR THE YEAR AND HEADLINE EARNINGS

	Notes	2003	2002
Net profit for the year		**861**	**584**
Adjusted for:			
Gains on embedded derivative	13	-	(269)
Headline earnings for the year		**861**	**315**
Basic and fully diluted earnings per share (US cents)			
- Attributable	18	**408.7**	**277.2**
- Headline	18	**408.7**	**149.5**
Dividends per share (US cents)	19	**207.9**	**80.2**
Dividend cover (times)			
- Attributable	19	**2.0**	**3.5**
- Headline	19	**2.0**	**1.9**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2003
US Dollars million

	Notes	2003	2002
ASSETS			
Non-current assets		**7,578**	**6,462**
Property, plant and equipment	20	6,068	5,266
Capital construction-in-progress	21	1,150	1,084
Investments in associates	22	108	76
Investments in securities and other financial assets	23	162	36
Inventories	24	90	-
Current assets		**3,675**	**3,277**
Inventories	24	1,492	1,836
Trade accounts and other receivables	25	426	347
Other current assets	26	668	576
Investments in securities and other financial assets	23	135	94
Cash and cash equivalents	27	954	424
Total assets		**11,253**	**9,739**
EQUITY AND LIABILITIES			
Share capital and reserves		**8,547**	**7,305**
Share capital	28	9	9
Share premium		737	683
Translation reserve		8	-
Accumulated profits		7,449	6,512
Shareholders' equity		**8,203**	**7,204**
Minority interest	29	**344**	**101**
Non-current liabilities		**1,080**	**958**
Long-term borrowings	30	176	142
Capitalised financial leases	31	5	5
Deferred tax liabilities	32	775	800
Employee benefit obligations	33	64	11
Provision for decommissioning	34	60	-
Current liabilities		**1,626**	**1,476**
Current portion of long-term borrowings	30	140	67
Current portion of capitalised financial leases	31	3	7
Current portion of employee benefit obligations	33	184	150
Short-term borrowings	35	122	382
Derivative financial instruments	36	27	12
Trade accounts and other payables	37	368	323
Taxes payable	38	305	314
Dividends payable	39	304	2
Bank overdrafts	40	173	219
Total equity and liabilities		**11,253**	**9,739**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003
US Dollars million

	Notes	2003	2002
Operating activities			
Cash flows from operations	42	2,176	944
Interest paid		(38)	(100)
Taxation paid		(485)	(241)
Net cash inflow from operating activities		**1,653**	**603**
Investing activities			
Acquisition of subsidiaries, net of cash acquired	43	(65)	(273)
Proceeds from disposal of subsidiaries, net of cash disposed	44	5	-
Purchase of property, plant and equipment		(440)	(348)
Proceeds from sale of property, plant and equipment		21	4
Purchase of securities and other financial assets		(142)	(134)
Proceeds from sale of securities and other financial assets		5	287
Net cash outflow from investing activities		**(616)**	**(464)**
Financing activities			
Proceeds from short-term borrowings		531	1,564
Repayments of short-term borrowings		(823)	(2,216)
Proceeds from long-term borrowings		175	225
Repayments of long-term borrowings		(213)	(20)
Payments of capitalised finance leases		(9)	(10)
Dividends paid	39	(147)	(168)
Net cash outflow from financing activities		**(486)**	**(625)**
Effect of translation to presentation currency		25	-
Effect of inflation on cash and cash equivalents		-	(97)
Net increase (decrease) in cash and cash equivalents		**576**	**(583)**
Net cash and cash equivalents at beginning of year	27	**205**	**788**
Net cash and cash equivalents at end of year	27	**781**	**205**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

US Dollars million

	Notes	Share capital	Share premium	Translation reserve	Accumu-lated profits	Total
Balance at 31 December 2001 – unaudited		**9**	**683**	**-**	**6,097**	**6,789**
Net profit for the year		-	-	-	584	584
Dividends	19	-	-	-	(169)	(169)
Balance at 31 December 2002		**9**	**683**	**-**	**6,512**	**7,204**
Net profit for the year		-	-	-	861	861
Dividends	19	-	-	-	(438)	(438)
Translation of foreign entities		-	-	(9)	-	(9)
Effect of translation to presentation currency		-	54	17	514	585
Balance at 31 December 2003		**9**	**737**	**8**	**7,449**	**8,203**

1. GENERAL

Organisation

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group") are the extraction and refining of base and precious metals and their sale in the commodities market. Further details regarding the nature of the business and structure of the Group are presented in note 52.

Basis of presentation

The consolidated annual financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The term "International Financial Reporting Standards" includes standards and interpretations approved by International Accounting Standards Board, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee who replaced the Standing Interpretations Committee ("SIC").

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated annual financial statements are presented in compliance with IFRS.

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

- fair value balance sheets of subsidiaries acquired, in accordance with IAS 22 "Business Combinations" ("IAS 22"), which is more fully described in note 2 (a);

- valuation of property, plant and equipment of the entities incorporated in the Russian Federation, in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"), which is more fully described in note 2 (e);

- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories" ("IAS 2"), which is more fully described in note 2 (i); and

- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), which is more fully described in note 2 (j).

Reclassifications

Certain comparative information, presented in the consolidated annual financial statements for the year ended 31 December 2002, has been reclassified in order to achieve comparability with the presentation used in the consolidated annual financial statements for the year ended 31 December 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

The Group's accounting policies, which are consistent in all material respects with those applied in the prior year, except for the change in the presentation currency which is more fully described in note 2(b), are set out below:

(a) Basis of consolidation

Subsidiaries

The consolidated annual 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 holding company:

- owns, directly or indirectly through subsidiaries, more than 50% of the voting equity of an enterprise; or

- owns, directly or indirectly through subsidiaries, less than 50% of the voting equity of an enterprise, but has the ability 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 the 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; or

- it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the holding company.

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

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

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to a nil value. Thereafter losses are only accounted for insofar as the Group is committed to providing financial support to such associates.

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

Unrealised gains and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Acquisitions and goodwill arising thereon

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the net identifiable assets at the date of acquisition is recognised by the Group as goodwill.

Goodwill relating to subsidiaries is disclosed as goodwill and goodwill relating to associates is included within the carrying value of the investment in associates.

The unamortised balance of goodwill is reviewed on a regular basis, and if impairment has occurred, it is written down 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

Where an investment in a subsidiary or an associate is made, any excess of the Group's share of the fair value of the net identifiable assets acquired at the date of the acquisition over the purchase consideration is recognised as negative goodwill.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.

Foreign entities

Monetary and non-monetary assets and liabilities of foreign entities are translated at the closing exchange rate. Income statement items are translated at an average exchange rate for the year. Exchange differences arising on translation are charged to the translation reserve, included in shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

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 prevailing at the date of the transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing at the date on which the most recent fair value was determined. Income statement items are translated at average exchange rate for the year. Exchange differences arising on translation are recognised in the income statement in the period when they occur.

(b) Measurement and presentation currency

The measurement currency of the consolidated annual financial statements, which reflects the economic substance of the underlying events and transactions of the Group's operations, is the Russian Rouble ("RUR").

During 2003 the Group has elected to change its presentation currency from the RUR to the United States of America Dollar ("USD" or "US Dollars"). Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more acceptable currency for international users of the consolidated annual financial statements of the Group.

The translation from RUR (measurement currency) into USD (presentation currency) is made in accordance with the requirements of SIC 30 "Reporting Currency – Translation from Measurement Currency to Presentation Currency" ("SIC 30"), using exchange rates as quoted by the Central Bank of the Russian Federation, as follows:

- all assets and liabilities, both monetary and non-monetary, have been translated at closing exchange rate, USD 1 = RUR 29.4545;
- all items included in shareholders' equity, other than net profit for the reporting period, have been translated at closing exchange rate, USD 1 = RUR 29.4545;
- all income and expense items for the year have been translated at the average exchange rate, USD 1 = RUR 30.6884; and
- all resulting exchange differences are included in shareholders' equity.

The use of USD as a presentation currency in 2003 is not consistent with the prior year, in which the RUR was the Group's measurement and presentation currency. In the consolidated annual financial statements for the year ended 31 December 2002 the USD figures have been presented as a translation of convenience from RUR into USD at the closing exchange rate as at 31 December 2002. The relevant exchange rate, as quoted by the Central Bank of the Russian Federation, was USD 1 = RUR 31.7844. Due to the fact that prior to 1 January 2003, the Group reported in a hyperinflationary economy the results of the translation of convenience are the same as if the translation had been performed in accordance with SIC 30. Hence the change in the accounting policy with regards to the presentation currency has not resulted in any adjustments to comparative figures.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated annual financial statements does not imply that Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

(c) Hyperinflation in the Russian Federation

Hyperinflationary accounting for the year ended 31 December 2002

The principal operations of the Group take place in the Russian Federation, where the accounting records are maintained in RUR. The economy of the Russian Federation was considered to be hyperinflationary from 1991 to 2002. The Group's consolidated annual financial statements include comparative figures as of and for the year ended 31 December 2002, which, were re-measured in accordance with IAS 29 as of that date.

Cessation of hyperinflation

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 discontinued application of the requirements of IAS 29, and the carrying amount of all non-monetary assets, liabilities and shareholders' equity stated in measurement units as of 31 December 2002 have thereafter been treated as cost.

(d) Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to RUR at the exchange rate at balance sheet date. Exchange differences arising from changes in exchange rates are recognised in the income statement.

(e) Property, plant and equipment

Basis of carrying value of property, plant and equipment

Property, plant and equipment of entities incorporated in the Russian Federation were valued by independent, professionally qualified valuers. The effective date of the valuation was 31 December 2001. The basis of 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 as their market value.

However, a significant part of property, plant and equipment, which is of a specialised nature, was valued at 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 both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset. The valued amounts have subsequently been recognised as cost in accordance with the requirements of IAS 29.

Mining assets

Mining assets are recorded at cost less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and exploration licenses, and the present value of future decommissioning costs.

Mineral rights, mineral resources and ore reserves

Mineral rights, mineral resources and ore reserves are recorded as assets when acquired as part of a business combination and are then amortised on a systematic basis when physically mined, using the life of mine method based on estimated proven and probable mineral reserves.

Estimated proven and probable mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits, in accordance with local geological engineering reserve standards.

Mine development costs

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditure incurred in:

- acquiring mineral rights and exploration licenses;
- developing new mining operations;
- defining further mineralization in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings and the present value of future decommissioning cost.

Mine development costs are amortised on a straight-line basis using the life of mine method, based on estimated proven and probable mineral reserves, over a period of 7 to 70 years.

Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine method, based on estimated proven and probable mineral reserves, varying from 5 to 30 years.

Amortisation

Amortisation on mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

The Group regularly assesses the remaining life of its mines for the purpose of amortisation calculations, and considers, amongst other things, the following:

- the volume of remaining recoverable mineral reserves or the remaining mining lease period; and
- potential changes in technology, demand and product substitution.

Because of the uncertainty of these estimates the Group uses a straight-line basis of amortisation.

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

• Buildings, 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 lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the lesser of:

- their estimated useful lives, or
- the term of the lease.

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 related lease obligation to the lessor.

(f) Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated.

(g) Impairment

An impairment review of assets is carried out, when impairment indicators exist in relation to a cash generating unit, by comparing the carrying amount of the assets to their respective recoverable amount. The recoverable amount is the greater of the assets' value-in-use or net selling price.

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

Recoverable amounts of mining and processing assets 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 reserve; and
- changes in future expected operating costs.

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 recognised.

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

Impairment losses are 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 amortisation or depreciation, had no impairment loss been recognised.

(h) Research and exploration expenditure

Research and exploration (including geophysical, topographical, geological and similar types of expenditure) is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, when a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

(i) Inventories

Refined metals

Joint products, i.e. nickel, copper, palladium, platinum and gold, are measured at the lower of net production cost on the weighted average basis, or net realisable value. The net cost of production per unit of a joint product is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, allocated in the ratio of the contribution of these joint products to total relative sales value, by the saleable mine output of a joint product.

Production costs include on-mine and concentrating costs, smelting, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

By-products, i.e. cobalt, ruthenium, rhodium, iridium, silver and other minor metals, are measured at net realisable value, through a mark-to-market valuation.

Work-in-process

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less a provision for obsolete items.

(j) Financial instruments

Financial instruments recognised on the Group's balance sheet include investments, loans receivable, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables and derivative financial instruments. Financial instruments are initially measured at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Investments

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

Investments are classified into the following categories:

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

Investments with fixed or determinable payments and fixed maturity, which 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 carried at amortised cost less any allowance for impairment. Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held-for-trading investments. Held-for-trading investments 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 included in current assets if management intends to realise them within twelve 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 of fair value of investments are recognised in the income statement for the period. Where a quoted market price does not exist, these instruments are measured at management's estimate of fair value.

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 gross invoice value less provision for doubtful debts where considered appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Borrowings

Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement. 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 stated at their nominal value.

Commodity derivatives

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 including associated transaction costs. Subsequently, these instruments are remeasured to their fair value.

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 recognised and included in gains/losses on derivative financial instruments at such time as the contract expires.

Interest rate derivatives

The Group, from time to time, enters into interest rate swap agreements to hedge its cash flow activities and assesses the effectiveness of these hedging activities at reporting intervals. To the extent that the hedge is effective, the gain or loss on the interest rate swap is recognised directly in equity, in other comprehensive income. Subsequently, that amount is included in the income statement in the period during which the hedged items affects the net profit or loss for the period. Should the hedge be deemed to be ineffective, the profit or loss is recognised in the income statement.

(k) Metal leases and sale-and-repurchase agreements

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.

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

The Group enters into refined metal sale-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 relevant liability is recognised at inception based on the consideration received and is subsequently measured at amortised cost. Interest on these transactions is included in interest paid.

(l) Borrowing costs

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

Foreign exchange differences from foreign currency borrowings used to fund major qualifying capital projects are expensed as incurred, except for cases where such foreign exchange differences result 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 relating 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.

(m) Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

(n) Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period are recognised as an expense in that reporting period.

Defined contribution plans

The Group contributes to the following defined contribution plans:

- Pension fund of the Russian Federation;
- Joint corporate pension fund; and
- Stillwater Mining Company savings plan.

The only obligation of the Group with respect to these defined contribution plans is to make the specified contributions in the period in which they arise. These contributions are expensed as incurred.

Defined benefit plans

The Group operates a number of defined benefit plans for its employees. At management's discretion and within established annual budgets, the Group admits employees, who have met certain criteria, into one of the following retirement benefit plans:

- *Six pensions plan,* whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- *Lifelong professional pension plan,* whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life.

In addition, the Group operates the *Mother's rights program*, whereby a mother with a child between the ages of three and seven receives a monthly benefit, limited to 150% of her basic salary.

The Group's obligation in respect of these defined benefit plans relating to post employment benefits is recognised in full at the date when the Group's management admits an employee to any of these plans.

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

- discount rates used in determining the present value of post employment benefits; and
- life expectancy of members (or period of the benefit as defined).

(o) Treasury shares

Treasury shares are recorded at cost and disclosed as a deduction from equity.

(p) Taxation

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

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 taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

(q) Revenue recognition

Revenue consists of the sales of joint product metals, and is recognised when the risks and rewards of ownership are transferred to the buyer. Metal sales revenue represents the net invoiced value for all joint product metals supplied to customers, excluding sales and value-added taxes. Revenues from the sale of by-products are netted-off against production costs.

(r) Commodity sales contracts

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception, and are expected to be settled by physical delivery, are recognised in the financial statements as and when they are delivered into.

(s) Operating lease payments

Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms. Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases.

(t) Dividends declared

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

Accumulated profits legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities that make up the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

(u) Segmental information

The Group predominantly operates in a single business segment, being mining, refining and marketing of base and precious metals.

Reportable segments are based on the geographic location of the Group's operations, which are the Russian Federation, United States of America and Europe.

(v) Government grants

Government grants related to assets are deducted from the cost of the asset in arriving at the carrying amount of the asset. Such grants are effectively recognised as income over the life of the depreciated asset through a reduced depreciation charge.

(w) Decommissioning costs

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissiong cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement.

The adequacies of the decommissioning obligations are periodically reviewed in the light of current laws and regulations, and adjustments made as necessary.

(x) Ongoing rehabilitation

Expenditure on ongoing rehabilitation costs is accounted for when incurred.

US Dollars million

3. SEGMENTAL INFORMATION

Financial information relating to the Group's consolidated segments are as follows:

2003	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-eniseysk	Subtotal Russian Federation	North America[1]	Europe	Total
Metal sales revenue	**-**	**4,250**	**368**	**299**	**4,917**	**116**	**163**	**5,196**
Third party transactions	-	337	124	299	**760**	116	4,320	**5,196**
Intra-segment transactions	-	3,913	244	-	**4,157**	-	(4,157)	**-**
Operating profit/(loss)	(134)	1,414	133	144	**1,557**	7	(48)	**1,516**
Profit/(loss) before taxation	(239)	1,452	81	142	**1,436**	(1)	(97)	**1,338**
Interest income	18	10	-	-	**28**	-	2	**30**
Interest expense	(20)	(4)	(1)	-	**(25)**	(8)	(7)	**(40)**
Loss on financial derivatives	-	-	-	-	**-**	-	(44)	**(44)**
Significant non-cash items								
Amortisation and depreciation	(5)	(360)	(59)	(27)	**(451)**	(6)	-	**(457)**
Other non-cash expenses	(24)	(85)	(47)	-	**(156)**	(2)	(25)	**(183)**
Capital expenditures	**(23)**	**(339)**	**(30)**	**(42)**	**(434)**	**(8)**	**(4)**	**(446)**
Carrying amount of assets/ liabilities								
Property, plant and equipment including construction-in-progress	182	5,636	633	291	**6,742**	472	4	**7,218**
Net operating assets	188	1,219	57	17	**1,481**	69	499	**2,049**
Total assets	1,161	7,420	815	339	**9,735**	745	773	**11,253**
Total liabilities	(663)	(1,278)	(195)	(78)	**(2,214)**	(222)	(270)	**(2,706)**
Average number of employees	**8,543**	**66,169**	**17,401**	**2,838**	**94,951**	**1,535**	**34**	**96,520**

[1] Stillwater Mining Company, a palladium and platinum producer, was acquired with effect from 23 June 2003. Results have been included from the date of acquisition.

US Dollars million

2002	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-eniseysk[1]	Subtotal Russian Federation	Europe	Total
Metal sales revenue		**2,624**	**245**	**31**	**2,900**	**194**	**3,094**
Third party transactions	-	550	153	31	**734**	2,360	**3,094**
Intra-segment transactions	-	2,074	92	-	**2,166**	(2,166)	**-**
Operating (loss)/profit	(37)	741	10	12	**726**	83	**809**
(Loss)/profit before taxation	(54)	815	4	11	**776**	87	**863**
Interest income	5	59	1	-	**65**	3	**68**
Interest expense	(1)	(92)	(4)	-	**(97)**	(10)	**(107)**
Loss on financial derivatives	-	-	-	-	**-**	(54)	**(54)**
Significant non-cash items							
Amortisation and depreciation	(3)	(348)	(63)	(3)	**(417)**	-	**(417)**
Other non-cash expenses	(17)	(11)	(4)	-	**(32)**	-	**(32)**
Capital expenditures	**(60)**	**(268)**	**(18)**	**(5)**	**(351)**	**-**	**(351)**
Carrying amount of assets/ (liabilities)							
Property, plant and equipment including construction-in-progress	229	5,175	626	256	**6,286**	64	**6,350**
Net operating assets	(4)	1,587	88	38	**1,709**	92	**1,801**
Total assets	260	7,820	818	339	**9,237**	502	**9,739**
Total liabilities	(39)	(1,967)	(162)	(4)	**(2,172)**	(262)	**(2,434)**
Average number of employees	**6,830**	**68,081**	**18,710**	**2,755**	**96,376**	**34**	**96,410**

[1] CJSC “Polus”, a gold producer, was acquired with effect from 1 November 2002. Results have been included from the date of acquisition.

US Dollars million

4. METAL SALES REVENUES

2003	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation						
Taimyr Peninsula	**4,250**	2,443	805	547	406	49
Kola Peninsula	**368**	332	23	1	4	8
Severoeniseysk	**299**	-	-	-	-	299
United States of America						
Montana[1]	**116**	-	-	77	39	-
Europe	**163**	49	-	15	88	11
	5,196	**2,824**	**828**	**640**	**537**	**367**
By destination						
Europe	**3,202**	1,989	631	228	343	11
Russian Federation	**664**	133	171	1	3	356
Asia	**623**	457	2	146	18	-
North America	**697**	235	24	265	173	-
Other	**10**	10	-	-	-	-
	5,196	**2,824**	**828**	**640**	**537**	**367**

2002	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation						
Taimyr Peninsula	**2,624**	1,342	686	134	383	79
Kola Peninsula	**245**	203	32	3	4	3
Severoeniseysk[2]	**31**	-	-	-	-	31
Europe	**194**	144	-	50	-	-
	3,094	**1,689**	**718**	**187**	**387**	**113**
By destination						
Europe	**2,246**	1,230	531	120	365	-
Russian Federation	**312**	68	131	-	-	113
Asia	**253**	198	-	43	12	-
North America	**265**	175	56	24	10	-
Other	**18**	18	-	-	-	-
	3,094	**1,689**	**718**	**187**	**387**	**113**

[1] Stillwater Mining Company, a palladium and platinum producer, was acquired with effect from 23 June 2003. Revenues have been included from the date of acquisition.
[2] CJSC "Polus", a gold producer, was acquired with effect from 1 November 2002. Revenues have been included from the date of acquisition.

US Dollars million

	2003	2002

5. COST OF METAL SALES

	2003	2002
Cash operating costs	2,261	1,720
On-mine and concentrating costs (refer to note 6)	913	714
Smelting costs (refer to note 7)	588	414
Treatment and refining costs (refer to note 8)	352	290
Other costs (refer to note 9)	408	302
Amortisation and depreciation of operating assets (refer to note 10)	422	386
Decrease in metal inventories	187	52
Production cost of metal delivered to settle loan from the Ministry of Finance (refer to note 41)	-	(407)
Total	**2,870**	**1,751**

6. ON-MINE AND CONCENTRATING COSTS

	2003	2002
Labour	431	294
Consumables and spares	347	322
Repairs and maintenance	47	16
Utilities	23	27
Insurance	23	24
Tailing pipe maintenance and relocation	16	24
Sundry on-mine costs	26	7
Total (refer to note 5)	**913**	**714**

7. SMELTING COSTS

	2003	2002
Consumables and spares	207	130
Labour	193	150
Scrap copper metals purchased	81	38
Insurance	44	25
Utilities	31	33
Repairs and maintenance	25	21
Tailing pipe maintenance and relocation	-	12
Sundry smelting costs	7	5
Total (refer to note 5)	**588**	**414**

US Dollars million

	2003	2002

8. TREATMENT AND REFINING COSTS

	2003	2002
Consumables and spares	140	113
Labour	132	101
Platinum group metals toll refining cost	45	47
Utilities	16	17
Repairs and maintenance	9	8
Insurance	4	2
Sundry treatment and refining costs	6	2
Total (refer to note 5)	**352**	**290**

9. OTHER COSTS

	2003	2002
Cost of refined metals purchased from third parties	163	195
Transportation of metals	117	63
Tax on mining	117	42
Other	11	2
Total (refer to note 5)	**408**	**302**

10. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2003	2002
Mining and concentrating	242	212
Smelting	128	126
Treatment and refining	52	48
Total (refer to note 5)	**422**	**386**

US Dollars million

	2003	2002

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2003	2002
Export customs duties	258	146
Salaries	129	79
Taxes other than mining and income tax	95	141
Transportation expenses	51	31
Advertising	50	33
Consulting and other professional services	45	21
Legal and audit services	20	14
Insurance	11	2
Repairs and maintenance	10	11
Bank charges	9	12
Commission paid	8	5
Other	64	66
Total	**750**	**561**

12. OTHER NET OPERATING (EXPENSES)/INCOME

	2003	2002
Change in provision for tax penalties	29	(12)
Doubtful debts recovered	21	32
Foreign exchange gains	15	17
Net operating profit from non-mining entities	11	7
Loss on disposal of property, plant and equipment	(60)	(12)
Impairment of construction-in-progress (refer to note 21)	(73)	-
Other expenses	(3)	(5)
Total	**(60)**	**27**

13. NET (LOSSES)/GAINS ON DERIVATIVE TRANSACTIONS

	2003	2002
Gains on embedded derivative		
Ministry of Finance loan (refer to note 41)		
Gain on settlement	-	188
Change in fair value	-	81
	-	**269**
Loss on financial derivatives		
Realised	(19)	(37)
Unrealised	(25)	(17)
	(44)	**(54)**
Total	**(44)**	**215**

US Dollars million

	2003	2002

14. NET FINANCE COSTS

	2003	2002
Interest income	30	68
Interest expense	(40)	(107)
Net monetary gain	-	12
Total	**(10)**	**(27)**

15. NET INCOME FROM INVESTMENTS

	2003	2002
Income/(loss) from associates (refer to note 22)	29	(1)
Dividends received	1	19
Profit on disposal of investments and other financial assets	1	4
Change in fair value of investments and other financial assets	(24)	(5)
Other	-	(5)
Total	**7**	**12**

16. OTHER NON-OPERATING EXPENSES

	2003	2002
Expenses on maintenance of social sphere facilities	(75)	(61)
Donations	(47)	(89)
Other	(9)	4
Total	**(131)**	**(146)**

17. TAXATION

	2003	2002
Current taxation	(592)	(193)
Deferred taxation	99	(93)
Total	**(493)**	**(286)**

The income tax rates in countries where the Group has a taxable presence are as follows:

	2003	2002
Russian Federation	24%	24%
Belgium	34%	40%
Switzerland	12%	12%
United Kingdom	30%	30%
United States of America	39%	39%

US Dollars million

	2003	2002
A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:		
Profit before tax	**1,338**	**863**
Theoretical income tax at 24%	(321)	(207)
Adjustments to previous periods	(3)	(7)
Impact of specific tax rates	(7)	(2)
Tax effect of permanent differences	(122)	(91)
Change in valuation allowance	(40)	-
Income tax concessions	-	21
Total income tax expense	**(493)**	**(286)**

18. BASIC AND FULLY DILUTED EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share is based on the net profit for the year of	861	584
and on headline earnings for the year of	861	315
and basic and fully diluted weighted average number of ordinary shares in issue during the year, calculated as follows:		
Ordinary shares at beginning of the year, net of treasury shares	210,642,516	208,098,239
Ordinary shares reissued from treasury shares	-	2,544,277
Basic and fully diluted weighted average number of ordinary shares	**210,642,516**	**210,642,516**
Basic and fully diluted earnings per share		
- Attributable	408.7	277.2
- Headline	408.7	149.5

US Dollars million

	2003	2002
19. DIVIDENDS		
Dividends declared		
On 13 November 2003 the Company declared an interim dividend of RUR 42.1 (USD 1.37) per share in respect of the year ended 31 December 2003. The dividend was paid to shareholders on 28 February 2004. This amount is net of USD 4 million paid to other Group companies.	289	-
On 30 June 2003 the Company declared a dividend of RUR 21.7 (USD 0.71) per share in respect of the year ended 31 December 2002. The dividend was paid to shareholders during the year. This amount is net of USD 2 million paid to other Group companies.	149	-
On 30 June 2002 the Company declared a dividend of RUR 23.4 (USD 0.74) per share in respect of the year ended 31 December 2001. The dividend was paid to shareholders during 2002. This amount is net of USD 3 million paid to other Group companies.	-	169
Total	**438**	**169**
Dividend per share		
The calculation of dividend per share is based on dividends declared and ordinary shares in issue at the end of the year of	210,642,516	210,642,516
Dividend per share (US cents)	207.9	80.2
Dividend cover		
The calculation of dividend cover is based on attributable earnings for the year of	861	584
and headline earnings for the year of	861	315
and dividends declared of	438	169
giving a dividend cover of	2.0	1.9
times		

US Dollars million

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Cost/valuation				
Balance at 31 December 2001 at valuation – unaudited	**3,368**	**1,534**	**49**	**4,951**
Acquired on acquisition of subsidiaries	294	78	1	**373**
Transfers from capital construction-in-progress (refer to note 21)	95	249	27	**371**
Disposals	(8)	(3)	(1)	**(12)**
Balance at 31 December 2002	**3,749**	**1,858**	**76**	**5,683**
Acquired on acquisition of subsidiaries	360	103	17	**480**
Disposed on disposal of subsidiaries	-	-	(2)	**(2)**
Transfers from capital construction-in-progress (refer to note 21)	132	265	2	**399**
Decommissioning asset raised (refer to note 34)	41	-	-	**41**
Disposals	(16)	(60)	(6)	**(82)**
Effect of translation to presentation currency	306	148	8	**462**
Balance at 31 December 2003	**4,572**	**2,314**	**95**	**6,981**
Accumulated amortisation and depreciation				
Balance at 31 December 2001 – unaudited	**-**	**-**	**-**	**-**
Amortisation and depreciation charge for the year	(214)	(198)	(5)	**(417)**
Balance at 31 December 2002	**(214)**	**(198)**	**(5)**	**(417)**
Amortisation and depreciation charge for the year	(224)	(227)	(6)	**(457)**
Eliminated on disposal	1	10	2	**13**
Effect of translation to presentation currency	(26)	(26)	-	**(52)**
Balance at 31 December 2003	**(463)**	**(441)**	**(9)**	**(913)**
Net book value				
31 December 2002	**3,535**	**1,660**	**71**	**5,266**
31 December 2003	**4,109**	**1,873**	**86**	**6,068**

Included in property, plant and equipment are non-mining assets with a carrying value of USD 269 million (2002: USD 234 million).

US Dollars million

	2003	2002
Leased assets		
The Group leases production equipment under a number of finance lease agreements. At the end of the term of the lease the Group takes automatic ownership of the assets.		
Leased production equipment with a carrying value of secures financial lease obligations (refer to note 31).	26	31

21. CAPITAL CONSTRUCTION-IN-PROGRESS

	2003	2002
Balance at the beginning of the year	1,084	1,099
Additions	446	351
Acquired on acquisition of subsidiaries	-	9
Transfers to property, plant and equipment (refer to note 20)	(399)	(371)
Capital projects cancelled	(12)	(4)
Impairment (refer to note 12)	(73)	-
Effect of translation to presentation currency	104	-
Balance at the end of the year	**1,150**	**1,084**

Assets under construction in the amount of USD 5 million were financed through the grant from the Government of Norway (refer to note 46). Carrying value of these assets is zero.

Included above are non-mining assets under construction with a carrying value of USD 73 million (2002: USD 60 million).

22. INVESTMENTS IN ASSOCIATES

	2003	2002
Cost of investment	73	77
Share of post acquisition profits/(losses) (refer to note 15)	29	(1)
Effect of translation to presentation currency	6	-
Balance at the end of the year	**108**	**76**

Details of the Group's associates at 31 December 2003 are as follows:

Name of associate	Principal activity	Date acquired	Share-holding	Voting power held
OJSC "Krasnoyarskenergo" [1]	Electricity utilities	27 December 2002	23.5%	23.5%
CJSC "Metallurgtrans" [1]	Consulting	30 April 1998	21.9%	21.9%
OJSC "Norilskgazprom" [1]	Gas extraction	31 October 1998	29.4%	29.4%

[1]Incorporated in the Russian Federation.

US Dollars million

During 2003 the Group increased its shareholding in OJSC "Arkhangelsk Sea Commercial Port" from 35.1% to 53.1%. This increase resulted in the company now being classified as a subsidiary and thus the investment was eliminated on consolidation.

23. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2003	2002
Non-current		
Equity securities available-for-sale	115	24
Promissory notes receivable	29	2
Other	18	10
	162	**36**
Current		
Bank deposits	80	16
Promissory notes receivable	52	47
Loans advanced	1	15
Other	2	16
	135	**94**
Total	**297**	**130**

Bank deposits in 2003 are held by a related party commercial bank and bear interest of 5-7% per annum.

24. INVENTORIES

	2003	2002
Non-current		
Refined metals		
Joint products at net production cost	90	-
Total non-current metal inventories	**90**	**-**

Refined metal inventory includes 877,169 ounces of palladium subject to a sales contract concluded by Stillwater Mining Company in March 2004. This contract requires approximately 37,000 ounces of palladium to be delivered on a monthly basis until January 2006. Non-current refined metal inventory represents the carrying cost of those palladium ounces to be delivered after 31 December 2004 (refer to note 30).

US Dollars million

	2003	2002
Current		
Refined metals		
Joint products at net production cost	571	822
By-products at net realisable value	51	37
Work-in-process, at production cost	319	266
Total current metal inventories	**941**	**1,125**
Stores and materials at cost	664	733
Less: Provision for obsolescence	(113)	(22)
Total	**1,492**	**1,836**

Certain refined metals at cost stated below are pledged as security for:

Joint products		
Long-term borrowings (refer to note 30)	157	173
Bank overdraft facilities (refer to note 40)	124	221
By-products		
Bank overdraft facility (refer to note 40)	19	20
Total	**300**	**414**

25. TRADE ACCOUNTS AND OTHER RECEIVABLES

Trade accounts receivable	358	213
Advances to suppliers	60	145
Promissory notes receivable	25	2
Other	97	155
	540	515
Less: Provision for doubtful debts	(114)	(168)
Total	**426**	**347**

26. OTHER CURRENT ASSETS

VAT recoverable	574	438
Prepaid insurance	59	26
Prepaid taxes	12	83
Other	23	29
Total	**668**	**576**

US Dollars million

27. CASH AND CASH EQUIVALENTS

		2003	2002
Restricted cash (see below)	- RUR	-	161
	- foreign currency	3	-
Current accounts	- RUR	119	32
	- foreign currency	314	34
Bank deposits	- RUR	250	24
	- foreign currency	89	123
Cash on broker current account	- foreign currency	125	43
Cash in hand		15	6
Other cash equivalents		39	1
Total cash and cash equivalents		**954**	**424**
Less: Bank overdrafts (refer to note 40)		(173)	(219)
Net cash and cash equivalents		**781**	**205**

During 2002 cash deposits were held with a related party commercial bank, which in return provided back-to-back fiduciary loans to subsidiaries of the Group at an interest rate of 18% per annum. These fiduciary loans were secured by the cash deposits which were restricted from use for the duration of the loan agreements (refer to note 35). The Group earned interest on these deposits of 1-15% per annum. No such arrangements were in operation as at 31 December 2003.

28. SHARE CAPITAL

Authorised

	2003	2002
260,171,000 ordinary shares at par value of RUR 1 each	10	10

There were no movements in authorised share capital in 2003 and 2002.

Issued and fully paid

	2003	2002
213,905,884 ordinary shares at par value of RUR 1 each	9	9

In 2002, 2,544,277 ordinary shares were re-issued from treasury shares for a total consideration of USD 127,714.

Treasury shares

	2003	2002
3,263,368 ordinary shares (refer to note 29)	-	-

Treasure shares are recorded as a deduction form issued and fully paid share capital.

	2003	2002
Total	**9**	**9**

US Dollars million

29. MINORITY INTEREST

	2003	2002
Balance at the beginning of the year	101	71
Minority interest in subsidiaries acquired during the year (refer to note 43)	236	52
Minority interest in subsidiaries disposed of during the year (refer to note 44)	(3)	-
Minority interest in net loss from subsidiaries for the year	(16)	(7)
Decrease in minority interest due to increase of Group's share in subsidiaries	-	(15)
Increase in minority interest due to decrease of Group's share in subsidiaries	11	-
Effect of translation to presentation currency	15	-
Balance at the end of the year	**344**	**101**

Included in minority interest is the interest of shareholders of OJSC "RAO "Norilsk Nickel", who elected not to participate in a reorganisation of the Group, which occurred over the period 2000-2002.

The interest of these shareholders represents 1.73% or 3,263,368 ordinary shares in OJSC "RAO "Norilsk Nickel" that had not been swapped for 3,263,368 ordinary shares of the Company. Accordingly, 3,263,368 ordinary shares of the Company are recorded as treasury shares (refer to note 28).

The minority interest of the shareholders of OJSC "RAO "Norilsk Nickel" in the Group's total minority interests as at 31 December 2003 is USD 30 million (2002: USD 31 million), and their share of the profit for the year is USD 4 million (2002: a minority loss of USD 1 million).

US Dollars million

30. LONG-TERM BORROWINGS

	2003	2002
Syndicated loan arranged by Citibank N.A., ING Bank N.V. and Societe Generale (refer to note 51)	150	-
A USD-denominated loan at LIBOR plus 3.25% per annum repayable in seven equal instalments, every three months commencing in August 2004, with the final instalment due on 28 February 2006. The loan is secured by export sales proceeds of the Group.		
Syndicated loan arranged by Toronto Dominion	129	-
A USD-denominated loan at LIBOR (but not less than 2.5%) plus 4.75% per annum or an alternate base rate plus 3.75%. Repayment commences in 2004, with the final instalment due on 31 December 2007. The loan is secured by 877,169 ounces of palladium with a carrying value of USD 157 million (refer to note 24).		
The loan agreement requires that 50% of the net proceeds on disposal of 877,169 ounces of palladium, held by Stillwater Mining Company, be offered to repay this loan. This inventory was received by Stillwater Mining Company as part settlement of the acquisition of Stillwater Mining Company by the Group.		
Exempt Facility Reversal Bonds Series 2000 issued through the State of Montana Investment Board	29	-
USD-denominated bonds with an effective interest rate of 8.57% issued on 6 July 2000 and maturing on 1 July 2020.		
Syndicated loan arranged by Credit Swiss First Boston International, ING Bank, Standard Bank London Limited and Natexis Banques Popularies	-	200
A USD-denominated loan at LIBOR plus 2% per annum was repayable in nine equal instalments, every three months commencing in June 2003, with the final instalment due on 30 June 2005. The loan was secured by 60,000 tons of nickel with a carrying value of USD 173 million and was fully repaid in 2003 (refer to note 24).		
Other long-term borrowings	8	9
Total	**316**	**209**
Less: Current portion repayable in 12 months and shown under current liabilities	(140)	(67)
Net long-term borrowings	**176**	**142**

US Dollars million

	2003	2002
The long-term borrowings are repayable as follows:		
Due in 12 months	140	67
Due in the second year	93	98
Due thereafter	83	44
	316	**209**

31. CAPITALISED FINANCIAL LEASES

Financial lease liabilities

	2003	2002
Non-current		
Liabilities denominated in RUR	3	3
Liabilities denominated in USD	2	2
	5	**5**
Current		
Liabilities denominated in RUR	3	6
Liabilities denominated in USD	-	1
	3	**7**
Total	**8**	**12**

The weighted average interest rates implied in calculating the present values of financial leases are as follows:

	2003	2002
RUR-denominated leases	13%	15%
USD-denominated leases	7%	15%

Future minimum lease payments after 31 December 2003 are as follows:

	Gross value, inclusive of finance changes	Present value
Due in 12 months	4	3
Due in the second year	3	2
Due thereafter	6	3
	13	**8**
Less: Amount representing interest	(5)	-
Present value of minimum lease payments	**8**	**8**

The lease obligations are secured by leased production equipment with a carrying value of USD 26 million (2002: USD 31 million) (refer to note 20).

US Dollars million

Operating leases

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

The land in 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 the land occupied.

The Group's future minimum operating lease payments under non-cancellable operating lease contracts are:

	2003	2002
Due in 12 months	11	6
Due in the second year	10	-
Due thereafter	4	-
Total	**25**	**6**

32. DEFERRED TAX LIABILITIES

The movement in the Group's deferred taxation position for the year was as follows:

Net liability at the beginning of the year	800	651
Recognised in income statement for the year	(99)	93
Change in deferred tax liability due to acquisition of subsidiaries (refer note 43)	14	51
Effect of translation to presentation currency	60	-
Inflation adjustment	-	5
Net liability at the end of the year	**775**	**800**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

US Dollars million

	2003	2002
Property, plant and equipment	762	768
Accrued operating expenses	(48)	(47)
Provision for doubtful debts	(27)	(28)
Unrealised profit on intragroup transactions	(65)	(48)
Inventory valuation	45	100
Accrued revenue	27	14
Other	(9)	(9)
Provision for deferred tax assets	90	50
Total	**775**	**800**

The unutilised tax losses of the North American operations as at 31 December 2003, which are available for offset against future taxable income earned in the United States of America, amounted to USD 199 million, has not been recognised as a deferred tax asset.

The Group does not recognise a deferred tax liability for taxable temporary difference associated with investments in subsidiaries of USD 878 million (2002: USD 370 million), because it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

33. EMPLOYEE BENEFIT OBLIGATIONS

Non-current		
Lifelong professional pension plan	31	12
Joint corporate pension plan	29	-
Six pensions plan	4	3
Mothers' rights plan	9	-
	73	15
Less: Current portion of non-current employee benefit obligations	(9)	(4)
Total	**64**	**11**
Current		
Accrual for annual leave	171	146
Other	4	-
Current portion of non-current employee benefits	9	4
Total	**184**	**150**
The average number of employees for the year	96,520	96,410

US Dollars million

Defined benefit plans

Number of members	Lifelong professional pension plan	Six pensions plan	Mothers' rights plan
At 31 December 2001	**290**	**2,317**	**-**
Additions	757	485	-
Retirements	-	(1,868)	-
At 31 December 2002	**1,047**	**934**	**-**
Additions	249	208	1,936
Retirements	(44)	(424)	(824)
At 31 December 2003	**1,252**	**718**	**1,112**

Movements in the liability

Balance at 31 December 2001	**4**	**3**	**-**
Liability raised	8	3	-
Inflation adjustment	1	-	-
Payments to members	(1)	(3)	-
Balance at 31 December 2002	**12**	**3**	**-**
Liability raised	20	5	17
Payments to members	(2)	(4)	(9)
Effect of translation to presentation currency	1	-	1
Balance at 31 December 2003	**31**	**4**	**9**

Amounts in respect of defined benefit plans recognised in the income statement for the year:

2003			
Liability raised	(20)	(5)	(17)
Total	**(20)**	**(5)**	**(17)**
2002			
Liability raised	(8)	(3)	-
Inflation adjustment	(1)	-	-
Total	**(9)**	**(3)**	**-**

US Dollars million

	2003	2002
Key assumptions used:		
Discount rates used in determining the present value of post employment benefits	7.3%	17.1%
Average life expectancy of members from date of retirement	19 years	15 years

Defined contributions plans

In December 2002, the Group created the Joint corporate pension plan to finance non-government pensions for its employees. The Group's contributions to this pension plan are accrued from the date an employee joins the plan and are payable on the employee's retirement.

Number of members	Joint corporate pension plan
At 31 December 2002	**23**
Additions	1,329
At 31 December 2003	**1,352**

Movements in the liability	
Balance as at 31 December 2002	**-**
Liability raised	28
Effect of translation to presentation currency	1
Balance as at 31 December 2003	**29**

	2003	2002
Amounts recognised in the income statement in respect of defined contribution plans for the year:		
Pension fund of the Russian Federation	150	137
Joint corporate pension plan	28	-
Stillwater Mining Company savings plan	2	-
Total	**180**	**137**

Contributions to the Stillwater Mining Company savings plan are non-cash. The cash equivalent of the contribution is matched by issuing Stillwater Mining Company shares at the ruling market price on the day the contribution is payable.

US Dollars million

	2003	2002

34. PROVISION FOR DECOMMISSIONING

	2003	2002
Acquired on acquisition of subsidiary	19	-
Provision raised (refer to note 20)	41	-
Balance at the end of the year	**60**	**-**

The Group's subsidiary, Stillwater Mining Company, is required to post reclamation surety bonds with the State of Montana (USA), which are jointly held by the Montana Department of Environmental Quality and the United States Forestry Service. Regulatory agencies review bonding requirements and decommissioning estimates on a five year rotation basis, a review by regulatory agencies is expected during 2004.

During 2003 the Group performed an estimate of environmental obligations for its operations in the Russian Federation. The obligations accrued relate mainly to decommissioning of mining assets and bringing mines into a condition that ensure safety of population, protection of environment, buildings and facilities.

35. SHORT-TERM BORROWINGS

	2003	2002
USD-denominated short-term borrowings	108	203
RUR-denominated short-term borrowings	14	179
Total	**122**	**382**

The interest rates on these borrowings vary as follows:

- USD-denominated borrowings for 2003: from LIBOR plus 1.85% to 9.5% (2002: from LIBOR plus 3.3% to 9.5%) per annum
- RUR-denominated borrowings for 2003: from 12% to 18% per annum (2002: from 14% to 18% per annum).

During 2002 fiduciary loans of USD 161 million, included in the above balances, were secured for the duration of the loans by cash deposits, held by the Group with a related party commercial bank (refer to note 27).

US Dollars million

36. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into certain transactions with derivative financial instruments for the purpose of fixing prices and price ranges for its products. These transactions do not meet the requirements of IAS 39 to be classified as hedges, and, accordingly are recorded as financial instruments entered into with a trading intent (refer to note 48).

At 31 December the Group had the following outstanding commodity derivative contracts:

	Maturity profile				
2003	**1 – 3 months**	**4 – 6 months**	**7 – 12 months**	**Total**	**Fair value**
Nickel					
(tons thousand)					
Put options purchased[1]	2	2	4	8	(27)
Put options sold[1]	-	-	(1)	(1)	-
Call options sold[1]	-	(1)	(2)	(3)	-
Total	**2**	**1**	**1**	**4**	**(27)**
2002					
Nickel					
(tons thousand)					
Futures sold [1]	(83)	-	-	(83)	(22)
Futures purchased [1]	55	-	-	55	12
Call options sold [1]	(4)	-	-	(4)	(4)
	(32)	-	-	(32)	(14)
Copper					
(tons thousand)					
Futures sold [2]	(38)	-	-	(38)	-
Futures purchased [2]	38	-	-	38	2
	-	-	-	-	2
Total					**(12)**

[1] Nickel options and futures are traded in lot sizes of 6 tons.
[2] Copper futures are traded in lot sizes of 25 tons.

37. TRADE ACCOUNTS AND OTHER PAYABLES

	2003	**2002**
Trade accounts payable	155	212
Wages and salaries	67	40
Promissory notes payable	65	14
Accruals	33	10
Advances from customers	15	7
Interest payable	3	1
Other creditors	30	39
Total	**368**	**323**

US Dollars million

	2003	2002

38. TAXES PAYABLE

	2003	2002
VAT payable	92	124
Income tax	58	22
Provision for fines and penalties	29	57
Property tax	21	47
Unified social taxes	10	39
Other	95	25
Total	**305**	**314**

39. DIVIDENDS PAYABLE

	2003	2002
Balance at the beginning of the year	2	1
Dividends declared (refer to note 19)	438	169
Dividends paid	(147)	(168)
Effect of translation to presentation currency	11	-
Balance at the end of the year	**304**	**2**

40. BANK OVERDRAFTS

	2003	2002
Foreign currency denominated bank overdrafts (refer to note 27)	**173**	**219**

Bank overdraft facilities are as follows:

	2003	2002
ING (Belgium and Switzerland)	100	75
West LB AG (UK)	90	90
Banque Cantonale Vaudoise (France)	50	50
Fortis Bank (UK)	50	-
Credit Suisse (UK)	50	-
TD Texas Incorporated (USA)	8	-
Westdeutsche (USA)	8	-
NM Rothchild (USA)	4	-
IIB (USA)	3	-
Standard Bank (USA)	2	-
BNP Paribas Suisse (Switzerland)	-	35
Natexis Banques Populaires (France)	-	35
Total bank overdraft facilities	**365**	**285**

US Dollars million

	2003	2002
Bank overdrafts are secured by (refer to note 24):		
Joint products	124	221
By products	19	20
Total	**143**	**241**
Respective weighted average interest rates for bank overdrafts	LIBOR plus 1.25%	LIBOR plus 1.25%
Under a revolving credit facility, the Group's subsidiary, Stillwater Mining Company, has outstanding letters of credit of USD 7 million bearing interest at	4.0%	-

41. LOAN FROM THE 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.

In accordance with IAS 39 the Group recognised the embedded derivative contained in the host contract (the cash loan).

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

	Total fair value	Host contract	Embedded derivative
Balance at 31 December 2001 – unaudited	**741**	**260**	**481**
Interest charged for the period	10	4	6
Change in fair valuation of the derivative, immediately prior to settlement (refer to note 13)	(81)	-	(81)
Net monetary gain on the loan	(75)	(13)	(62)
Balance at 28 August 2002	**595**	**251**	**344**
Less: Production cost of metal delivered (refer to note 5)	(407)	(251)	(156)
Gain on settlement of the loan (refer to note 13)	**188**	**-**	**188**

US Dollars million

42. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS

	2003	2002
Profit before taxation	**1,338**	**863**
Adjustments for:		
Amortisation and depreciation	451	417
Interest expense	40	107
Impairment of capital construction-in-progress	73	-
Loss on disposal of property, plant and equipment	60	12
Change in fair value of investments and other financial assets	24	5
(Income)/loss from associates	(29)	1
Foreign exchange gains	(15)	(17)
Unrealised loss on financial derivatives	25	17
Other	1	(4)
Change in fair value of embedded derivative	-	(81)
Gain on settlement of embedded derivative	-	(188)
Gain on net monetary position on financing and investing activities	-	(62)
Operating profit before working capital changes	**1,968**	**1,070**
Decrease/(increase) in inventories	415	(103)
(Increase)/decrease in trade accounts and other receivables	(195)	251
Increase/(decrease) in trade accounts and other payables	6	(362)
(Increase)/decrease in other current assets	(21)	79
(Increase)/decrease in current financial assets	(22)	103
Increase/(decrease) in employee benefit obligations	73	(45)
Decrease in taxes payable	(48)	(49)
Cash flows from operations	**2,176**	**944**

43. ACQUISITION OF SUBSIDIARIES

	2003	2002
Net assets acquired		
Property, plant and equipment	480	382
Inventories - refined metals	180	-
Inventories - other	12	27
Trade and other receivables	9	34
Cash and cash equivalents	69	2
Other assets	27	6
Loans and borrowings	(163)	(27)
Provision for decommissioning	(19)	-
Trade and other payables	(50)	(37)
Deferred taxation	(14)	(50)
Net assets at date of acquisition	**531**	**337**
Less: Minority interest (refer to note 29)	(236)	(52)
Groups' share of net assets acquired	**295**	**285**
Less:		
Negative goodwill on acquisition written off	-	(10)
Pre-acquisition amount invested in subsidiary	(4)	-
Total consideration	**291**	**275**
Satisfied by transfer of refined metal	(157)	-
Satisfied by cash	(134)	(275)
Net cash outflow arising on acquisition:		
Cash consideration	(134)	(275)
Cash and cash equivalents acquired	69	2
Net cash outflow on acquisition of subsidiaries	**(65)**	**(273)**

Stillwater Mining Company

On 23 June 2003, the Group acquired 50.5% of the issued share capital of Stillwater Mining Company for a consideration of USD 257 million. The consideration consisted of USD 100 million in cash and 877,169 ounces of palladium at the ruling market price of USD 179 per ounce (USD 157 million). During September 2003 the Group increased its investment in Stillwater Mining Company to 55.5% for a cash consideration of USD 32 million, bringing the Group's total investment in Stillwater Mining Company to USD 289 million.

Stillwater Mining Company contributed USD 116 million of revenue and USD 0.5 million loss before tax during the period from the date of acquisition to 31 December 2003.

US Dollars million

	2003	2002
Other acquisitions		
During 2003 the following entities were acquired or the Group's holding increased for a total consideration of USD 2 million:		
LLC "Hockey Club CSKA"	51.0%	-
CJSC "PBK CSKA"	100.0%	-
LLC "Kolabyt"	96.7%	-
OJSC "Arkhangelsk Sea Commercial Port"	53.1%	35.1%

These entities contributed a combined profit before tax of USD 0.3 million from their date of acquisition to 31 December 2003.

44. DISPOSAL OF SUBSIDIARIES

	2003	2002
Net assets disposed		
Property, plant and equipment	2	-
Trade and other receivables	43	-
Cash and cash equivalents	2	-
Other assets	3	-
Trade and other payables	(38)	-
Net assets at date of disposal	**12**	**-**
Less: Minority interest (refer to note 29)	(3)	-
Group's share of assets disposed	**9**	**-**
Less: Loss on disposal	(2)	-
Proceeds from disposal of subsidiaries	**7**	**-**
Less: Cash and cash equivalents disposed	(2)	-
Net cash inflow from disposal of subsidiaries	**5**	**-**

During 2003 the following entities were disposed of or the Group's holding decreased for total proceeds of USD 7 million:

	2003	2002
OJSC "Baikal Hotel"	-	65.6%
AKB "Monchebank"	15.4%	62.6%
LLC "Norilskinvest"	-	100.0%

These entities contributed a combined profit before tax of USD 3 million from 1 January 2003 to their date of disposal.

US Dollars million

45. RELATED PARTIES

Related parties are considered to include the ultimate holding company, affiliates and entities under common ownership and control with the Group. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Material transactions with related parties not dealt with elsewhere in the consolidated annual financial statements were as follows:

2003	Sale of goods	Purchase of goods	Purchase of services	Investments in related parties	Interest-bearing loans and borrowings	Investments and cash	Trade receivables	Trade payables
By the Company	5	63	61	-	1	616	39	14
By subsidiaries of the Group	299	-	14	11	-	180	7	2
Total	**304**	**63**	**75**	**11**	**1**	**796**	**46**	**16**
2002								
By the Company	2	61	62	33	160	-	33	13
By subsidiaries of the Group	-	-	-	23	5	161	105	4
Total	**2**	**61**	**62**	**56**	**165**	**161**	**138**	**17**

US Dollars million

46. COMMITMENTS

Capital commitments

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2004:

Maintenance of property, plant and equipment	523
Expansion of property, plant and equipment	240
Information technology	3
Total budgeted capital expenditure for 2004	**766**
2004 budgeted capital expenditure allocated between:	
Contracted	402
Not contracted	364
Total budgeted capital expenditure for 2004	**766**

Planned capital expenditure beyond 2004 is as follows:

For the year ending 31 December 2005	801
For the year ending 31 December 2006	794

Long-term program for Kola Peninsula ore base development

The Group has taken a strategic decision to develop the Centralny underground mine, which will ensure an ore base on the Kola Peninsula until 2015 and thereafter. A 10 year development program, requiring an investment of USD 103 million over that period, will commence in 2005.

Claim by the Government of Norway

In 2001 the Government of Norway lodged a claim with the Government of the Russian Federation concerning pollution of Norwegian environment as a result of the operation of the Group's metallurgical facilities located in Kola Peninsula. In response to the claim the Government of the Russian Federation initiated the Grant Facility agreement between the Group, the Government of Norway and Nordic Investment Bank, which was signed in December 2002. According to the terms of this agreement the Group must undertake reconstruction of the above metallurgical facilities.

The key components of the reconstruction are as follows:

- replacement of pellet roasting with cold briquette technology;
- replacement of five electric furnaces and eight rotary Pierce-Smith type converters with one two-zoned Vanyukov furnace; and
- renovation of the gas cleaning and sulphuric acid plant.

US Dollars million

Total investment in reconstruction of production facilities is expected to be USD 103 million, financed as follows:

Grants from the Government of Norway	31
Loan from Nordic Investment Bank	30
Contribution by the Group	42
Total	**103**

During 2002 and 2003 the Group received USD 5 million in grants from the Government of Norway (refer to note 21) and a loan from Nordic Investment Bank in the amount of USD 0.5 million. The received cash was invested in the reconstruction of the equipment in accordance with the terms of the Grant Facility Agreement.

Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. These contributions are recorded in the year in which they are incurred.

Group's commitments will be funded from own cash resources and borrowings.

47. CONTINGENCIES

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's 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.

Litigation

Dispute with the Federal Commission for the Securities Market of the Russian Federation ("FCSM of Russia")

In the course of its reorganisation, that took place in 2000-2002, the Group acquired 100% of the issued share capital of LLC "Interros-Prom" in exchange for 37,900 share of OJSC "Norilskaya Gornaya Kompaniya". Subsequently the FCSM of Russia commenced a legal challenge to this transaction which sought to have it declared null and void.

On 20 June 2003 the Moscow City Arbitration Court ruled in favour of the Group. The FCSM of Russia appealed the decision and on 4 November 2003 the Federal Arbitration Court of the Moscow Region ruled that the case be reconsidered by the Moscow City Arbitration Court.

On 6 February 2004 the Moscow City Arbitration Court suspended proceedings pending an examination of the case.

Management of the Group believes that the possibility of the FCSM of Russia's claim being upheld is remote.

Other litigation

Unresolved claims and litigation as at 31 December 2003 total USD 130 million. Management believes that the majority of these claims and litigation will be resolved in favour of the Group.

In addition the Group has a large number of small claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The Government of the Russian Federation has recently commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax laws. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system, that may be applied retrospectively by authorities, could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties, that could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land, potential to impact flora and fauna, and other environmental concerns.

The Group's management believes that it is in compliance with all current existing environmental laws and regulations in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations, restore and rehabilitate the environment. During 2003 the Group performed an internal estimate of environmental obligations for its Russian operations. This estimate was based on management's understanding of the current legal requirements in the Russian Federation and the terms of license agreements. Management believes that Group's environmental obligations in the Russian Federation mainly include:

- ongoing rehabilitation of land and other types of ongoing rehabilitation, which is accounted for when incurred; and
- decommissioning of mining assets and bringing mine sites into a condition that ensures the safety of population, protection of environment, buildings and facilities. These obligations were provided for in accordance with the Group accounting policies.

Management of the Group believes that due to the specific geographic location of majority of Russian operations, being remote areas of the Arctic Circle, the Group has no other liabilities for land restoration that should be recorded in the financial statements. Accordingly, no provision has been raised for these obligations.

It is the Group's intention to conduct a more detailed evaluation of its environmental obligations. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, and with the result that even minor administrative flaws in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Russian, and the Group's business, will depend upon the Government's ability to institute supervisory, judicial and other regulatory reforms.

48. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, liquidity, interest rate and credit risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Risk management structure

The Group's treasury function is responsible for the management of currency, liquidity, interest rate and credit risk. Within the treasury function, there is an independent risk management unit, responsible for monitoring the treasury's adherence to the Group's risk management policies.

Commodity price risk is managed by the sales and distribution function of the Group. An independent risk management unit exists within that function to monitor exposures and ensure they are in line with policies set by senior management of the Group.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's joint products, i.e. nickel, copper, palladium, platinum and gold.

The Group is exposed to commodity price risk as a substantial part of its metal sales revenues is derived from long-term contracts with physical off-takers for known volumes of metals, but at prices that will be determined by reference to market prices at the delivery date.

For a certain portion of its metal sales revenues the Group manages its exposure to commodity price risk by entering into:

- derivative contracts;
- fixed price sales contracts; and
- cap and floor arrangements for the sale of refined metal to physical off-takers.

Derivative contracts

The Group entered into certain commodity derivative contracts, namely sold call options and purchase put options for the purpose of fixing prices and price ranges for its products. These instruments are classified as instruments entered into with a trading intent (refer to note 36).

Fixed price sale contracts and cap/floor arrangements with physical off-takers

	2004	2005	2006	2007	2008	2008 - 2011
Nickel						
Volume subject to fixed price ('000 tons)	12	-	-	-	-	-
Average fixed price (USD/ton)	11,383	-	-	-	-	-
Platinum						
Volume subject to floor price ('000 oz)	130	127	129	115	117	229
Average floor price (USD/oz)	448	428	425	425	425	425
Volume subject to ceiling price ('000 oz)	23	25	26	23	23	46
Average ceiling price (USD/oz)	873	860	856	856	850	850
Palladium						
Volume subject to floor price ('000 oz)	487	531	542	550	448	881
Average floor price (USD/oz)	367	351	339	360	385	377
Volume subject to ceiling price ('000 oz)	187	161	130	104	112	220
Average ceiling price (USD/oz)	628	675	801	975	975	975

US Dollars million

Currency risk

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

The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits may be adversely impacted by appreciation of the RUR against the USD.

Towards the end of 2003 the Group introduced the use of forward exchange contracts to manage currency risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

At 31 December 2003 the Group has facilities for the management of its day to day liquidity requirements available with the following banks:

	2003	**2002**
Short-term borrowing facilities:		
Citibank N.A., ING Bank N.V. and Societe Generale	200	-
CJSC "ING Bank Eurasia"	50	50
CJSC "KB Citibank"	30	30
CJSC "Commerzbank"	15	-
LLC "HSBC Bank (RR)"	15	-
Bank overdraft facilities:		
Total bank overdraft facilities (refer to note 40)	365	285
Total facilities	**675**	**365**
Less:		
Short-term borrowings received related to the above facilities	(100)	(60)
Bank overdrafts received (refer to note 40)	(173)	(219)
Outstanding letters of credit	(24)	(32)
Net facilities available	**378**	**54**

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

From time to time the Group enters into interest rate swap arrangements to manage its interest rate risk.

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties.

The Group is not economically dependent on a limited number of customers for the sale of its products because of the existence of liquid commodity markets for all of its products. Metal sales to the Group's top 20 customers are presented below:

	2003				2002			
	Number of customers	%	Turnover USD million	%	Number of customers	%	Turnover USD million	%
Largest customer	1	1	574	11	1	1	154	5
Next 9 largest customers	9	6	1,201	23	9	6	845	27
Total	**10**	**7**	**1,775**	**34**	**10**	7	**999**	32
Next 10 largest customers	10	6	454	9	10	8	362	12
Total	**20**	**13**	**2,229**	**43**	**20**	**15**	**1,361**	**44**
Remaining customers	133	87	2,967	57	116	85	1,733	56
Total	**153**	**100**	**5,196**	**100**	**136**	**100**	**3,094**	**100**

Trade receivables comprise international companies, and credit is only extended to these customers after rigid credit approval procedures.

The Group has a concentration of cash and bank deposits with a related party commercial bank that represents 70% of such cash and bank deposits (refer to note 45).

The Group believes that there is no other significant concentration of credit risk.

US Dollars million

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2003		2002	
	Carrying value	Fair value	Carrying value	Fair value
Investments in securities and other financial assets (refer to note 23)	297	297	130	130
Trade accounts and other receivables (refer to note 25)	426	426	347	347
Other current assets (refer to note 26)	668	668	576	576
Cash and cash equivalents (refer to note 27)	954	954	424	424
Long-term borrowings (refer to note 30)	(316)	(316)	(209)	(209)
Capitalised financial leases (refer to note 31)	(8)	(8)	(12)	(12)
Short-term borrowings (refer to note 35)	(122)	(122)	(382)	(382)
Derivative financial instruments (refer to note 36)	(27)	(27)	(12)	(12)
Trade accounts and other payables (refer to note 37)	(368)	(368)	(323)	(323)
Bank overdrafts (refer to note 40)	(173)	(173)	(219)	(219)

The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management's valuation.

Other financial assets, trade accounts and other receivables, other current assets, cash and cash equivalents, bank overdrafts and trade accounts and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on long and short-term borrowings and capitalised finance leases are market related, with the majority of debt at floating rates. Consequently the carrying values of these financial instruments approximate their fair values.

The fair values of derivative financial instruments are estimated using ruling market prices as at the balance sheet date, the carrying values approximate the fair values of these items.

The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realised had these instruments been liquidated at the date of valuation.

50. EXCHANGE RATES - RUSSIAN ROUBLE

	2003	2002
Year-end rates		
1 US dollar	29.4545	31.7844
1 Euro	36.8240	33.1098
1 British pound	52.2847	50.9377
Average rates for the year		
1 US dollar	30.6884	31.3474
1 Euro	34.6654	29.6465
1 British pound	50.1415	47.1271

51. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Early repayment of long-term syndicated loan

On 10 March 2004 the Group repaid in full the syndicated loan arranged by Citibank N.A., ING Bank N.V. and Societe Generale of USD 150 million (refer to note 30).

Acquisition of a 20% interest in Gold Fields Limited

Norimet Limited, a subsidiary of the Group, acquired 98,467,758 ordinary shares in the issued share capital of Gold Fields Limited, a company organised under the laws of the Republic of South Africa, for a total consideration of USD 1,160 million. The settlement of the full consideration occurred on 5 April 2004, through approximately USD 360 million of the Group's own cash and a loan of USD 800 million from Citibank International Plc. The loan is unsecured, bears interest at LIBOR plus 1.5% per annum and final repayment in the form of a bullet repayment is six months after the date of signing of the loan agreement.

Acquisition of shares in Russian gold mining companies

During 2003, companies representing the interests of the Group announced the purchase of the following shareholdings:

- 44.9% and 5.6% of the ordinary shares in issue of OJSC "Lenzoloto" owned by the State and Irkutsk Region Administration, respectively, were acquired at auctions for USD 174 million; and

- 38% of the ordinary shares in issue of OJSC "Matrosov Mine" owned by the State were acquired at an auction for USD 34.5 million.

On 6 April 2004 these acquisitions were legalised and the consolidation of the aforesaid shareholdings into the Group completed. As a result, CJSC "Polus", a wholly owned subsidiary of the Group, became the owner of a 50.5% shareholding in OJSC "Lenzoloto" and a 38% shareholding in OJSC "Matrosov Mine".

On 19 May 2004 an additional 5.2% of the ordinary shares in issue and 2.2% of the preference shares in issue of OJSC "Matrsov Mine" were acquired by the Group from individuals for USD 1.5 million.

52. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Shares held ’000		% held		Net asset position		Net loan account	
Subsidiaries by country of incorporation	**Nature of business**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Russian Federation									
OJSC “RAO “Norilsk Nickel”	Market agent	185,787	185,787	98.3	98.3	77	78	69	62
OJSC “Taimyrgaz”	Gas extraction	1,983	1,983	94.4	94.4	90	89	(38)	(27)
CJSC “Polus”	Mining	-	-	100.0	100.0	375	130	114	-
OJSC “Yenisey River Shipping Company”	River shipping operations	181	181	43.9	43.9	50	59	-	(3)
OJSC “PromEstate”	Property holding	6	6	99.1	99.1	21	2	-	-
CJSC “NORIMETIMPEX”	Marketing intermediary	5	5	100.0	100.0	4	4	-	(3)
LLC “Norilskinvest” [1]	Investment holding	-	-	-	100.0	-	1	-	-
OJSC “Kolskaya Mining and Metallurgical Company”	Mining	4,000	4,000	100.0	100.0	650	523	(77)	12
OJSC “Olenegorsky Mekhanichesky Zavod”	Mechanics	149	149	100.0	100.0	4	4	(4)	(3)
CJSC “Alykel”	Airport	-	-	100.0	100.0	(17)	(3)	(38)	(22)
LLC “Norilskiye Metally”	Marketing intermediary	-	-	100.0	100.0	-	1	(3)	(9)
OJSC “Institut Gypronickel”	Science	23	23	100.0	100.0	9	7	3	3
OJSC “Norilsky Kombinat”	Lessor of equipment	14,673	14,673	98.2	98.2	1,566	1,607	947	716
OJSC “Kombinat “Severonickel”	Lessor of equipment	9,860	9,860	98.3	98.3	51	64	39	26
OJSC “Gornometallurgichesky Kombinat “Pechenganickel”	Lessor of equipment	1,236	1,236	98.3	98.3	41	89	21	34
JSC “Tuimsky zavod Cvetnykh Metallov”	Non-ferrous metal production	827	827	99.9	99.9	-	2	(1)	-
AKB “Monchebank” [1]	Banking	-	58,976	-	62.6	-	5	-	-
CJSC “Kraus-M”	Property holding	6	6	60.0	60.0	45	42	(26)	(23)
LLC “Norilsk telecom”[2]	Telecommunications	-	-	100.0	0.0	-	-	(20)	-

[1] Subsidiary disposed of or Group’s holding significantly decreased (refer to note 44).
[2] Formed by the Group in 2003.

		Shares held '000		% held		Net asset position		Net loan account	
Subsidiaries by country of incorporation	**Nature of business**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Belgium									
Norgem SA Belgium	Market agent	31	31	51.0	51.0	2	2	-	(2)
British Virgin Islands									
Norplat Trading SA	Market agent	-	-	100.0	100.0	9	10	(3)	(24)
Great Britain									
Norimet Limited	Market agent	5,260	500	100.0	100.0	291	4	295	(240)
Norilsk Nickel Europe Limited[1]	Market agent	1	-	100.0	-	-	-	-	-
Switzerland									
Norilsk Nickel Holding SA	Investment holding	-	-	100.0	100.0	4	1	2	1
Norilsk Nickel Metal Trading SA	Market agent	62	62	100.0	100.0	4	2	-	1
Metal Trade Overseas SA[2]	Market agent	-	-	100.0	100.0	(1)	-	-	-
United States of America									
Stillwater Mining Company[3]	Mining	49,813	-	55.5	-	509	-	-	-
Norimet USA[2]	Market agent	1	-	100.0	-	2	-	6	-

[1] Formed by the Group in 2003.
[2] Previously dormant, trading operations commenced in 2003.
[3] Acquired during 2003 (refer to note 43).

US Dollars million

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

	% held	
	2003	**2002**
OJSC "Rosso"	51.0	51.0
CJSC "Interrosproduct"	51.0	51.0
CJSC IRSD	100.0	100.0
DKHO TKO Zapolyarye	100.0	100.0
OJSC "Yacht-club Admiral"	100.0	100.0
LLC "Torgoviy "Dom Forvater-95"	-	56.0
CJSC "Sam-holding"	-	63.9
CJSC "Pechenegskiy molokozavod"	-	90.0
CJSC "Sadko"	-	100.0
DKHO "Norilsktorg"	-	100.0

These subsidiaries operate under severe long-term restrictions, which significantly impair their ability to transfer funds to their parent companies. In the preparation of the consolidated annual financial statements the investments in these entities have been written off.