Mining and Metallurgical Company Norilsk Nickel

Consolidated financial statements
for the year ended 31 December 2008

INDEX

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were approved on 21 May 2009 by:

V. I. Strzhalkovsky	**D. R. Kostoev**
General Director	Deputy General Director

Moscow, Russia
21 May 2009

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INDEPENDENT AUDITORS' REPORT

To shareholders and Board of Directors of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel":

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2008, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2008, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow, Russia
21 May 2009

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
US Dollars million

	Notes	Year ended 31/12/2008	Year ended 31/12/2007
Revenue			
Metal sales	8	11,799	15,909
Other sales	9	2,181	1,210
Total revenue		**13,980**	**17,119**
Cost of metal sales	10	(5,504)	(4,719)
Cost of other sales	16	(2,122)	(1,163)
Gross profit		**6,354**	**11,237**
Selling and distribution expenses	17	(524)	(730)
General and administrative expenses	18	(1,071)	(894)
Impairment of non-financial assets	19	(4,728)	(1,879)
Income on derivatives classified as held for trading	44	44	78
Other net operating expenses	20	(274)	(375)
Operating (loss)/profit		**(199)**	**7,437**
Finance costs	21	(397)	(307)
Income from investments, net	22	274	217
Foreign exchange (loss)/gain, net	23	(397)	146
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	6	718	166
Share of (losses)/profit of associates	28	(272)	76
(Loss)/profit before tax		**(273)**	**7,735**
Income tax expense	24	(282)	(2,459)
(Loss)/profit for the year		**(555)**	**5,276**
Attributable to:			
Shareholders of the parent company		(449)	5,327
Minority interest		(106)	(51)
		(555)	**5,276**
(LOSS)/EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the year		186,106,151	182,362,986
Basic and diluted (loss)/earnings per share attributable to shareholders of the parent company (US Dollars)		(2.4)	29.2

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008
US Dollars million

	Notes	31/12/2008	31/12/2007
ASSETS			
Non-current assets			
Property, plant and equipment	25	10,737	14,981
Goodwill	26	1,235	3,360
Intangible assets	27	209	849
Investments in associates	28	951	879
Other financial assets	29	523	2,982
Other taxes receivable	30	79	38
Deferred tax assets	24	30	89
Pension plans assets	40	—	8
		13,764	**23,186**
Current assets			
Inventories	31	1,959	2,108
Trade and other receivables	32	569	949
Advances paid and prepaid expenses	33	118	183
Other financial assets	29	1,316	4,473
Income tax receivable		568	144
Other taxes receivable	30	521	585
Cash and cash equivalents	34	1,995	4,008
		7,046	**12,450**
Assets classified as held for sale	35	13	60
		7,059	**12,510**
TOTAL ASSETS		**20,823**	**35,696**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	36	8	8
Share premium		1,390	1,390
Treasury shares	36	(2,615)	—
Other reserves	37	(1,052)	3,765
Retained earnings		13,000	14,340
Equity attributable to shareholders of the parent company		**10,731**	**19,503**
Minority interest		1,054	2,318
		11,785	**21,821**
Non-current liabilities			
Long-term borrowings	38	5,568	4,101
Obligations under finance leases	39	41	2
Employee benefit obligations	40	11	11
Share appreciation rights	41	5	—
Environmental obligations	42	564	583
Derivative financial instruments	44	—	3
Deferred tax liabilities	24	723	2,741
		6,912	**7,441**
Current liabilities			
Short-term borrowings	38	872	3,971
Obligations under finance leases	39	13	2
Current portion of employee benefit obligations	40	386	378
Share appreciation rights	41	7	—
Trade and other payables	43	596	586
Advances received		39	41
Income tax payable		22	422
Other taxes payable	30	171	197
Derivative financial instruments	44	15	24
Dividends payable		5	804
		2,126	**6,425**
Liabilities associated with assets classified as held for sale	35	—	9
		2,126	**6,434**
TOTAL EQUITY AND LIABILITIES		**20,823**	**35,696**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
US Dollars million

	Year ended 31/12/2008	Year ended 31/12/2007
Operating activities		
(Loss)/profit for the year	**(555)**	**5,276**
Adjustments for:		
Income tax expense	282	2,459
Depreciation and impairment of property, plant and equipment	3,931	1,700
Loss on disposal of property, plant and equipment	26	25
Impairment of goodwill	1,571	1,079
Amortisation and impairment of intangible assets	529	37
Share of post-acquisition losses/(profit) and impairment of investments in associates	272	(4)
Gain on disposal of available-for-sale investments	(118)	–
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(718)	(238)
Loss on disposal of subsidiaries	3	18
Gain on disposal of associates	(8)	(6)
Impairment of other financial assets	367	39
Change in provision for onerous contracts	51	–
Income on derivatives classified as held for trading	(44)	(78)
Finance costs	397	307
Interest income	(511)	(247)
Foreign exchange loss/(gain), net	397	(146)
Dividend income	(11)	(25)
Other	(6)	(9)
	5,855	**10,187**
Movements in working capital:		
Inventories	(236)	(166)
Trade and other receivables	620	209
Advances paid and prepaid expenses	42	51
Other taxes receivable	(89)	61
Employee benefit obligations, pension plan assets and share appreciation rights	104	6
Trade and other payables	(82)	(133)
Advances received	5	11
Other taxes payable	6	36
Cash generated from operations	**6,225**	**10,262**
Interest paid	(346)	(256)
Income tax paid	(2,337)	(2,672)
Net cash generated from operating activities	**3,542**	**7,334**
Investing activities		
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	(371)	(5,824)
Proceeds from disposal of subsidiaries	47	–
Acquisition and establishment of associates	(674)	(3,326)
Proceeds from disposal of associates	8	7
Purchase of property, plant and equipment	(2,360)	(1,140)
Proceeds from sale of property, plant and equipment	88	88
Purchase of intangible assets	(63)	(46)
Purchase of other financial assets	(340)	(1,616)
Net change in deposits placed	2,201	(1,283)
Proceeds from sale of other financial assets	1,922	362
Dividends received	1	25
Net cash generated from/(used in) investing activities	**459**	**(12,753)**
Financing activities		
Proceeds from borrowings	3,723	10,183
Repayments of borrowings	(5,240)	(3,915)
Acquisition of special purpose entities	–	(70)
Buy back of issued shares	(2,615)	–
Proceeds from issuance of ordinary shares from treasury stock, net of direct expenses and attributable income tax	–	1,855
Dividends paid by the Company	(1,670)	(849)
Dividends paid by the Group's subsidiaries to minority shareholders	(2)	(27)
Net cash (used in)/generated from financing activities	**(5,804)**	**7,177**
Net (decrease)/increase in cash and cash equivalents	**(1,803)**	**1,758**
Cash and cash equivalents at beginning of the year	**4,008**	**2,178**
Effect of translation to presentation currency	(210)	80
Cash and cash equivalents of disposal group	–	(8)
Cash and cash equivalents at end of the year	**1,995**	**4,008**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
US Dollars million

		Equity attributable to shareholders of the parent company							
	Notes	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Minority interest	Total
Balance at 31 December 2006		**8**	**611**	**(999)**	**2,562**	**10,635**	**12,817**	**319**	**13,136**
Increase in fair value of available-for-sale investments		–	–	–	465	–	**465**	–	**465**
Effect of change in classification of available-for-sale investments to investments in associates due to increase of ownership		–	–	–	(183)	–	**(183)**	–	**(183)**
Loss on cash flow hedge		–	–	–	(16)	–	**(16)**	4	**(12)**
Translation of foreign operations		–	–	–	(206)	–	**(206)**	–	**(206)**
Effect of translation to presentation currency		–	–	–	1,201	–	**1,201**	79	**1,280**
Net income recognised directly in equity		–	–	–	**1,261**	–	**1,261**	**83**	**1,344**
Profit for the year		–	–	–	–	5,327	**5,327**	(51)	**5,276**
Impairment of available-for-sale investments		–	–	–	24	–	**24**	–	**24**
Other reserves disposed of on disposal of subsidiaries		–	–	–	(5)	5	–	–	–
Total recognised income and expense		–	–	–	**1,280**	**5,332**	**6,612**	**32**	**6,644**
Dividends	45	–	–	–	–	(1,634)	**(1,634)**	–	**(1,634)**
Issuance of ordinary shares from treasury stock, net of direct expenses and attributable income tax		–	779	999	(77)	77	**1,778**	–	**1,778**
Acquisition of special purpose entities		–	–	–	–	(70)	**(70)**	–	**(70)**
Net decrease in minority interest due to increase of the Group's share in subsidiaries	6	–	–	–	–	–	–	(1,112)	**(1,112)**
Minority interest in subsidiaries acquired during the year	6	–	–	–	–	–	–	3,079	**3,079**
Balance at 31 December 2007		**8**	**1,390**	–	**3,765**	**14,340**	**19,503**	**2,318**	**21,821**
Decrease in fair value of available-for-sale investments		–	–	–	(1,499)	–	**(1,499)**	(1)	**(1,500)**
Impact of change in income tax rate in the Russian Federation		–	–	–	(6)	–	**(6)**	–	**(6)**
Gain on cash flow hedge		–	–	–	6	–	**6**	–	**6**
Translation of foreign operations		–	–	–	(204)	–	**(204)**	–	**(204)**
Effect of translation to presentation currency		–	–	–	(3,260)	–	**(3,260)**	(164)	**(3,424)**
Net loss recognised directly in equity		–	–	–	**(4,963)**	–	**(4,963)**	**(165)**	**(5,128)**
Loss for the year		–	–	–	–	(449)	**(449)**	(106)	**(555)**
Realised loss on disposal of cash flow hedge		–	–	–	2	–	**2**	2	**4**
Realised gain on disposal of available-for-sale investments		–	–	–	(104)	2	**(102)**	–	**(102)**
Impairment of available-for-sale investments		–	–	–	232	–	**232**	–	**232**
Impact of change in income tax rate in the Russian Federation		–	–	–	6	–	**6**	–	**6**
Other reserves disposed of on disposal of subsidiaries		–	–	–	(9)	9	–	–	–
Total recognised income and expense		–	–	–	**(4,836)**	**(438)**	**(5,274)**	**(269)**	**(5,543)**
Dividends	45	–	–	–	–	(902)	**(902)**	(5)	**(907)**
Buy back of issued shares		–	–	(2,615)	–	–	**(2,615)**	–	**(2,615)**
Issuance of convertible notes		–	–	–	19	–	**19**	17	**36**
Net decrease in minority interest due to increase of the Group's share in subsidiaries	6	–	–	–	–	–	–	(1,007)	**(1,007)**
Balance at 31 December 2008		**8**	**1,390**	**(2,615)**	**(1,052)**	**13,000**	**10,731**	**1,054**	**11,785**

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company" or "MMC Norilsk Nickel") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group") are exploration, extraction, refining and sale of base and precious metals. Further details regarding the nature of the business and structure of the Group are presented in note 53.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation, Australia, Botswana, Finland, South African Republic and the United States of America. The registered office of the Company is located in Russian Federation, Krasnoyarsk region, Dudinka, postal address: 2, Gvardeyskaya square, Norilsk, Russian Federation.

Shareholding structure of the Company at 31 December 2008 and 2007 was as follows:

	31/12/2008		31/12/2007	
Shareholders	**Number of outstanding shares**	**% held**	**Number of outstanding shares**	**% held**
CJSC "ING Bank (Eurasia)" (nominee)	55,918,435	32.03%	82,644,397	43.75%
State corporation "Vnesheconombank" (nominee)	47,656,938	27.30%	–	–
Non-for-Profit Partnership "National Depository Centre"	32,557,422	18.65%	13,843,424	7.33%
OJSC "VTB Bank" (nominee)	15,729,610	9.01%	16,152,948	8.55%
OJSC AKB "Rosbank" (nominee)	–	–	31,999,525	16.94%
CJSC "Depository Clearing Company"	–	–	26,612,447	14.09%
Other, less than 5%	22,730,893	13.01%	17,664,122	9.34%
Total	**174,593,298**	**100.00%**	**188,916,863**	**100.00%**

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

Basis of presentation

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

- mark-to-market valuation of by-products, in accordance with IAS 2 *Inventories*;
- fair value valuation of liabilities for cash-settled share appreciation rights, in accordance with IFRS 2 *Share Based Payments*; and
- mark-to-market valuation of certain classes of financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

Standards and interpretations effective in the current year

In the current year, the Group has adopted all new and revised International Financial Reporting Standards and interpretations issued by International Financial Reporting Interpretation Committee ("IFRIC") that are mandatory for adoption in the annual periods beginning on or after 1 January 2008. Adoption of these standards and interpretations resulted in amendments to certain accounting policies.

IFRIC 14 *IAS 19 The Limits on a Defined Benefit Assets, Minimum Funding Requirements and their Interactions*

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefit*. The majority of the Group's benefit schemes have been in deficit and for the remained portion the pension plan assets are insignificant. Accordingly the adoption of this interpretation had no impact on the consolidated financial statements of the Group. However the Group has amended its accounting policy.

Other IFRIC Interpretations

The following interpretations issued by IFRIC were effective for the current period: IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* and IFRIC 12 *Service Concession Arrangements.* The adoption of these interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the consolidated financial statements.

Standards and interpretations in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standards and Interpretations	**Effective for annual periods beginning on or after**
IAS 1 *Presentation of Financial Statements (amended)*	1 January 2009
IAS 16 *Property, Plant and Equipment (amended)*	1 January 2009
IAS 19 *Employee Benefits (amended)*	1 January 2009
IAS 20 *Government Grants and Disclosure of Government Assistance (amendment)*	1 January 2009
IAS 23 *Borrowing Costs (amended)*	1 January 2009
IAS 27 *Consolidated and Separate Financial Statements (amended)*	1 January 2009
(revised due to revision of IFRS 3)	1 July 2009
IAS 28 *Investments in Associates (amended)*	1 January 2009
(revised due to revision of IFRS 3)	1 July 2009
IAS 29 *Financial Reporting in Hyperinflationary Economies (amended)*	1 January 2009
IAS 31 *Investments in Joint Ventures (amended)*	1 January 2009
(revised due to revision of IFRS 3)	1 July 2009
IAS 32 *Financial Instruments: Presentation (amended)*	1 January 2009
IAS 36 *Impairment of Assets (amended)*	1 January 2009
IAS 38 *Intangible Assets (amended)*	1 January 2009
IAS 39 *Financial Instruments: Recognition and Measurement (amended)*	1 January 2009
IAS 40 *Investment Property (amended)*	1 January 2009
IAS 41 *Agriculture (amended)*	1 January 2009
IFRS 1 *First-time Adoption of International Financial Reporting Standards (amended)*	1 January 2009
IFRS 2 *Share-based Payment (amended)*	1 January 2009
IFRS 3 *Business Combinations (revised on applying the acquisition method)*	1 July 2009
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (amended)*	1 July 2009
IFRS 7 *Financial Instruments: Disclosures (amended)*	1 January 2009
IFRS 8 *Operating segments*	1 January 2009
IFRIC 13 *Customer Loyalty Programmes*	1 July 2008
IFRIC 15 *Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	1 October 2008
IFRIC 17 *Distribution of Non-cash Assets to Owners*	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009

The management of the Group anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of those standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interest in the net assets (excluding goodwill) of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest includes interest at the date of the original business combination and minority's share of changes in net assets since the date of the combination. Losses applicable to minority in excess of minority's interest in the subsidiary's net assets are allocated against the interest of the Group except to the extent that a minority has a binding obligation and is able to make an additional investment to cover the losses.

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

Associates

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

Investments in associates are carried at cost, including goodwill, as adjusted for the Group's share of post-acquisition changes in associate's retained earnings and 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. The results of associates are equity accounted for based on their most recent financial statements.

Losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to provide financial support to such associates.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the relevant associates.

Special purpose entities

Special purpose entities ("SPEs") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of benefits of SPE, or is exposed to risks associated with the activities of SPE. SPEs are consolidated in the same manner as subsidiaries.

Accounting for acquisition

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, including mineral rights, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill. Goodwill in respect of subsidiaries is disclosed separately and goodwill relating to associates is included in the carrying value of the investment in associates. Goodwill is reviewed for impairment at least annually. If impairment has occurred, it is recognised in the consolidated income statement during the period in which the circumstances are identified and is not subsequently reversed.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the consolidated income statement immediately.

Where an acquisition is achieved in stages, goodwill is calculated separately for each exchange transaction, based on the cost of each exchange transaction, and the appropriate share of the acquirer's net assets based on net fair values at the time of each exchange transaction. When control is achieved, the acquired net assets are stated at net fair value at the date of acquisition and any adjustment to fair values related to previously held interests is a revaluation, which is accounted for as an adjustment directly in equity.

On acquisition of additional shares of subsidiaries from minority shareholders, any excess of consideration paid over the acquired interest in the carrying value of net assets at the date of increase in ownership is recognised as a goodwill; and any excess of the Group's share in the carrying value of subsidiary net assets over cost of acquisition is recognised in the consolidated income statement.

Impairment of goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated as follows: first to reduce the carrying amount of any goodwill allocated to this unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the balance sheet date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

Comparative information related to the discontinued operations is amended in the consolidated income statement for the prior period.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the consolidated balance sheet for the prior period.

Functional and presentation currency

The individual financial statements of each Group entity are presented in its functional currency.

The Russian Rouble ("RUR") is the functional currency of the Company and all foreign subsidiaries of the Group, except for the following subsidiaries operating with a significant degree of autonomy:

Subsidiary	Functional currency
Stillwater Mining Company	US Dollar
Norilsk Nickel Harjavalta Oy	US Dollar
Norilsk Nickel Finland Oy	US Dollar
MPI Nickel Limited	Australian Dollar
Norilsk Nickel Cawse Proprietary Limited	Australian Dollar
Tati Nickel Mining Company Proprietary Limited	Botswana Pula

The presentation currency of the consolidated financial statements of the Group is US Dollar ("USD"). Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case exchange rates at the date of transactions are used;
- all equity items are translated at the historical exchange rates;
- all resulting exchange differences are recognised as a separate component in equity; and
- in the consolidated statement of cash flows, cash balances at beginning and end of each period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the periods presented. Resulting exchange differences are presented as effect of translation to presentation currency.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing at the date of transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing at the date of 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. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	2008	2007
Russian Rouble/US Dollar		
31 December	29.38	24.55
Average for the year ended 31 December	24.86	25.58
Botswana Pula/US Dollar		
31 December	7.52	6.14
Average for the year ended 31 December	6.82	6.11
Australian Dollar/US Dollar		
31 December	1.44	1.14
Average for the year ended 31 December	1.20	1.19

Revenue recognition

Metal sales revenue

Revenue from metal sales is recognised when the significant risks and rewards of ownership are transferred to the buyer and represents invoiced value of all joint products shipped to customers, net of value added tax. Revenues from sale of by-products are netted-off against production costs.

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

Sales of certain metals are provisionally priced so that price is not settled until a predetermined future date based on the market price at that time. Revenue from these transactions is initially recognised at the current market price. Provisionally priced metal sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment is recorded in revenue.

Other revenue

Revenue from sale of goods, other than metals, is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements.

Revenue from service contracts are recognised when the services are rendered and the outcome can be reliably measured.

The Group provides the following principal types of services:

- supply of electricity and heat energy; and
- transportation services.

Dividends and interest income

Dividends from investments are recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are expensed in the period in which they are incurred.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all conditions and requirements attaching to the grant will be met.

Government grants related to assets are deducted from the cost of these assets in arriving at their carrying value.

Employee benefits

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

Defined contribution plans

The Group contributes to the following major defined contribution plans:

- Pension Fund of the Russian Federation;
- Corporate pension option program;
- Shared accumulated pension plan; and
- Stillwater Mining Company savings plan.

The only obligation of the Group with respect to these and other defined contribution plans is to make specified contributions in the period in which they arise. These contributions are recognised in the consolidated income statement when employees have rendered services entitling them to the contribution.

Defined benefit plans

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

- *Lifelong professional pension plan*, whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- *Joint corporate pension plan*, whereby a retired employee receives a monthly allowance equal to 1/150th of the total Starting and Counter capital for the rest of his/her life. Starting capital is determined on an individual basis taking into account seniority, salary level, etc. Counter capital consists of a contribution funded by the Group amounted to 3% of salaries paid to an employee during the period of participation in the plan.

The Group's liability recognised in the consolidated balance sheet in respect of defined benefit plans represent present value of the defined benefit obligation at the balance sheet date less fair value of the plans assets and adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated using the projected unit credit method.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plans assets. The excess of cumulative actuarial gains or losses over 10% of the higher of defined benefit obligation and fair value of plans assets is recognised over the expected average remaining working lives of the employees participating in the plans.

Past service cost is recognised immediately in the consolidated income statement to the extent that the benefits have been vested; the remaining portion is amortised on the straight-line basis over the period until the benefit becomes vested.

Plan assets are not available to the creditors of the Group, nor can they be distributed at the Group's discretion. Fair value of plan assets is generally based on market price information and in case of quoted financial securities from publicly available sources of financial information. The amount of plan assets recognised in the consolidated financial statements is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available to the Group in the form of refund from the plan or reductions in the future contributions to the plan.

Share appreciation rights

The cost of cash-settled share appreciation rights is measured initially at fair value at the grant date using the Monte Carlo valuation model and accrued as expense. The fair value of these rights is determined taking into account any market and non-market based vesting conditions attached to the awards. The liability is subsequently remeasured at each reporting date and at settlement date to reflect the amount of anticipated or current awards expected to be vested by management. Any changes in the fair value of the liability are recognised in the consolidated income statement.

Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax is recognised as an expense or income in the consolidated income statement, except when it relates to items recognised directly in equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

In case of a business combination, tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of the business combination.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between carrying amounts of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in computation of the taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

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 over the life of mine, which is based on estimated proven and probable ore reserves. Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits and are determined by independent professional appraisers.

Mining assets

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

Amortisation of mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production. Mining assets are amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine, varying from 2 to 49 years.

Mine development costs

Mine development costs are capitalised and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs comprise expenditures directly related to:

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

Mine development costs include interest capitalised during the construction period, when financed by borrowings.

Non-mining assets

Non-mining assets include metallurgical processing plants, buildings, infrastructure, machinery and equipment and other non-mining assets. Non-mining assets are stated at cost less accumulated depreciation and impairment losses.

Plant and equipment that process extracted ore are located near mining operations and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine. Other non-mining assets are amortised on a straight-line basis over their economic useful lives.

Depreciation is calculated over the following economic useful lives:

• plant, buildings and infrastructure	10 – 50 years
• machinery and equipment	4 – 11 years
• other non-mining assets	5 – 10 years

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to construction of buildings, processing plant, infrastructure, machinery and equipment. Cost also includes finance charges capitalised during construction period where such costs are financed by borrowings. Depreciation of these assets commences when the assets are put into production.

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets mainly include patents and licenses, long-term favourable contracts and software.

Amortisation is charged on a straight-line basis over the following economic useful lives of these assets:

• Activox technology patent	indefinite useful life
• patents and licenses, except for Activox technology	2 – 10 years
• long-term favourable contracts	7 years
• software	2 – 10 years

Impairment of tangible and intangible assets, excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of the future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement immediately.

Where an impairment loss subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated income statement immediately.

Research and exploration expenditure

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

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

Inventories

Refined metals

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

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

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

Work-in-process

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

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less allowance for obsolete and slow-moving items.

Financial assets

Financial assets are recognised when the Group has become a party to the contractual arrangement of the instrument and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt securities other that those financial assets designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity other than loans and receivables are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets mainly include investments in listed and unlisted shares.

Listed shares held by the Group that are traded in an active market are stated at their market value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in the consolidated income statement for the period.

Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for impairment. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the allowance are recognised in the consolidated income statement.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the consolidated income statement even though the investment has not been derecognised. Impairment losses previously recognised through consolidated income statement are not reversed. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to the risk of changes in metal prices. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated as a cash flow hedge.

The effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognised directly in equity. The ineffective portion of cash flow hedges is recognised in the consolidated income statement. Amounts deferred in equity are recycled in the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the consolidated income statement.

Compound financial instruments

The component parts of compound financial instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the market interest rate for a similar non-convertible instrument. This amount is recorded on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Cash and cash equivalents

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

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning obligations are raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are depleted over the life of mine. The unwinding of the decommissioning obligations is included in the consolidated income statement as finance costs. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments are made as necessary.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Change in provision and unwinding of discount on land restoration are recognised in the consolidated income statement and included in the cost of production.

Ongoing rehabilitation costs are expensed when incurred.

Segmental information

The Group’s primary segment reporting format is business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group’s primary business segments are:

- mining and metallurgy;
- energy and utilities;
- transport and logistics; and
- other.

The business segment “other” mainly includes entities engaged in research activities, maintenance and repair services and other.

The Group’s secondary segment reporting format is geographic segments which are based on the geographic location of the Group’s operations. The Group mainly operates in:

- Russian Federation;
- Europe;
- North America;
- Africa;
- Australia; and
- Asia.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of assets, excluding goodwill;
- impairment of goodwill;
- allowances;
- environmental obligations;
- defined benefit plans;
- share appreciation rights;
- income taxes; and
- contingencies.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine. When determining the life of a mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect the estimation of the life of mine include the following:

- changes in proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation and classification of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating, mining, processing and reclamation costs, discount rates and foreign exchange rates could possibly adversely affect the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value. Useful economic lives of non-mining property, plant and equipment is reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets, excluding goodwill

The Group reviews the carrying amounts of its tangible and intangible assets excluding goodwill to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of the underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Impairment of goodwill

Assessment whether goodwill is impaired requires an estimation of value-in-use of the cash-generating unit to which goodwill is allocated. The value-in-use calculations require management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount to calculate present value. Details of impairment loss calculation related to mining and non-mining business units of the Group are presented in note 19.

Allowances

The Group creates allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2008, the allowance for doubtful debts amounted to USD 35 million (2007: USD 52 million). When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

The Group also creates an allowance for obsolete and slow-moving raw materials and spare parts. At 31 December 2008, the allowance for obsolete and slow-moving items amounted to USD 38 million (2007: USD 25 million). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions in which it operates, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Defined benefit plans

The most significant assumptions used in estimation of defined benefit plans are the expected rate of return on plan assets, the discount rate, future salary increases, state pensions growth rate and mortality assumptions.

The overall expected rate of return on pension plans assets is calculated based on the expected long-term investment returns for each category of assets.

The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that have terms to maturity approximating to the terms of the related pension obligations.

Estimation of future salary levels takes into account projected levels of inflation and seniority of personnel.

Share appreciation rights

The most significant assumptions used in estimation of the cost of share appreciation rights are expected prices of the Company's share, HSBC index, risk-free interest rate and expected volume of nickel production by Norilsk Nickel International facilities.

Expected volatility is based on the historical volatility of return on the Company's share and HSBC index.

The risk-free rates used in the valuation model are in line with the US Treasury bonds yield curve at the valuation date.

Expected volume of nickel production is based on 2008-2010 business plan of the Group and management expectations of meeting targeted volumes.

US Dollars million

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance.

Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5. RECLASSIFICATIONS

Certain comparative information presented in the consolidated financial statements for the year ended 31 December 2007 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's financial position and results of operations through separate presentation of certain types of income and expenses, and assets and liabilities on the face of the consolidated income statement and consolidated balance sheet.

The effect of the reclassifications is summarised below:

	After reclassifications	Before reclassifications	Difference
CONSOLIDATED INCOME STATEMENT			
Impairment of non-financial assets	(1,879)	–	(1,879)
Impairment of goodwill	–	(1,079)	1,079
Income on derivatives classified as held for trading	78	72	6
Other net operating expenses	(375)	(1,175)	800
Net income from investments	217	223	(6)
			–
CONSOLIDATED BALANCE SHEET			
Non-current liabilities			
Long-term borrowings	4,101	4,103	(2)
Obligations under finance leases	2	–	2
			–
Current liabilities			
Short-term borrowings	3,971	3,973	(2)
Obligations under finance leases	2	–	2
			–

US Dollars million

6. BUSINESS COMBINATIONS

Acquisition of controlling interest in subsidiaries

Subsidiaries acquired	Principal activity	Date of acquisition	Ownership, %	Cost of acquisition
For the year ended 31/12/2008				
Malga Limited	Investment holding	8 September 2008	100.0	19
				19
For the year ended 31/12/2007				
OMG Harjavalta Nickel Oy and OMG Cawse Proprietary Limited	Mining and metallurgy	1 March 2007	100.0	356
LionOre Mining International Limited	Mining and metallurgy	28 June 2007	90.7	5,252
OJSC "Third Generation Company of the Wholesale Electricity Market"	Electricity production and distribution	7 August 2007	54.1	612
LLC "Geokomp"	Drilling services	28 August 2007	100.0	1
LLC "Pervaya Milya"	Telecommunication	16 November 2007	75.0	2
LLC "Direktsiya Proekta Metally Zabaikalya"	Construction	27 December 2007	100.0	–
				6,223

Acquisitions of controlling interest in subsidiaries during 2008

Malga Limited

On 8 September 2008, the Group acquired 100% of the issued shares of Malga Limited ("Malga") for a cash consideration of USD 19 million. Malga is an investment holding company, owning 100% interest in LLC "SGM".

The initial accounting for acquisition of Malga has been made using provisional values at 8 September 2008, as follows:

	Provisional value
ASSETS	
Property, plant and equipment	24
Trade and other receivables	1
	25
LIABILITIES	
Borrowings	2
Deferred tax liabilities	4
	6
Group's share of net assets acquired	**19**
Net cash outflow arising on acquisition	
Consideration paid in cash	(19)
Net cash outflow on acquisition	**(19)**

At the date of acquisition, Malga did not prepare financial statements in accordance with IFRS. Thus it was not practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately before the acquisition, and this information is not presented in the Group's consolidated financial statements.

Malga contributed USD nil of revenue, loss before tax and loss from the date of acquisition to 31 December 2008.

US Dollars million

6. BUSINESS COMBINATIONS (CONTINUED)

Increase of ownership in subsidiaries during 2008

OJSC "Arkhangelsk Sea Commercial Port"

On 19 March 2008, the Group acquired an additional 19.7% interest in OJSC "Arkhangelsk Sea Commercial Port" ("ASCP") for a cash consideration of USD 3 million, increasing its ownership in ASCP to 72.8%. The carrying value of ASCP net assets at the date of increase of ownership was USD 11 million. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest of USD 3 million.

OJSC "Third Generation Company of the Wholesale Electricity market"

During the period from 15 January to 14 February 2008, OJSC "Third Generation Company of the Wholesale Electricity Market" ("OGK-3"), a subsidiary of the Group, acquired 2,010 million of its own shares for a cash consideration of USD 332 million. As a result of this transaction, the effective ownership of the Group in OGK-3 increased to 68.0%. The carrying value of the OGK-3 net assets at the dates of increase of ownership varied from USD 4,704 million to USD 5,092 million. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest of USD 252 million and an increase in goodwill in the amount of USD 80 million.

On 1 July 2008, as a part of reorganisation of RAO "United Electricity System of the Russian Federation" ("RAO "UES"), the Group received as predecessor owner of investments in RAO "UES" an additional 6,692 million shares of OGK-3. As a result of completion of RAO "UES" restructuring, the Group's effective ownership in OGK-3 increased to 82.7%. The carrying value of OGK-3 net assets at the date of increase of ownership amounted to USD 5,013 million. Accordingly, the Group recognised decrease in net assets attributable to minority interest in the amount of USD 735 million. Excess of the Group's share in the carrying value of net assets attributable to minority interest and appropriate allocated cost of investment in shares of OGK-3 in the amount of USD 718 million was recognised in the consolidated income statement.

OJSC "RAO Norilsk Nickel"

On 11 July 2008, the Group filed a mandatory minority shareholders squeeze out offer of USD 17 million for 1.1% interest in OJSC "RAO Norilsk Nickel" ("RAO NN"), a 98.9% subsidiary of the Group. On 10 October 2008, the Group acquired 1.1% interest in RAO NN for a cash consideration of USD 17 million. The carrying value of RAO NN net assets at the date of mandatory squeeze out offer was USD 1,545 million. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest of USD 17 million.

Acquisition of controlling interest in subsidiaries during 2007

OMG Harjavalta Nickel Oy and OMG Cawse Proprietary Limited

On 1 March 2007, the Group acquired 100% of the ordinary shares of OMG Harjavalta Nickel Oy ("OMG Harjavalta"), a company engaged in nickel refining operations in Finland, and OMG Cawse Proprietary Limited ("OMG Cawse"), a company engaged in nickel mining and processing operations in Australia, for a total consideration of USD 356 million.

At the date of acquisition the fair value of identifiable assets and liabilities of OMG Harjavalta and OMG Cawse was as follows:

	Fair value
ASSETS	
Property, plant and equipment	235
Intangible assets	1
Inventories	230
Trade and other receivables	194
Advances paid and prepaid expenses	51
Other financial assets	40
Cash and cash equivalents	7
	758

US Dollars million

6. BUSINESS COMBINATIONS (CONTINUED)

	Fair value
LIABILITIES	
Employee benefit obligations	5
Environmental obligations	4
Deferred tax liabilities	63
Trade and other payables	128
Income tax payable	36
Other taxes payable	9
	245
Group's share of net assets acquired	**513**
Less: Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(157)
Total cost of acquisition	**356**
Consideration per agreement	(348)
Direct transaction costs	(8)
Net cash outflow arising on acquisition	
Consideration and direct transaction costs paid in cash	(356)
Cash and cash equivalents acquired	7
Net cash outflow on acquisition	**(349)**

At the date of acquisition, OMG Harjavalta and OMG Cawse did not prepare financial statements in accordance with IFRS. Thus it was not practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately before the acquisition, and this information is not presented in the Group's consolidated financial statements.

OMG Harjavalta and OMG Cawse contributed USD 924 million of revenue, USD 221 million of profit before tax and USD 175 million of profit from the date of acquisition to 31 December 2007.

LionOre Mining International Limited

On 28 June 2007, the Group acquired 90.7% of the voting shares of LionOre Mining International Limited ("LionOre"), an international nickel producer with operations in Australia and Botswana, for a cash consideration of USD 5,252 million.

At the date of acquisition the fair value of identifiable assets and liabilities of LionOre was as follows:

	Fair value
ASSETS	
Property, plant and equipment	4,490
Intangible assets	706
Investments in associates	580
Deferred tax asset	167
Inventories	178
Trade and other receivables	252
Advances paid and prepaid expenses	3
Other financial assets	38
Cash and cash equivalents	438
	6,852
LIABILITIES	
Borrowings	833
Employee benefit obligations	10
Environmental obligations	91
Derivative financial instruments	80
Deferred tax liabilities	1,512
Trade and other payables	144
Income tax payable	61
	2,731

US Dollars million

6. BUSINESS COMBINATIONS (CONTINUED)

	Fair value
Net assets at the date of acquisition	**4,121**
Less: Net assets attributable to minority shareholders	(870)
Add: Decrease in minority interest due to increase of interest in the subsidiary	239
Group's share of net assets acquired	**3,490**
Add: Goodwill arising on acquisition	2,001
Less: Revaluation surplus representing the change in fair value of MPI net assets from the date of initial acquisition by the Group of 20% interest in MPI (refer to note 28) to the date when control was obtained	(43)
Less: Pre-acquisition investment in MPI (refer to note 28)	(196)
Total cost of acquisition	**5,252**
Consideration per public offer	(5,230)
Direct transaction costs	(22)
Net cash outflow arising on acquisition	
Consideration and direct transaction costs paid in cash	(5,252)
Cash and cash equivalents acquired	438
Net cash outflow on acquisition	**(4,814)**

At the date of acquisition, LionOre did not prepare financial statements in accordance with IFRS. Thus it was not practicable to determine the carrying amounts of the acquired assets and liabilities in accordance with IFRS immediately before the acquisition, and this information was not presented in the Group's consolidated financial statements.

LionOre contributed USD 407 million of revenue, USD 907 million of loss before tax and USD 877 million of loss from the date of acquisition to 31 December 2007.

Goodwill that arose on the acquisition of LionOre was primarily attributable to the expected business synergy.

OJSC "Third Generation Company of the Wholesale Electricity Market"

During July-August 2007, the Group acquired an additional 7.2% interest in OGK-3, a company engaged in generation and sale of electricity and heat energy in Central, North-West, Siberia and Urals regions of the Russian Federation, for a cash consideration of USD 612 million, increasing its ownership in the company to 54.1%. Prior to this transaction, investment in OGK-3 was classified as an investment in associate (refer to note 28).

At the date of acquisition the fair value of identifiable assets and liabilities of OGK-3 was as follows:

	Fair value
ASSETS	
Property, plant and equipment	2,111
Intangible assets	2
Inventories	86
Trade and other receivables	121
Advances paid and prepaid expenses	24
Other financial assets	1,684
Cash and cash equivalents	1,424
	5,452
LIABILITIES	
Borrowings	141
Employee benefit obligations	21
Deferred tax liabilities	376
Trade and other payables	83
Advances received	6
Income tax payable	7
Other taxes payable	7
	641

US Dollars million

6. BUSINESS COMBINATIONS (CONTINUED)

	Fair value
Net assets at the date of acquisition	**4,811**
Less: Net assets attributable to minority shareholders	(2,209)
Group's share of net assets acquired	**2,602**
Add: Goodwill arising on acquisition	1,646
Less: Pre-acquisition investment in OGK-3 (refer to note 28)	(3,636)
Total cost of acquisition	**612**
Consideration per public offer	(611)
Direct transaction costs	(1)
Net cash outflow arising on acquisition	
Consideration and direct transaction costs paid in cash	(612)
Cash and cash equivalents acquired	1,424
Net cash inflow on acquisition	**812**

Acquisition of controlling interest in OGK-3 was achieved in stages. Cost of acquisition and fair value of OGK-3's identifiable assets, liabilities and contingent liabilities and goodwill that arose at each stage are presented in the table below:

Date of transaction	Ownership	Fair value of net assets	Cost of acquisition	Goodwill
26 December 2006	14.60%	1,545	400	174
23 March 2007	0.26%	1,571	21	17
26 March 2007	32.04%	4,682	3,119	1,157
7 August 2007	7.20%	4,811	612	266
Effect of translation to presentation currency	n/a	n/a	84	32
Total	**54.10%**	**n/a**	**4,236**	**1,646**

At the date of acquisition of controlling interest by the Group, OGK-3 did not prepare financial statements in accordance with IFRS. Thus it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and this information was not presented in these consolidated financial statements.

OGK-3 contributed USD 626 million of revenue, USD 68 million of profit before tax and USD 49 million of profit from the date of acquisition of controlling interest to 31 December 2007.

The goodwill that arose on the acquisition related to the premium paid for control over OGK-3.

Increase of ownership in subsidiaries during 2007

LionOre Mining International Limited

In July-August 2007, the Group acquired an additional 9.3% interest in LionOre for a cash consideration of USD 543 million through a number of transactions with minority shareholders, increasing its ownership in this company to 100%. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority shareholders of USD 334 million, and goodwill of USD 209 million.

In July-August 2007, the holders of LionOre convertible notes exercised their right to convert notes into 23.5 million common shares. All these shares were acquired by the Group for a cash consideration of USD 613 million. In the consolidated financial statements for the year ended 31 December 2007 acquisition of additional shares was accounted for as a settlement of borrowings acquired on the initial acquisition of controlling interest in LionOre.

US Dollars million

6. BUSINESS COMBINATIONS (CONTINUED)

In August 2007, in accordance with the terms of stock option and share compensation plan LionOre issued additional 1.7 million shares and granted them to key employees and directors. In August 2007, the Group acquired all those shares for a cash consideration of USD 45 million. In the consolidated financial statements for the year ended 31 December 2007 acquisition of additional shares was accounted for as a settlement of stock option liabilities acquired on the initial acquisition of controlling interest in LionOre.

OJSC "Third Generation Company of the Wholesale Electricity Market"

In August-September 2007, the Group acquired an additional 8,676 million shares of OGK-3 for a cash consideration of USD 929 million, increasing its ownership to 65.2%. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 529 million and increase in goodwill in the amount of USD 400 million.

OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya"

On 7 May 2007, the Group acquired an additional 49% interest in OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya" ("NTEK") for a cash consideration of USD 1 million, increasing its ownership in the company to 100%. The carrying value of NTEK net assets at the date of increase of ownership was USD 20 million. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest of USD 10 million. Excess of the Group's share in fair value of net assets acquired over consideration paid in the amount of USD 9 million was recognised in the consolidated income statement.

7. SEGMENTAL INFORMATION

Business segments – primary reporting format

At and for the year ended 31 December 2008	**Mining and metallurgy**	**Energy and utilities**	**Transport and logistics**	**Other**	**Eliminations**	**Total**
Third party transactions	11,886	1,694	315	85	–	**13,980**
Intra-segment transactions	5	465	395	733	(1,598)	–
Total revenue	**11,891**	**2,159**	**710**	**818**	**(1,598)**	**13,980**
Operating profit/(loss)	96	(127)	(28)	(140)	–	**(199)**
Share of losses of associates	(145)	(127)	–	–	–	**(272)**
(Loss)/profit before income tax	(321)	227	(42)	(137)	–	**(273)**
Income tax expense						**(282)**
Loss for the year						**(555)**
Assets and liabilities						
Investments in associates	273	678	–	–	–	**951**
Segment assets	11,040	6,202	1,648	384	–	**19,274**
Intra-segment assets and eliminations	2,544	69	79	135	(2,827)	–
Total segment assets	**13,857**	**6,949**	**1,727**	**519**	**(2,827)**	**20,225**
Segment liabilities	7,904	187	76	126	–	**8,293**
Intra-segment liabilities and eliminations	270	138	2,240	179	(2,827)	–
Total segment liabilities	**8,174**	**325**	**2,316**	**305**	**(2,827)**	**8,293**
Other segment information						
Capital expenditures	1,314	413	433	366	–	**2,526**
Amortisation and depreciation	997	233	32	49	–	**1,311**
Impairment of non-financial assets	4,542	163	16	7	–	**4,728**
Other non-cash expenses	378	264	26	4	–	**672**

US Dollars million

7. SEGMENTAL INFORMATION (CONTINUED)

At and for the year ended 31 December 2007	Mining and metallurgy	Energy and utilities	Transport and logistics	Other	Eliminations	Total
Third party transactions	15,959	789	298	73	–	**17,119**
Intra-segment transactions	5	348	269	574	(1,196)	–
Total revenue	**15,964**	**1,137**	**567**	**647**	**(1,196)**	**17,119**
Operating profit/(loss)	8,291	(736)	(17)	(101)	–	**7,437**
Share of profits of associates	43	33	–	–	–	**76**
Profit/(loss) before income tax	8,470	(610)	(23)	(102)	–	**7,735**
Income tax expense						**(2,459)**
Profit for the year						**5,276**
Assets and liabilities						
Investments in associates	575	304	–	–	–	**879**
Segment assets	22,902	10,145	1,092	445	–	**34,584**
Intra-segment assets and eliminations	1,753	27	9	118	(1,907)	–
Total segment assets	**25,230**	**10,476**	**1,101**	**563**	**(1,907)**	**35,463**
Segment liabilities	10,341	161	93	117	–	**10,712**
Intra-segment liabilities and eliminations	143	158	1,448	158	(1,907)	–
Total segment liabilities	**10,484**	**319**	**1,541**	**275**	**(1,907)**	**10,712**
Other segment information						
Capital expenditures	774	84	21	330	–	**1,209**
Amortisation and depreciation	768	129	22	36	–	**955**
Impairment of non-financial assets	1,086	754	24	15	–	**1,879**
Other non-cash expenses	18	–	4	12	–	**34**

Geographical segments – secondary reporting format

	Segment assets		Segment liabilities		Capital expenditures	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007	Year ended 31/12/2008	Year ended 31/12/2007
Russian Federation	17,224	24,330	8,027	8,605	1,983	914
Europe	2,333	3,572	1,066	2,299	60	11
North America	806	945	323	851	10	24
Africa	799	3,783	154	158	356	192
Australia	639	4,487	302	455	117	68
Asia	23	56	20	54	–	–
	21,824	**37,173**	**9,892**	**12,422**	**2,526**	**1,209**
Eliminations	(1,599)	(1,710)	(1,599)	(1,710)	–	–
Total	**20,225**	**35,463**	**8,293**	**10,712**	**2,526**	**1,209**

Other segmental information

Metal sales by geographical location of the Group's customers are presented in the note 8. Other sales of the Group were made primarily on the territory of the Russian Federation.

Intra-segment sales of electricity, heat energy and telecommunication services were made at the prices established by the Federal Utility Committee and Federal Tariff Service, government regulators responsible for establishing and monitoring prices of the Russian utility and telecommunication markets respectively.

Intra-segment sales of construction, transportation, repair and other services were made at prices equivalent to budgeted cost of services, generally determined based on Russian accounting standards, plus a margin varying from 1% to 25%.

Intra-segment loans were given at rates varying from 6.4% to 6.5% for RUR-denominated loans and 4.6% for USD-denominated loans.

US Dollars million

8. METAL SALES

Year ended 31/12/2008	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation	**9,801**	4,952	2,691	1,020	1,024	114
United States of America	**647**	9	3	240	387	8
Europe	**588**	411	165	12	—	—
Australia	**440**	436	4	—	—	—
Africa	**323**	273	30	10	9	1
	11,799	**6,081**	**2,893**	**1,282**	**1,420**	**123**
By destination						
Europe	**5,989**	3,821	1,602	254	302	10
North America	**2,204**	784	22	703	635	60
Asia	**1,999**	1,224	231	287	257	—
Russian Federation	**1,444**	94	1,033	38	226	53
Australia	**152**	148	4	—	—	—
South America	**6**	6	—	—	—	—
Africa	**5**	4	1	—	—	—
	11,799	**6,081**	**2,893**	**1,282**	**1,420**	**123**
Year ended 31/12/2007						
By origin						
Russian Federation	**14,054**	8,956	2,894	1,093	1,004	107
Europe	**820**	777	30	13	—	—
United States of America	**509**	20	3	215	264	7
Australia	**387**	353	1	—	—	33
Africa	**139**	110	20	4	4	1
	15,909	**10,216**	**2,948**	**1,325**	**1,272**	**148**
By destination						
Europe	**9,968**	6,956	2,209	463	327	13
Asia	**2,248**	1,736	3	256	253	—
North America	**2,237**	1,079	20	552	527	59
Russian Federation	**1,327**	351	714	54	165	43
Australia	**108**	74	1	—	—	33
South America	**13**	13	—	—	—	—
Africa	**8**	7	1	—	—	—
	15,909	**10,216**	**2,948**	**1,325**	**1,272**	**148**

9. OTHER SALES

	Year ended 31/12/2008	Year ended 31/12/2007
Energy and utilities	1,694	789
Transport and logistics	315	298
Other	172	123
Total	**2,181**	**1,210**

US Dollars million

10. COST OF METAL SALES

	Year ended 31/12/2008	Year ended 31/12/2007
Cash operating costs		
On-mine and concentrating costs (refer to note 11)	2,478	2,031
Smelting costs (refer to note 12)	1,361	1,143
Treatment and refining costs (refer to note 13)	1,084	1,168
Other costs (refer to note 14)	611	594
Sales of by-products	(1,124)	(1,119)
Total cash operating costs	**4,410**	**3,817**
Amortisation and depreciation of operating assets (refer to note 15)	1,069	824
Decrease in metal inventories	25	78
Total	**5,504**	**4,719**

11. ON-MINE AND CONCENTRATING COSTS

	Year ended 31/12/2008	Year ended 31/12/2007
Labour	1,002	962
Consumables and spares	743	564
Outsourced mining services	225	45
Repairs and maintenance	147	135
Transportation	91	59
Utilities	69	70
Rent expenses	55	51
Insurance	47	48
Tailing pile maintenance and relocation	46	38
Sundry	53	59
Total (refer to note 10)	**2,478**	**2,031**

12. SMELTING COSTS

	Year ended 31/12/2008	Year ended 31/12/2007
Platinum group scrap metals purchased	416	310
Labour	381	348
Consumables and spares	323	271
Repairs and maintenance	51	53
Insurance	48	69
Utilities	38	30
External tolling	30	26
Purchase of nickel concentrate	27	–
Transportation	21	18
Rent expenses	7	7
Sundry	19	11
Total (refer to note 10)	**1,361**	**1,143**

US Dollars million

13. TREATMENT AND REFINING COSTS

	Year ended 31/12/2008	Year ended 31/12/2007
Purchase of nickel concentrate	305	478
Labour	255	240
Consumables and spares	206	164
Tolling fees	122	147
Utilities	78	56
Transportation	40	14
Repairs and maintenance	37	32
Insurance	14	20
Rent expenses	2	3
Sundry	25	14
Total (refer to note 10)	**1,084**	**1,168**

14. OTHER COSTS

	Year ended 31/12/2008	Year ended 31/12/2007
Tax on mining and pollution levies	191	150
Cost of refined metals purchased from third parties	176	128
Transportation	124	179
Exploration expenses	101	113
Other	19	24
Total (refer to note 10)	**611**	**594**

15. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	Year ended 31/12/2008	Year ended 31/12/2007
Mining and concentrating	849	606
Smelting	139	147
Treatment and refining	57	57
Other	24	14
Total (refer to note 10)	**1,069**	**824**

16. COST OF OTHER SALES

	Year ended 31/12/2008	Year ended 31/12/2007
Consumables and spares	900	504
Labour	404	226
Utilities	383	195
Amortisation and depreciation	180	81
Repair and maintenance	88	58
Transportation	61	24
Taxes	51	29
Outsourced third party services	25	1
Rent expenses	18	14
Insurance	4	4
Other	8	27
Total	**2,122**	**1,163**

US Dollars million

17. SELLING AND DISTRIBUTION EXPENSES

	Year ended 31/12/2008	Year ended 31/12/2007
Export customs duties	427	644
Transportation expenses	42	31
Labour	25	24
Commission paid	15	16
Insurance	8	6
Other	7	9
Total	**524**	**730**

18. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31/12/2008	Year ended 31/12/2007
Labour	574	435
Taxes other than mining and income taxes and pollution levies	115	90
Consulting and other professional services	64	48
Advertising	57	102
Legal and audit services	33	23
Depreciation	29	32
Transportation expenses	21	21
External research costs	19	18
Repairs and maintenance	19	18
Insurance	16	12
Other	124	95
Total	**1,071**	**894**

19. IMPAIRMENT OF NON-FINANCIAL ASSETS

	Year ended 31/12/2008	Year ended 31/12/2007
Impairment of property, plant and equipment (refer to note 25)	2,666	800
Impairment of goodwill (refer to note 26)	1,571	1,079
Impairment of intangible assets (refer to note 27)	491	–
Total	**4,728**	**1,879**

Impairment test at 31 December 2008

At 31 December 2008, the Group conducted annual impairment review of property, plant and equipment, goodwill and intangible assets.

OGK-3

For the purpose of impairment test management of the Group measured value-in-use of OGK-3 assets based on the discounted cash flows expected to be generated by the individual cash-generating units, which are individual power generating facilities.

Cash flows were projected up to the year 2028 (expected remaining weighted average useful life of property, plant and equipment) based on the following assumptions.

19. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Prices for electricity. Management of the Group forecasted regulated tariffs and non-regulated (market) prices for electricity. Forecast of regulated tariffs was made using the 2009 prices approved by the Federal Tariff Service ("FTS") adjusted for inflation. Expected increase of market prices for electricity was based on the principle of fixed margin using fuel price forecasts. Heat tariff price forecast was based upon the announced government policy on indexation utilities tariff.

Proportion of regulated and market sales varied from 25% (during the year 2009) to 95% (from the year 2011 and later) and was in line with the proportion of competitive and regulated energy markets in accordance with the government Decree No. 205. Output forecasts were based on historical level of annual load factor.

Natural gas price forecast assumed equal margins for domestic and export sales of natural gas in accordance with the decisions of the FTS. The long-term price forecasts for natural gas covered 7 years, were based on the management's experience of the natural gas market and were within the range of external market forecasts. Thereafter management's estimates of tariffs increases were in line with expected inflation.

Inflation indices were consistent with external sources of information and varied from 4% to 11% per annum.

Discount rate reflects management's assessment of the risks specific to the utility business in the Russian Federation. Pre-tax rate varied from 17.7% to 19.8%.

Management of the Group identified that value-in-use of several individual power generating facilities is lower than the carrying value of their property, plant and equipment. Accordingly, an impairment loss of USD 157 million was recognised by the Group in respect of property, plant and equipment attributable to OGK-3 at 31 December 2008.

No impairment was recognised with regard to goodwill which was not allocated to any individual power generating facilities.

Norilsk Nickel International

Value-in-use of Norilsk Nickel International ("NNI") assets consisted of the production assets of Harjavalta Nickel Oy, Cawse Proprietary Limited and LionOre Mining International Limited, was measured based on discounted cash flows expected to be generated by separate cash-generating units, being individual mines, smelting and refining operations. Cash flows were projected up to expected closure dates of mining and metallurgy operations and were based on the following assumptions.

Commodity price forecasts for nickel, copper and other metals were based on management's experience of the specific commodities markets and were within the range of external market forecasts.

Economically recoverable reserves and resources were primarily based on external mining engineers reports available at the date of impairment test or nearest date when appropriate evaluation work was undertaken.

Inflation indices and foreign currency trends were in general consistent with external sources of information.

Inflation, %	
Botswana	4.99 – 10.50
Australia	2.45 – 3.42
Exchange rates	
Botswana Pula/US Dollar	7.75 – 7.90
Australian Dollar/US Dollar	1.53 – 1.54

19. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Discount rates reflect management's assessment of the risks specific to each production unit. These rates were based on the weighted average cost of capital specific to each cash-generating unit.

Discount rates, %	
Botswana	10.50
Australia	9.50

As a result of the impairment test at 31 December 2008 property, plant and equipment and goodwill of Norilsk Nickel International were impaired in the amount of USD 2,481 million and USD 1,571 million, respectively (refer to note 25 and 26).

At 31 December 2008, included in intangible assets was the right to use a unique refining technology registered under the trade mark Activox with carrying value of USD 84 million, after recognition of impairment loss of USD 490 million (refer to note 27).

Other

Additional impairment loss in respect of property, plant and equipment in the amount of USD 28 million was attributable to greater than expected wear and tear and suspended construction projects.

Impairment test at 31 December 2007

At 31 December 2007, the Group conducted annual impairment review of goodwill, property, plant and equipment and intangible assets.

OGK-3

Recoverable amount of goodwill attributable to OGK-3 was determined based on the market value of OGK-3 shares at 31 December 2007 less cost to sell. As a result of the test, an impairment loss in respect of goodwill in the amount of USD 754 million was recognised (refer to note 26).

LionOre

For the purpose of impairment loss assessment management of the Group measured value-in-use of LionOre Group and its subsidiaries based on cash flows expected to be generated by cash-generating units, being the individual mines, smelting and refining operations.

Cash flows were projected up to expected closure date of mining and metallurgy operations and were based on the assumptions presented below.

Commodity price forecasts for nickel, copper and other metals represented management's estimates based on their experience on the specific commodities markets as at the date of the impairment test, and were within the range of external market forecasts but were slightly higher than the calculated market average prevailing at the time.

Economically recoverable reserves and resources were primarily based on external mining engineers reports available on the date of impairment test or nearest date when appropriate evaluation work was undertaken.

Inflation indices and foreign currency trends were in general consistent with external sources of information and are presented as follows:

Inflation, %	
Botswana	4.00 – 8.10
Australia	3.50 – 4.40
Expected exchange rates	
Botswana Pula/US Dollar	6.17 – 10.34
Australian Dollar/US Dollar	1.14 – 1.28

US Dollars million

19. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Discount rates reflected management's assessment of the risks specific to each production unit. These rates were based on the weighted average cost of capital specific to each cash-generating unit and presented as follows:

Discount rates, %	
Botswana	10.40
Australia	6.87

Impairment test in respect of goodwill attributable to LionOre was based on the assumptions used in the valuation of identifiable assets, liabilities and contingent liabilities of LionOre and its subsidiaries performed by independent qualified appraiser at 28 June 2007, the date of the acquisition.

Subsequent to acquisition of LionOre, an extensive feasibility review of the Activox Refinery Project at Tati Nickel, a subsidiary of LionOre, was conducted by management of the Group and an independent third party. The review highlighted a substantial project cost escalation from the feasibility study conducted by the previous owners. The major contributing factors to the substantial cost escalation were:

- an increase in construction and equipment cost worldwide; and
- project management cost worldwide.

In addition, short-term energy capacity constraints being experienced in Southern Africa region have been assessed as a risk that would have adversely affected the commissioning time to production and the overall economics of the Activox Refinery Project.

Based on these facts and circumstances management of the Group made a decision to postpone the project indefinitely. As a result, at 31 December 2007 mineral rights presented within mining assets and goodwill recognised on acquisition of LionOre were impaired in the amounts of USD 765 million and USD 325 million, respectively (refer to note 25 and 26).

LLC "Norilsk-Telecom"

On 2 November 2007, management of the Group made a decision to dispose of LLC "Norilsk-Telecom" ("Norilsk-Telecom") and its subsidiaries. Accordingly, in the accompanying consolidated financial statements associated assets and liabilities of Norilsk-Telecom were presented as held for sale (refer to note 35). The difference between the carrying value of Norilsk-Telecom's net assets at 31 December 2007 and the expected proceeds from disposal in the amount of USD 15 million was recognised as an impairment of property, plant and equipment.

Other

At 31 December 2007 the Group recognised additional impairment loss of USD 20 million in respect of property, plant and equipment attributable to the greater than expected wear and tear and suspended construction projects.

20. OTHER NET OPERATING EXPENSES

	Year ended 31/12/2008	**Year ended 31/12/2007**
Donations and maintenance of social sphere facilities	108	158
Change in provision for value added tax recoverable	83	149
Change in provision for onerous contracts	51	–
Change in allowance for doubtful debts	42	(8)
Loss on disposal of property, plant and equipment	26	25
Loss on disposal of investments in subsidiaries	3	18
Change in provision for tax penalties	(52)	29
Other	13	4
Total	**274**	**375**

US Dollars million

21. FINANCE COSTS

	Year ended 31/12/2008	Year ended 31/12/2007
Interest expense on borrowings	352	280
Unwinding of discount on environmental obligations (refer to note 42)	33	23
Interest on obligations under finance leases	9	3
Interest on convertible notes	3	1
Total	**397**	**307**

22. INCOME FROM INVESTMENTS, NET

	Year ended 31/12/2008	Year ended 31/12/2007
Income/(loss) from available-for-sale investments		
Realised gain on disposal of available-for-sale investments	118	–
Interest income on available-for-sale investments	46	7
Dividend income on available-for-sale investments	–	5
Impairment of available-for-sale investments	(269)	(24)
Income/(loss) from held-to-maturity investments		
Interest income on promissory notes receivable	6	9
Impairment of promissory notes	(7)	–
Income/(loss) from loans given and long-term accounts receivable		
Interest income on bank deposits	450	222
Interest income on loans given and long-term accounts receivable	9	9
Impairment of loans advanced	(91)	(18)
Income on disposal of investments in associates	8	6
Other	4	1
Total	**274**	**217**

23. FOREIGN EXCHANGE (LOSS)/GAIN, NET

	Year ended 31/12/2008	Year ended 31/12/2007
Foreign exchange gain/(loss) on operating activities, net	648	(96)
Revaluation of bank deposits and other financial assets, net	100	(82)
Revaluation of borrowings, net	(1,145)	324
Total	**(397)**	**146**

24. INCOME TAX EXPENSE

	Year ended 31/12/2008	Year ended 31/12/2007
Current income tax		
Current income tax charge on profit for the year	1,428	2,630
Adjustments in respect of current income tax of previous years	(5)	(8)
Total current income tax expense	**1,423**	**2,622**
Deferred income tax		
Origination and reversal of temporary differences	(1,084)	(187)
Impact of change in income tax rate in the Russian Federation	(139)	–
Unused tax losses and tax offsets not recognised as deferred tax assets	68	24
Recycled from equity to income	14	–
Total deferred tax benefit	**(1,141)**	**(163)**
Total	**282**	**2,459**

US Dollars million

24. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of statutory income tax, calculated at the rate effective in the Russian Federation, the location of major production assets of the Group, to the amount of actual income tax expense recorded in the consolidated income statement is as follows:

	Year ended 31/12/2008	Year ended 31/12/2007
(Loss)/profit before tax	**(273)**	**7,735**
Income tax at statutory rate of 24%	(66)	1,856
Impact of change in income tax rate in the Russian Federation	(139)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1)	14
Tax effect of permanent differences	115	286
Tax effect of impairment of goodwill	278	259
Tax effect of impairment of investments in associates	75	–
Tax effect of excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(172)	(40)
Tax effect of change in provisions for tax penalties and recoverable amount of value added tax	7	43
Deferred tax asset not recognised on impairment of financial assets	91	4
Adjustments in respect of current income tax of previous years	(5)	(8)
Taxable losses of subsidiaries not carried forward	31	21
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	68	24
Total	**282**	**2,459**

During the year ended 31 December 2008, as a result of a change in income tax rate in the Russian Federation from 24% to 20% that was substantially enacted on 26 November 2008 and effective from 1 January 2009, deferred tax balances of the Company and all Group's subsidiaries operating on the territory of the Russian Federation were remeasured.

The corporate income tax rates in other countries where the Group has a taxable presence vary from 0% to 39%.

Deferred income tax

	31/12/2008	31/12/2007
Balance at beginning of the year	**2,652**	**881**
Benefit recognised during the year	(1,002)	(163)
Impact of change in income tax rate in the Russian Federation	(139)	–
Revaluation of available-for-sale investments	(398)	149
Recycled from equity on disposal of investments classified as available-for-sale	(14)	–
Effect of change in classification of available-for-sale investments to investments in associates due to increase of ownership	–	(73)
Acquisition of subsidiaries (refer to note 6)	4	1,784
Disposal of subsidiaries (refer to note 46)	–	(14)
Hedging reserve	–	(7)
Effect of translation to presentation currency	(410)	95
Balance at end of the year	**693**	**2,652**

US Dollars million

24. INCOME TAX EXPENSE (CONTINUED)

The tax effect of temporary differences that give rise to deferred taxation is presented below:

	31/12/2008	31/12/2007
Property, plant and equipment	769	2,039
Intangible assets	24	223
Accrued operating expenses	(95)	(111)
Valuation of receivables	(34)	(9)
Unrealised profit on intra-group transactions	(2)	(43)
Inventory valuation	24	11
Valuation of investments	8	536
Income tax loss carried forward	(97)	(99)
Provision for tax losses and tax offsets recognised as deferred tax assets	172	137
Other	(76)	(32)
Total	**693**	**2,652**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances (after offset) presented in the consolidated balance sheet were as follows:

	31/12/2008	31/12/2007
Deferred tax liabilities	723	2,741
Deferred tax assets	(30)	(89)
Net deferred tax liabilities	**693**	**2,652**

At 31 December 2008, the unutilised tax losses of the North American operations, which were available for offset against future taxable income earned in the United States of America in the amount of USD 357 million (2007: USD 339 million), were not recognised as a deferred tax asset.

The Group did not recognise a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries of USD 294 million (2007: USD 1,317 million), because management believes that it is in a position to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

US Dollars million

25. PROPERTY, PLANT AND EQUIPMENT

		Non-mining assets				
	Mining assets	**Buildings, structures and utilities**	**Machinery, equipment and transport**	**Other**	**Capital construction-in-progress**	**Total**
Cost						
Balance at 31 December 2006	**4,175**	**3,206**	**2,343**	**161**	**904**	**10,789**
Additions	530	–	–	–	633	**1,163**
Transfers	–	91	352	35	(478)	**–**
Decommissioning asset raised (refer to note 42)	83	6	–	–	–	**89**
Acquired on acquisition of subsidiaries (refer to note 6)	4,221	853	1,494	53	215	**6,836**
Disposed of on disposal of subsidiaries (refer to note 46)	–	(81)	(2)	–	(1)	**(84)**
Disposals	(49)	(32)	(106)	(6)	(34)	**(227)**
Reclassified as held for sale (refer to note 35)	–	(14)	(50)	–	(5)	**(69)**
Effect of translation to presentation currency	426	236	211	5	57	**935**
Balance at 31 December 2007	**9,386**	**4,265**	**4,242**	**248**	**1,291**	**19,432**
Additions	828	–	–	–	1,635	**2,463**
Transfers	–	155	844	37	(1,036)	**–**
Decommissioning asset raised (refer to note 42)	50	1	–	–	–	**51**
Acquired on acquisition of subsidiaries (refer to note 6)	–	24	–	–	–	**24**
Disposed of on disposal of subsidiaries	–	–	(8)	–	–	**(8)**
Disposals	(80)	(37)	(49)	(3)	(35)	**(204)**
Reclassified as held for sale (refer to note 35)	–	–	–	–	(41)	**(41)**
Effect of translation to presentation currency	(1,756)	(705)	(836)	(52)	(297)	**(3,646)**
Balance at 31 December 2008	**8,428**	**3,703**	**4,193**	**230**	**1,517**	**18,071**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2006	**(933)**	**(883)**	**(783)**	**(34)**	**(81)**	**(2,714)**
Charge for the year	(394)	(201)	(299)	(24)	–	**(918)**
Disposed of on disposal of subsidiaries (refer to note 46)	–	10	1	–	–	**11**
Eliminated on disposals	33	14	39	2	26	**114**
Impairment loss (refer to note 19)	(765)	(10)	(17)	–	(8)	**(800)**
Reclassified as held for sale (refer to note 35)	–	4	30	–	–	**34**
Effect of translation to presentation currency	(63)	(44)	(57)	(2)	(12)	**(178)**
Balance at 31 December 2007	**(2,122)**	**(1,110)**	**(1,086)**	**(58)**	**(75)**	**(4,451)**
Charge for the year	(572)	(230)	(439)	(32)	–	**(1,273)**
Disposed of on disposal of subsidiaries	–	–	3	–	–	**3**
Eliminated on disposals	25	20	29	2	14	**90**
Impairment loss (refer to note 19)	(2,265)	(81)	(198)	(41)	(81)	**(2,666)**
Reclassified as held for sale (refer to note 35)	–	–	–	–	28	**28**
Effect of translation to presentation currency	418	215	272	21	9	**935**
Balance at 31 December 2008	**(4,516)**	**(1,186)**	**(1,419)**	**(108)**	**(105)**	**(7,334)**
Carrying value						
31 December 2007	**7,264**	**3,155**	**3,156**	**190**	**1,216**	**14,981**
31 December 2008	**3,912**	**2,517**	**2,774**	**122**	**1,412**	**10,737**

US Dollars million

26. GOODWILL

	31/12/2008	31/12/2007
Cost		
Balance at beginning of the year	**4,439**	**25**
Acquired on acquisition of subsidiaries (refer to note 6)	80	4,256
Effect of translation to presentation currency	(824)	158
Balance at end of the year	**3,695**	**4,439**
Accumulated impairment		
Balance at beginning of the year	**(1,079)**	**—**
Impairment loss (refer to note 19)	(1,571)	(1,079)
Effect of translation to presentation currency	190	—
Balance at end of the year	**(2,460)**	**(1,079)**
Carrying value		
Balance at beginning of the year	**3,360**	**25**
Balance at end of the year	**1,235**	**3,360**

Allocation of goodwill to separate cash-generating units

For the purpose of the annual impairment test the carrying value of goodwill was allocated to the following segments and smallest individual cash-generating units within respective segments:

	31/12/2008	31/12/2007
Mining and metallurgy segment		
LionOre – Botswana operations	1,362	1,691
LionOre – Australia operations	468	596
Total allocated to mining and metallurgy segment	**1,830**	**2,287**
Energy and utilities segment		
OGK-3	1,843	2,125
Taimyrenergo	9	11
Total allocated to energy and utilities segment	**1,852**	**2,136**
Total allocated to transport and logistics segment	**13**	**16**
Total	**3,695**	**4,439**

At 31 December 2008 management reviewed carrying value of goodwill for impairment. As a result, impairment loss in the amount of USD 1,571 million (2007: USD 1,079 million) was recognised (refer to note 19).

US Dollars million

27. INTANGIBLE ASSETS

	Patents and licences	Long-term favourable contracts	Software	Other	Total
Cost					
Balance at 31 December 2006	**7**	**103**	**46**	**16**	**172**
Acquired on acquisition of subsidiaries (refer to note 6)	706	–	2	1	**709**
Additions	2	–	21	23	**46**
Reclassified as held for sale	–	–	(2)	–	**(2)**
Disposals	–	–	(2)	(1)	**(3)**
Effect of translation to presentation currency	22	–	4	3	**29**
Balance at 31 December 2007	**737**	**103**	**69**	**42**	**951**
Additions	5	–	35	23	**63**
Disposals	–	–	(2)	(10)	**(12)**
Effect of translation to presentation currency	(157)	–	(17)	(9)	**(183)**
Balance at 31 December 2008	**585**	**103**	**85**	**46**	**819**
Accumulated amortisation and impairment					
Balance at 31 December 2006	**(6)**	**(44)**	**(9)**	**(6)**	**(65)**
Charge for the year	(2)	(14)	(13)	(8)	**(37)**
Eliminated on disposals	–	–	2	–	**2**
Effect of translation to presentation currency	–	–	(1)	(1)	**(2)**
Balance at 31 December 2007	**(8)**	**(58)**	**(21)**	**(15)**	**(102)**
Charge for the year	(3)	(12)	(13)	(10)	**(38)**
Impairment loss (refer to note 19)	(490)	–	(1)	–	**(491)**
Eliminated on disposals	–	–	2	9	**11**
Effect of translation to presentation currency	3	–	6	1	**10**
Balance at 31 December 2008	**(498)**	**(70)**	**(27)**	**(15)**	**(610)**
Carrying value					
31 December 2007	**729**	**45**	**48**	**27**	**849**
31 December 2008	**87**	**33**	**58**	**31**	**209**

Included in patents and licenses acquired in 2007 is the right to use a unique refining technology registered under the trade mark Activox, owned by LionOre, a subsidiary of the Group. Fair value of the right was determined by an independent professional appraiser on 28 June 2007, the date of the acquisition of LionOre business, and amounted to USD 706 million. Activox is regarded as having an indefinite useful life because, based on an analysis of all the relevant factors, there is no foreseeable limit to the period during which this asset is expected to generate net cash flows. This right is not amortised and reviewed for impairment annually. At 31 December 2008 management reviewed the carrying value of Activox for impairment. As a result, impairment loss in the amount of USD 490 million was recognised (refer to note 19) and carrying value of the right at 31 December 2008 amounted to USD 84 million.

Intangible assets included long-term favourable sales contracts that are amortised over their terms of 7 years.

US Dollars million

28. INVESTMENTS IN ASSOCIATES

	31/12/2008	31/12/2007
Balance at beginning of the year	**879**	**208**
Acquired during the year	660	3,298
Contribution into equity of the associate during the year	14	–
Share of post-acquisition profits	11	5
Established during the year	–	28
Acquired on acquisition of subsidiaries (refer to note 6)	–	580
Disposed of during the year	–	(1)
Reclassified from investments available-for-sale due to increase of ownership	–	427
Reclassified to investments available-for-sale due to decrease of ownership	(69)	(3)
Reclassified to investment in subsidiaries due to increase of ownership	–	(3,832)
Excess of the Group's share in the fair value of associates' identifiable assets, liabilities and contingent liabilities over the cost of acquisition	–	72
Dividends received	(11)	(20)
Impairment loss	(283)	(1)
Effect of translation to presentation currency	(250)	118
Balance at end of the year	**951**	**879**

Details of the Group's associates were as follows:

Name of associate		Market value	Carrying value of investment	Total assets	Total liabilities	Revenue	Profit/ (loss)
31/12/2008							
RUSIA Petroleum	(i)	n/a	511	2,541	497	–	(7)
Nkomati Nickel Mine	(ii)	n/a	273	599	53	102	60
Plug Power Incorporated	(iii)	46	46	215	83	–	–
Smart Hydrogen Incorporated	(iii)	n/a	43	86	–	–	(7)
OJSC "TGK-14"	(iv)	41	29	169	64	223	(25)
OJSC "KTK"	(ix)	n/a	25	50	–	–	3
OJSC "Norilskgazprom"		n/a	24	118	40	159	6
			951	**3,778**	**737**	**484**	**30**
31/12/2007							
Nkomati Nickel Mine	(vii)	n/a	575	1,190	40	58	(11)
Smart Hydrogen Incorporated	(iii)	n/a	111	222	–	–	–
OJSC "TGK-14"	(viii)	74	58	279	73	193	(6)
OJSC "Krasnoyarskenergo"	(v)	170	40	215	60	269	31
OJSC "Norilskgazprom"		n/a	33	148	39	135	6
OJSC "KTK"	(ix)	n/a	28	57	–	–	–
OJSC "Kolenergo"	(vi)	30	17	94	29	104	4
Other		n/a	17	66	3	353	(3)
			879	**2,271**	**244**	**1,112**	**21**

Movements during the year ended 31 December 2008

(i) ***RUSIA Petroleum.*** On 20 October 2008, OGK-3, a subsidiary of the Group, acquired 25% of RUSIA Petroleum for a cash consideration of USD 576 million.

At 31 December 2008 management reviewed the carrying value of the Group's investment in RUSIA Petroleum for impairment. As a result, no impairment loss was identified.

(ii) ***Nkomati Nickel Mine.*** During October-December 2008, the Group made contributions into equity of Nkomati Nickel Mine in the amount of USD 14 million according to the terms of the partnership agreement between the joint venture parties.

At 31 December 2008 management reviewed the carrying value of the Group's investment in Nkomati Nickel Mine for impairment. As a result, an impairment loss in the amount of USD 174 million was recognised.

28. INVESTMENTS IN ASSOCIATES (CONTINUED)

(iii) ***Smart Hydrogen Incorporated and Plug Power Incorporated.*** Smart Hydrogen Incorporated is a joint venture formed in April 2006 by the Group and Interros Holding Company, a related party. The Group owns 50% of the joint venture. In June 2006, through this entity the principal investors acquired a 35% stake in Plug Power Incorporated, a US designer of environmentally clean and reliable energy products. At 20 December 2008, Smart Hydrogen Incorporated disposed of its 35% ownership in Plug Power Incorporated to OGK-3, a subsidiary of the Group, for a cash consideration of USD 33 million (refer to note 47).

At 31 December 2008 and 2007 management reviewed the carrying value of the Group's investment in Smart Hydrogen Incorporated. No impairment loss was identified (2007: USD 1 million).

At 31 December 2008 management reviewed the carrying value of the Group's investment in Plug Power Incorporated for impairment. As a result, impairment loss in the amount of USD 51 million was recognised.

(iv) ***TGK-14.*** On 11 July 2008, the Group acquired 160,602 million additionally issued ordinary shares of OJSC "Territorial Generation Company No. 14" ("TGK-14") for a cash consideration of USD 51 million. After completion of this transaction the Group's ownership in TGK-14 did not change.

As a part of reorganisation of RAO "UES", the Group obtained 228 million ordinary shares of TGK-14 during July-October 2008. As a result of these transactions, the Group became the owner of 0.07% shares of TGK-14.

At 31 December 2008 management reviewed the carrying value of the Group's investment in TGK-14 for impairment. As a result, impairment loss in the amount of USD 53 million (2007: USD nil) was recognised.

(v) ***Krasnoyarskenergo.*** On 31 March 2008, as a part of reorganisation of RAO "UES", the Group's investments in OJSC "Krasnoyarskenergo" and OJSC "Tyvaenergoholding" were exchanged for 7,344 million shares of OJSC "MRSK Sibiri". At 31 December 2008 investment in OJSC "MRSK Sibiri" was classified as available-for-sale (refer to note 29).

(vi) ***Kolenergo.*** On 1 April 2008, as a part of reorganisation of RAO "UES", the Group's investment in OJSC "Kolenergo" was exchanged for 2,453 million shares of OJSC "MRSK Severo-Zapada". At 31 December 2008 investment in OJSC "MRSK Severo-Zapada" was classified as available-for-sale (refer to note 29).

Movements during the year ended 31 December 2007

(vii) ***Nkomati Nickel Mine.*** On 28 June 2007, as a part of acquisition of LionOre Mining International Limited (refer to note 6), the Group acquired 50% of share capital of Nkomati Nickel Mine, a South African mining company.

(viii) ***TGK-14.*** On 30 January 2007, the Group acquired 215,412 million ordinary shares or 27.8% of the issued share capital of TGK-14 for a cash consideration of USD 44 million. As a result of this transaction, the Group recognised in the consolidated income statement the excess of its share in fair value of TGK-14 net assets over the cost of the investment in the amount of USD 12 million. In August 2007, TGK-14 increased its share capital through the issuance of additional ordinary shares; as a result, the Group's share in this company decreased to 27.7%.

(ix) ***OJSC "KTK".*** OJSC "KTK" is a joint venture established in December 2007 for the purpose of power production. The Group contributed USD 28 million and became the owner of 50% of the issued share capital of this company.

US Dollars million

28. INVESTMENTS IN ASSOCIATES (CONTINUED)

(x) ***TGK-1.*** In May 2007, as a part of reorganisation of RAO "UES", the Group's investment in OJSC "Murmanskaya TEC" was exchanged for 6,743 million shares of TGK-1.
At 31 December 2007 investment in TGK-1 was classified as available-for-sale (refer to note 29).

(xi) ***MPI.*** On 1 March 2007, as a part of acquisition of nickel business of OM Group Incorporated, the Group acquired 20% of share capital of MPI Nickel Proprietary Limited for a cash consideration of USD 135 million. As a result of this transaction, the Group recognised in the consolidated income statement the excess of its share in the fair value of MPI Nickel Proprietary Limited net assets over the cost of the investment in the amount of USD 60 million.

On 28 June 2007, an additional 80% of share capital of MPI Nickel Proprietary Limited was acquired by the Group through the acquisition of LionOre (refer to note 6).

(xii) ***OGK-3.*** On 26 March 2007, the Group acquired 17,836 million ordinary shares of OGK-3 for a cash consideration of USD 3,119 million. After completion of this transaction, the Group became the owner of 46.9% of OGK-3.

During July-August 2007, the Group acquired an additional 7.2% of interest in OGK-3 for a cash consideration of USD 612 million, increasing its ownership to 54.1% (refer to note 6). After completion of this transaction OGK-3 was consolidated.

29. OTHER FINANCIAL ASSETS

	31/12/2008	31/12/2007
Non-current		
Available-for-sale investments, at fair value		
Listed securities	311	2,418
Unlisted securities	1	5
Held-to-maturity investments, at amortised cost		
Promissory notes receivable	23	12
Loans and receivables, at amortised cost		
Bank deposits	115	521
Loans given	51	19
Accounts receivable	22	7
Total non-current	**523**	**2,982**
Current		
Available-for-sale investments, at fair value		
Listed securities	19	117
Promissory notes receivable	–	618
Held-to-maturity investments, at amortised cost		
Promissory notes receivable	–	775
Loans and receivables, at amortised cost		
Bank deposits	1,273	2,832
Loans given	24	131
Total current	**1,316**	**4,473**

Bank deposits

At 31 December 2008, short-term bank deposits in the amount of USD 1,273 million (2007: USD 2,832 million) included notice deposits of USD 525 million (2007: USD 1,610 million). The Group may withdraw cash from these deposits after bank notification. Notification period generally varies from 6 to 30 days.

Interest rates on long-term deposits held in banks varied from 6.1% to 6.3% (2007: 6.1% to 6.3%) per annum.

Interest rates on short-term deposits held in banks vary from 9.0% to 10.5% (2007: 7.0% to 8.6%) per annum.

US Dollars million

29. OTHER FINANCIAL ASSETS (CONTINUED)

Listed and unlisted securities available-for-sale consisted of shares of the following companies:

	31/12/2008	31/12/2007
OJSC "RusHydro"	107	–
OJSC "FSK UES"	69	–
OJSC "Holding MRSK"	36	–
OJSC "TGK-1"	25	281
Talvivaara Mining Company Limited	21	73
U.S. Federal Agency notes	18	25
OJSC "MRSK Sibiri"	18	–
OJSC "INTER RAO UES"	13	–
Breakaway Resources Limited	6	23
OJSC "MRSK Severo-Zapada"	4	–
OJSC "RAO Energeticheskie systemy Vostoka"	3	–
OJSC "TGK-5"	3	18
Canadian Royalties Incorporated	2	21
RAO "UES of Russia"	–	1,883
OJSC "OGK-5"	–	107
OJSC "Polyus Gold"	–	89
OJSC "TGK-2"	–	2
Other	6	18
Total	**331**	**2,540**

Available-for-sale investments in listed securities

OGK-5 and TGK-5. In September 2007, OJSC "Fifth Generation Company of the Wholesale Electricity Market" ("OGK-5") and OJSC "Territorial Generation Company № 5" ("TGK-5") were spun-off from RAO "UES" as a part of its reorganisation. In accordance with the restructuring plan all shareholders of RAO "UES" received ordinary shares of OGK-5 and TGK-5 in proportion to their ownership RAO "UES". As a result of the spin-off, the Group received 607 million ordinary shares of OGK-5 and 20,043 million ordinary shares of TGK-5.

On 8 February 2008, the Group sold its entire shareholding of 607 million ordinary shares in OGK-5 for USD 109 million.

Polyus Gold. At 31 December 2007, current listed securities available-for-sale included an investment in OJSC "Polyus Gold" of USD 89 million. The classification was based on the decision of Board of Directors to sell this investment. On 1 April 2008, the Group sold its stake in OJSC "Polyus Gold" for a cash consideration of USD 99 million.

RAO "UES" and other investments in utility companies. In July – October 2008, as a part of reorganisation of RAO "UES", the Group received minority stakes in a number of generating companies of the wholesales electricity market ("OGKs"), territorial generation companies ("TGKs"), interregional distribution grid companies ("MRSKs"), federal grid company ("FSK") and other assets.

Held-to-maturity investments

At 31 December 2007, promissory notes receivable included notes issued by OJSC "Rosbank" in the amount of USD 774 million due on 8 May 2008. The effective interest rate attributable to these promissory notes was 8.5% per annum. These notes were redeemed at the maturity date.

29. OTHER FINANCIAL ASSETS (CONTINUED)

Loans given

On 30 May 2006, the Group provided a loan to a related party (refer to note 47) amounting to USD 70 million and bearing interest at LIBOR + 0.75% per annum. At 31 December 2008, the loan was secured by 67% of shares of Edgar Eclipse Incorporated, a company holding a 99% interest in a property development business.

On 11 July 2008, the Group provided an additional loan to the same related party (refer to note 47) in the amount of USD 70 million and bearing interest at LIBOR + 2.5% per annum. The loan is secured by 28.85% of shares of Edgar Eclipse Incorporated. On 4 July 2008, a related party issued a guarantee in favour of the Group, which covers two of the loan agreements. On 11 February 2009, loan agreements terms were renegotiated; as a result the pledge and guarantee were cancelled and maturity dates were prolonged up to December 2012. Due to uncertainty regarding the recoverability of these loans they were fully impaired at 31 December 2008.

On 30 July 2008, the Group provided a loan to OJSC “Norilskgazprom”, an associate of the Group, in the amount of USD 39 million at interest rate of 6.5 % per annum and with a maturity date at 30 July 2009. At 31 December 2008 the carrying value of the loan amounted to USD 21 million.

At 31 December 2007, short-term loans given included a loan to OJSC “Norilskgazprom” in the amount of USD 20 million at interest rate of 6.4% per annum. The loan was repaid in full on 31 July 2008.

On 1 October 2008, the Group provided a long-term loan to Mirabella Mineracao Do Brasil Ltda., in the amount of USD 50 million at a floating interest rate of LIBOR + 3.5% per annum (effective rate 4.96%). The loan is to be repaid in equal monthly instalments from 30 September 2010 to 31 December 2012.

At 31 December 2007 promissory notes receivables comprised notes issued by OJSC “Sberbank” in the amount of USD 618 million. On 12 November 2008, these notes were fully repaid. The effective interest rate attributable to these promissory notes was 8.75% per annum.

At 31 December 2008, short-term loans given include loans to several exploration companies, related parties of the Group, in the amount of USD 11 million (2007: USD 53 million) at interest rates varying from 6.5% to 8.5% per annum, due in 2009. Taking into account that majority of these operations are frozen or substantially decreased their activities, the Group recognised an impairment loss in the amount of USD 11 million (2007: USD nil) at 31 December 2008.

Accounts receivable

During 2008, the Group renegotiated the terms of receivables in the amount of USD 44 million for utility sales. Under the new terms they are repayable on a monthly basis by equal instalments till 2016. At 31 December 2008, a portion of these receivables in the amount of USD 19 million repayable after 2009 was classified as other non-current financial assets.

US Dollars million

30. OTHER TAXES

	31/12/2008	31/12/2007
Taxes receivable		
Value added tax recoverable	566	585
Customs duties	67	65
Other taxes	6	8
	639	**658**
Less: Allowance for value added tax recoverable	(39)	(35)
Total	**600**	**623**
Less: Non-current portion	(79)	(38)
Current taxes receivable	**521**	**585**
Taxes payable		
Value added tax	64	28
Property tax	29	31
Provision for tax fines and penalties	17	76
Tax on mining	14	17
Unified social tax	13	15
Other	34	30
Total	**171**	**197**

31. INVENTORIES

	31/12/2008	31/12/2007
Refined metals		
at net production cost	432	483
at net realisable value	27	19
By-products at net realisable value	91	190
Work-in-process		
at net production cost	396	339
at net realisable value	64	117
Total metal inventories	**1,010**	**1,148**
Stores and materials at cost	987	985
Less: Allowance for obsolete and slow-moving items	(38)	(25)
Net stores and materials	**949**	**960**
Total inventories	**1,959**	**2,108**

32. TRADE AND OTHER RECEIVABLES

	31/12/2008	31/12/2007
Trade receivables for metal sales	313	713
Other receivables	291	288
	604	**1,001**
Less: Allowance for doubtful debts	(35)	(52)
Total	**569**	**949**

In 2008 and 2007 the average credit period on metal sales varied from 0 to 30 days. Trade receivables are generally non-interest bearing. The Group has fully provided for all receivables which were due in excess of 180 days based on historical experience that such receivables are generally not recoverable. Trade receivables that are past due for less than 180 days are generally not provided for.

US Dollars million

32. TRADE AND OTHER RECEIVABLES (CONTINUED)

The payment terms for Tati Nickel Mining Company Pty Limited (Botswana) are set out in the related ore and concentrate purchase agreements, which stipulate that payments are due within 150 days for base metals, and varies from 240 to 300 days for precious metals. However for certain agreements, provisional amounts of 70% for nickel and 90% for other metals are receivable within 60 days.

The average credit period on sales of electricity and other products and services for the year ended 31 December 2008 was 16 days (2007: 25 days). No interest was charged on these receivables. The Group has provided fully for all other receivables over 365 days based on historical experience that such receivables are generally not recoverable. Provision in respect of receivables that were less than 365 days old is determined based on past default experience.

The Group did not hold any collateral for accounts receivable balances.

Included in the Group's other receivables at 31 December 2008 were debtors with a carrying value of USD 66 million (2007: USD 76 million) that were past due but not impaired. Management of the Group believes that these amounts are recoverable in full.

Ageing of other receivables past due but not impaired was as follows:

	31/12/2008	31/12/2007
Less than 180 days	55	36
180-365 days	11	35
More than 365 days	–	5
	66	**76**

Movement in the allowance for doubtful debts was as follows:

	31/12/2008	31/12/2007
Balance at beginning of the year	**52**	**71**
Change in allowance	51	(9)
Accounts receivable written-off	(48)	(16)
Reclassified to long-term accounts receivable	(13)	–
Effect of translation to presentation currency	(7)	6
Balance at end of the year	**35**	**52**

Included in allowance for doubtful debts is a specific allowance against other receivables of USD 21 million (2007: USD 16 million) from entities placed into bankruptcy. The allowance represents the difference between the carrying amount of these receivables and the present value of the expected proceeds on liquidation. The Group did not hold collateral in respect of these balances.

33. ADVANCES PAID AND PREPAID EXPENSES

	31/12/2008	31/12/2007
Advances paid	91	151
Prepaid insurance	27	32
Total	**118**	**183**

At 31 December 2008, advances paid were presented net of impairment of USD 7 million (2007: USD 7 million). During the year ended 31 December 2008, an impairment loss of USD 4 million (2007: USD 1 million) was recognised.

US Dollars million

34. CASH AND CASH EQUIVALENTS

		31/12/2008	31/12/2007
Current accounts	- foreign currencies	1,251	384
	- RUR	281	320
Bank deposits	- foreign currencies	413	3,087
	- RUR	12	209
Restricted cash		36	6
Other cash and cash equivalents		2	2
Total		**1,995**	**4,008**

Restricted cash consists of cash equivalents that were held as collateral for outstanding letters of credit.

35. ASSETS CLASSIFIED AS HELD FOR SALE

At 31 December 2008, construction-in-progress in the amount of USD 13 million attributable to Activox Refinery Project was classified as asset held for sale and presented separately in the consolidated balance sheet (refer to note 25).

On 2 November 2007, management of the Group made a decision to dispose of LLC “Norilsk-Telecom” and its subsidiaries (“Norilsk-Telecom”). The principal activity of Norilsk-Telecom was to provide telecommunication services in the Krasnoyarsk region.

Assets and liabilities attributable to Norilsk-Telecom were classified as a disposal group held for sale and presented separately in the consolidated balance sheet. The Group’s share in Norilsk-Telecom was sold in May 2008 for a cash consideration of USD 53 million (refer to note 46). The difference between the carrying value of assets and liabilities and the expected proceeds from disposal of USD 15 million was recognised as impairment of property, plant and equipment.

The major classes of assets and liabilities classified as held for sale at 31 December 2007 were as follows:

	31/12/2007
Property, plant and equipment (refer to note 25)	35
Trade and other receivables	11
Cash and cash equivalents	8
Inventory	2
Other assets	4
Total assets held for sale	**60**
Trade and other payables	4
Employee benefit obligations	2
Other liabilities	3
Total liabilities associated with assets held for sale	**9**
Net assets held for sale	**51**

Management of the Group determined that the sale of Norilsk-Telecom does not constitute a discontinued operation.

US Dollars million

36. SHARE CAPITAL

Authorised, issued and fully paid share capital

	31/12/2008		31/12/2007	
	Number of shares	**Outstanding balance**	**Number of shares**	**Outstanding balance**
Ordinary shares at par value of RUR 1 each	190,627,747	8	190,627,747	8
Total	**190,627,747**	**8**	**190,627,747**	**8**

Treasury shares

	31/12/2008		31/12/2007	
	Number of shares	**Outstanding balance**	**Number of shares**	**Outstanding balance**
Balance at beginning of the year	**1,710,884**	**–**	**9,209,834**	**(999)**
16 November 2007: re-issuance of shares	–	–	(7,498,950)	999
September 2008: acquisition of shares	6,613,286	889	–	–
October - December 2008: acquisition of shares	7,710,279	1,726	–	–
Balance at end of the year	**16,034,449**	**2,615**	**1,710,884**	**–**

On 16 November 2007, 7,498,950 of the Company's shares were re-issued from treasury stock at USD 285 per share for a total consideration of USD 2,137 million. Direct expenses in the amount of USD 10 million and income tax associated with reissuance in the amount of USD 272 million were deducted from proceeds.

In September 2008, three subsidiaries of the Group – OJSC "Norilsky Kombinat", OJSC "Kolskaya Mining and Metallurgical Company" and OGK-3 transferred cash in the amount of USD 1,016 million under trust management agreements to OJSC AKB "Rosbank" and CJSC "Investment company "Troika-Dialog". At 31 December 2008, USD 889 million of this amount, including direct expenses associated with acquisitions, was used to acquire 6,613,286 shares of the Company. Accordingly, in the consolidated financial statements for the year ended 31 December 2008, these shares were presented as treasury stock.

Immediately after acquisition of the Company's shares, OJSC AKB "Rosbank" as a trustee signed a number of forward contracts to sell 5,936,311 shares on 18 September 2009 at a 10% mark-up on the cost of acquisition.

On 22 August 2008, the Group announced a voluntary buy-back of up to 7,947,000 of its issued ordinary shares. At 31 December 2008, the Company acquired 7,710,279 of its own shares for a cash consideration of USD 1,726 million.

At 13 January 2009, the Company acquired a further 94,855 ordinary shares for a cash consideration of USD 20 million (refer to note 52).

US Dollars million

37. OTHER RESERVES

	Option premium on convertible notes	Investments revaluation reserve	Hedging reserve	Revaluation surplus	Translation reserve	Total
Balance at 31 December 2006	–	**997**	**(15)**	–	**1,580**	**2,562**
Increase in fair value of available-for-sale investments	–	465	–	–	–	**465**
Effect of change in classification of available-for-sale investments to investments in associates due to increase of ownership	–	(222)	–	43	(4)	**(183)**
Loss on cash flow hedge	–	–	(16)	–	–	**(16)**
Translation of foreign operations	–	–	–	–	(206)	**(206)**
Effect of translation to presentation currency	–	–	–	–	1,201	**1,201**
Net income recognised directly in equity	–	**243**	**(16)**	**43**	**991**	**1,261**
Impairment of available-for-sale investments	–	24	–	–	–	**24**
Other reserves disposed of on disposal of subsidiaries	–	–	–	–	(5)	**(5)**
Total recognised income and expense	–	**267**	**(16)**	**43**	**986**	**1,280**
Issuance of ordinary shares from treasury stock, net of direct expenses and attributable income tax	–	–	–	–	(77)	**(77)**
Balance at 31 December 2007	–	**1,264**	**(31)**	**43**	**2,489**	**3,765**
Decrease in fair value of available-for-sale investments	–	(1,410)	–	–	(89)	**(1,499)**
Impact of change in income tax rate in the Russian Federation	–	(6)	–	–	–	**(6)**
Gain on cash flow hedge	–	–	6	–	–	**6**
Translation of foreign operations	–	–	–	–	(204)	**(204)**
Effect of translation to presentation currency	–	–	–	–	(3,260)	**(3,260)**
Net loss recognised directly in equity	–	**(1,416)**	**6**	–	**(3,553)**	**(4,963)**
Realised loss on disposal of cash flow hedge	–	–	2	–	–	**2**
Realised gain on disposal of available-for-sale investments	–	(102)	–	–	(2)	**(104)**
Impairment of available-for-sale investments	–	232	–	–	–	**232**
Impact of change in income tax rate in the Russian Federation	–	6	–	–	–	**6**
Other reserves disposed of on disposal of subsidiaries	–	–	–	–	(9)	**(9)**
Total recognised income and expense	–	**(1,280)**	**8**	–	**(3,564)**	**(4,836)**
Issuance of convertible notes	19	–	–	–	–	**19**
Balance at 31 December 2008	**19**	**(16)**	**(23)**	**43**	**(1,075)**	**(1,052)**

US Dollars million

38. BORROWINGS

			31/12/2008		31/12/2007	
		Currency	**Rate, %**	**Outstanding balance**	**Rate, %**	**Outstanding balance**
Bank loans, including:						
Societe Generale, syndicated loan	(i)	USD	LIBOR+ 0.53-0.60	3,486	LIBOR+ 0.53-0.60	3,473
Calyon, syndicated loan	(ii)	USD	LIBOR+ 0.85-1.00	1,489	–	–
Societe Generale, syndicated loan	(iii)	USD	LIBOR+0.43	450	LIBOR+0.43	200
Deutsche Zentral-Genossenschaftsbank, syndicated loan	(iv)	USD	LIBOR+0.60	338	–	–
Sampo Bank	(v)	USD	LIBOR+0.45	50	–	–
BNP Paribas	(vi)	USD	–	–	LIBOR+ 0.30-0.40	2,497
Sberbank	(vii)	RUR	–	–	8.75	612
Toronto Dominion	(viii)	USD	–	–	LIBOR+2.50	95
ANZ Syndicate	(ix)	AUD	–	–	BBSY+ 0.61-1.01	66
Other		varies	varies	18	varies	21
Promissory notes	(x)	RUR	–	–	5.50	580
Guaranteed notes	(xi)	USD	7.125	500	7.125	499
Exempt Facility Reversal Bonds Series 2000	(xii)	USD	8.57	29	8.57	29
Convertible notes Stillwater Mining Company	(xiii)	USD	6.40	80	–	–
Total				**6,440**		**8,072**
Less: current portion due within twelve months and presented as short-term borrowings				**(872)**		**(3,971)**
Long-term borrowings				**5,568**		**4,101**

The maturity profile of the Group's borrowings was as follows:

	31/12/2008	31/12/2007
Due within one month	13	8
Due from one to three months	–	597
Due from three to twelve months	859	3,366
Total short-term borrowings	**872**	**3,971**
Due in the second year	3,190	825
Due in the third year	1,219	2,247
Due in the fourth year	838	665
Due in the fifth year	34	333
Due thereafter	287	31
Total long-term borrowings	**5,568**	**4,101**
Total	**6,440**	**8,072**

38. BORROWINGS (CONTINUED)

(i) ***Societe Generale –*** A USD 3,500 million syndicated loan, which includes two credit lines for USD 2,000 million and USD 1,500 million, arranged by Societe Generale and BNP Paribas. The credit line in the amount of USD 2,000 million is arranged for five years at floating rate of LIBOR + 0.53% (effective rate 1.00%, comparative 5.39%) per annum up to 29 June 2010 and LIBOR + 0.63% (effective rate 1.10%, comparative 5.49%) per annum thereafter and secured by assignment of rights for proceeds from metal supply agreements of Metal Trade Overseas S.A. and Norilsk Nickel Europe Limited, subsidiaries of the Group. The secured credit line in the amount of USD 2,000 million is to be repaid in equal quarterly instalments after a twenty four month grace period with the final instalment due on 29 June 2012. The credit line in the amount of USD 1,500 million is unsecured and arranged for three years at floating rate of LIBOR + 0.60% per annum (effective rate 1.07%, comparative 5.46%), and is due in full in June 2010. Interest is payable on a monthly basis at the rate varying based on the credit rating of the Company.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios and restrictions on pledging and disposal of certain assets.

(ii) ***Calyon –*** A USD 1,500 million syndicated loan arranged by Calyon, the Bank of Tokyo-Mitsubishi UFJ Limited, Bayerische Hypo- und Vereinsbank AG, ING Wholesale Banking, Societe Generale, Sumitomo Mitsui Finance Dublin Limited, The Royal Bank of Scotland Plc and WestLB AG includes three credit lines of USD 750 million secured long-term loan, a USD 550 million secured revolving credit facility and a USD 200 million unsecured revolving facility. The credit lines of USD 750 million and USD 550 million were arranged for three years at floating rate of LIBOR + 0.85% (effective rate 1.32%) per annum and secured by assignment of rights for proceeds from metal supply agreements of Metal Trade Overseas S.A. and Norilsk Nickel Europe Limited, subsidiaries of the Group. The credit line in the amount of USD 200 million was arranged for three years at floating rate of LIBOR + 1% (effective rate 1.47%) per annum. These credit lines are to be repaid in six equal quarterly instalments after an eighteen month grace period with the final instalment due on 24 June 2011. Interest is payable on a monthly basis for the revolving credit facilities of USD 550 million and USD 200 million and on a quarterly basis for secured long-term loan of USD 750 million.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios and restrictions on pledging and disposal of certain assets.

(iii) ***Societe Generale –*** A USD 450 million syndicated unsecured revolving credit facility arranged by Societe Generale, Barclays Capital and ING Wholesale Banking, with a floating rate of LIBOR + 0.43% (effective rate 0.90%, comparative 5.36%) per annum, is due in full on 12 March 2012. Interest is payable on a monthly basis.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios and restrictions on pledging and disposal of certain assets.

(iv) ***Deutsche Zentral-Genossenschaftsbank –*** A USD 376 million term credit facility arranged by Deutsche Zentral-Genossenschaftsbank, ING Bank N.V., Bayerische Landesbank and Calyon Deutschland consisting of four tranches. At 31 December 2008, the Group obtained a ten-year loan of USD 355 million under this credit facility, at floating rate of LIBOR + 0.60% (effective rates vary from 1.43% to 2.49%) per annum. The loan was guaranteed by Euler Hermes Kreditversicherungs-AG, Hamburg, Germany. All tranches are to be repaid in twenty equal semi-annual instalments with the final instalments due on 31 July 2018, 13 November 2018, 11 December 2018 and 28 January 2019. Interest is payable semi-annually.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios and restrictions on pledging and disposal of certain assets.

(v) ***Sampo Bank –*** A USD 50 million unsecured loan arranged by Sampo Bank at a floating rate of LIBOR + 0.45% per annum (effective rate 1.91%). The loan is to be repaid in twenty eight equal monthly instalments after a one year grace period with the final instalment due on 31 December 2012. Interest is payable quarterly.

US Dollars million

38. BORROWINGS (CONTINUED)

(vi) ***BNP Paribas –*** A USD 2,500 million unsecured loan consisted of two credit lines for USD 1,000 million and USD 1,500 million. The credit line in the amount of USD 1,000 million was arranged at floating rate of LIBOR + 0.30% per annum (effective rate 5.16%). Credit line in the amount of USD 1,500 million was arranged at LIBOR + 0.40% per annum (effective rates 5.26% and 5.64% for different tranches). The loan was repaid in full on 30 June 2008.

(vii) ***Sberbank –*** A USD 612 million unsecured loan, with a fixed rate of 8.75% per annum. The loan was repaid on 12 November 2008.

(viii) ***Toronto Dominion –*** A USD 250 million credit facility arranged by Stillwater Mining Company ("SWC"), a subsidiary of the Group, at floating rate of LIBOR + 2.50% per annum (effective rate 7.38%). The loan was repaid in full on 12 March 2008.

(ix) ***ANZ Syndicate*** – A USD 118 million credit facility arranged by LionOre Mining International Limited, a subsidiary of the Group, was secured by shares of subsidiaries of LionOre Group located in Australia and repayable in equal monthly instalments starting from March 2007, with the final instalment in December 2008. The loan was repaid in full at maturity date. The interest rate varied from the Bill Rate of the Reserve Bank of Australia ("BBSY") + 0.61% (effective rate 8.18%) to BBSY + 1.01% (effective rate 8.58%) per annum.

(x) ***Promissory notes*** – Promissory notes were issued by OJSC "MMC Norilsk Nickel" in September 2007 with an effective interest rate 5.50% per annum. The promissory notes were redeemed in full during the period from February to April 2008.

(xi) ***Guaranteed notes*** – On 30 September 2004, Norilsk Nickel Luxemburg S.A., a wholly owned subsidiary of the Group, issued USD 500 million 7.125% notes. The notes were issued at par with an interest payable semi-annually in arrears on 30 March and 30 September, and the principal due on 30 September 2009.

The notes are unconditionally and irrevocably guaranteed by OJSC "MMC Norilsk Nickel".

(xii) ***Exempt Facility Reversal Bonds Series 2000 –*** A USD 29 million bond issued by Stillwater Mining Company, a subsidiary of the Group, on 6 July 2002, with an effective interest rate of 8.57% and due in full on 1 July 2020. Interest is payable semi-annually.

(xiii) ***Convertible Notes Stillwater Mining Company*** – On 12 March 2008, SWC issued 181,500 convertible notes, at USD 1,000 per note, out of which 80,000 notes were acquired by the Group.

Conversion may occur at any time between 12 March 2008 and 15 March 2028 at a premium of 32% to the price of SWC share at the date of issuance of convertible notes. If the notes are not converted, they can be redeemed during the period from 22 March 2013 to 15 March 2028 but not later than 15 March 2028 at USD 1,000 per note. Interest of 1.875% per annum is payable semi-annually in arrears on 15 March and 15 September until the settlement date.

The net proceeds received from the issue of the notes have been split between the liability element and an equity component, representing the residual attributable to the option to convert the liability into equity of the Group, as follows:

Proceeds from issue (net of debt issuance costs)	97
Liability component at date of issue	(78)
Equity component	**19**

The interest charged for the period is calculated by applying an effective interest rate of 6.4%. The liability component is measured at amortised cost.

The option premium on convertible notes represents equity component (conversion rights) on 101,500 (net of 80,000 held by the Group) 1.875% convertible notes issued during the period.

US Dollars million

39. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Due within one year	20	3	13	2
Due in the second year	17	2	11	2
Due in the third year	22	–	18	–
Due in the fourth year	13	–	12	–
	72	**5**	**54**	**4**
Less: Future finance charges	(18)	(1)	n/a	n/a
Present value of lease obligations	**54**	**4**	**54**	**4**
Less: Amount due for settlement within one year and shown under current liabilities			**(13)**	**(2)**
Amount due for settlement after one year			**41**	**2**

The Group leases production equipment and transport under a number of finance lease agreements. The average lease term is 3 years (2007: 4 years). For the year ended 31 December 2008 the weighted average effective interest rate was 16% (2007: 10%). Majority of the leases are on a fixed repayment basis and denominated in Botswana Pula. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

	31/12/2008	31/12/2007
Carrying value of leased production equipment	56	9

40. EMPLOYEE BENEFIT OBLIGATIONS

	31/12/2008	31/12/2007
Defined benefit pension plans assets	–	8
Total assets	**–**	**8**
Wages and salaries	193	206
Accrual for annual leave	174	164
Defined benefit obligations	10	6
Defined contribution obligations	9	11
Other	11	2
Total obligations	**397**	**389**
Less: Non-current obligations	**(11)**	**(11)**
Current obligations	**386**	**378**

Defined benefit plans liabilities/(assets)

	31/12/2008	31/12/2007
Present value of defined benefit obligations	224	240
Fair value of plans assets	(118)	(148)
Present value of unfunded obligations	**106**	**92**
Plan assets above limits	4	19
Unrecognised past service cost	(5)	(1)
Unrecognised actuarial losses	(95)	(112)
	10	**(2)**

US Dollars million

40. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

Net benefit expense recognised in the consolidated income statement

	Year ended 31/12/2008	Year ended 31/12/2007
Current service costs	2	2
Expected return on plans assets	(12)	(8)
Additional cost arising from new plan members	8	15
Net actuarial losses recognised during the year	31	22
Plan assets above limits recognised during the year	4	19
Gain arising from curtailment	—	(5)
Interest expense	16	10
Total	**49**	**55**
Actual losses/(returns) on plan assets	41	(7)

Movements in the fair value of plans assets were as follows:

	Lifelong professional pension plan	Joint corporate pension plan
Balance at 31 December 2006	**—**	**11**
Contributions from the employer	70	64
Expected return on plans assets	4	4
Actuarial gain	—	(2)
Benefits paid	(6)	(4)
Effect of translation to presentation currency	4	3
Balance at 31 December 2007	**72**	**76**
Contributions from the employer	19	14
Expected return on plans assets	6	6
Actuarial gain	(20)	(21)
Benefits paid	(9)	(1)
Effect of translation to presentation currency	(11)	(13)
Balance at 31 December 2008	**57**	**61**

Movements in the present value of the defined benefit obligations were as follows:

	Lifelong professional pension plan	Joint corporate pension plan	Other
Balance at 31 December 2006	**81**	**38**	**—**
Acquired on acquisition of subsidiaries	—	—	16
Benefits paid	(6)	(4)	—
Current service cost	—	16	1
Interest cost	6	3	1
Actuarial loss/(gain)	92	(7)	(2)
Gain on curtailment	—	—	(5)
Effect of translation to presentation currency	6	4	—
Balance at 31 December 2007	**179**	**50**	**11**
Benefits paid	(9)	(1)	(1)
Current service cost	—	8	2
Interest cost	11	4	1
Actuarial loss	6	6	3
Effect of translation to presentation currency	(30)	(13)	(3)
Balance at 31 December 2008	**157**	**54**	**13**

US Dollars million

40. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

Starting from 2006, all of the Group's pension plans are managed by a non-state Pension Fund "Norilsk Nickel". Contributions from the Group to this Fund during the year ended 31 December 2008, amounted to USD 67 million (2007: USD 201 million).

The major categories of pension plans assets and the expected rate of return at the balance sheet dates for each category were as follows:

	Expected return		Fair value of pension plans assets	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Equity instruments	25.2%	9.8%	18	37
Bonds	10.4%	6.6%	75	76
Deposits	12.7%	6.6%	25	35
Weighted average expected return	**13.1%**	**7.4%**	**118**	**148**

The following tables summarise the present value of defined benefit obligations and fair value of the pension plans assets and experience adjustments for them for the current year and previous four annual periods:

	31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Defined benefit obligations	224	240	119	104	70
Plans assets	(118)	(148)	(11)	–	–
Deficit	**106**	**92**	**108**	**104**	**70**
Experience adjustments on plans assets	(41)	(1)	–	–	–
Experience adjustments on plans liabilities	(41)	(70)	(6)	–	–

Key assumptions used in estimation of defined benefit obligations were as follows:

	Year ended 31/12/2008	Year ended 31/12/2007
Discount rate	9.1%	6.6%
Expected rate of return on plans assets	13.1%	7.4%
Pre-retirement increases to capital accounts	9.1%	6.6%
Future salary increases	12.9%	6.6%
Future pension increases	9.9%	9.2%
Average life expectancy of members from the date of retirement	17 years	17 years

Defined contribution plans

Amounts recognised in the consolidated income statement in respect of defined contribution plans were as follows:

	Year ended 31/12/2008	Year ended 31/12/2007
Pension Fund of the Russian Federation	207	199
Shared accumulated pension program	34	1
Stillwater Mining Company savings plan	6	5
Corporate pension option program	–	56
Other	7	13
Total	**254**	**274**

US Dollars million

41. SHARE APPRECIATION RIGHTS

OJSC "MMC Norilsk Nickel" long-term key management personnel compensation plan

On 7 April 2008, the Group granted Share Appreciation Rights ("SARs") to key management personnel of Russian entities of the Group that entitle them to a cash payment ("MMC NN incentive plan"). The amount of the cash payment is determined based on a number of vested "phantom" shares, increase in the share price of the Company and achievement of a targeted growth in total shareholders return in excess of the total growth in shareholders return of companies comprising HSBC index, between the grant date and vesting dates. The expected future dividends were incorporated in the option fair value determination by adding them back to the estimated weighted average price of the company at the corresponding point of time. The program is divided into three stages and is effective until 6 April 2011.

Norilsk Nickel International long-term employee incentive plan

On 1 January 2008, the Group granted SARs to key management personnel of foreign entities of the Group that entitle them to a cash payment ("NN International incentive plan"). The amount of the cash payment to eligible employees is determined based on number of vested "phantom" shares, volume-weighted share price of the Company for the calendar quarter preceding vesting date and achievement of targeted volumes of saleable nickel production, between grant date and vesting dates. In calculation of fair value of share appreciation rights for each of the vesting years, the present value of dividends assumed to be paid before the movement of vesting is subtracted from the value of the stock as at valuation date, which is a start value of the future share price development. The program is divided into three stages and is effective until 31 December 2010.

The compensation cost related to SARs and the corresponding liability, are set out in the table below:

	MMC NN incentive plan	NN International incentive plan
Expense arising from SARs granted for the year	24	4
Effect of changes in fair value of SARs	(1)	–
Forfeited during the year	(12)	(2)
Exercised during the year	–	(1)
Balance at end of the period	**11**	**1**

The significant assumptions used in the valuation model regarding amount of liabilities for cash-settled arrangements were as follows:

	MMC NN incentive plan	NN International incentive plan
Expected volatility of the Company share on MICEX	39.0%	39.0%
Expected volatility of the Company share on LSE	30.0%	n/a
Expected volatility of HSBC index	45.0%	n/a
Risk-free interest rate	0.7%	0.7%
Dividend yield on HSBC index	1.5%	n/a
Expected salable nickel production volumes for 2008 year, tonnes	n/a	89,186
Expected salable nickel production volumes for 2009 year, tonnes	n/a	83,173
Expected salable nickel production volumes for 2010 year, tonnes	n/a	83,153

US Dollars million

42. ENVIRONMENTAL OBLIGATIONS

	Decommis-sioning obligations	Provision for land restoration	Total
Balance at 31 December 2006	**318**	**4**	**322**
New obligations raised (refer to note 25)	3	–	**3**
Change in estimate (refer to note 25)	86	–	**86**
Acquired on acquisition of subsidiaries (refer to note 6)	89	6	**95**
Unwinding of discount on decommissioning obligations (refer to note 21)	22	1	**23**
Charge to income statement	27	3	**30**
Effect of translation to presentation currency	24	–	**24**
Balance at 31 December 2007	**569**	**14**	**583**
New obligations raised (refer to note 25)	35	–	**35**
Change in estimate (refer to note 25)	16	–	**16**
Unwinding of discount on decommissioning obligations (refer to note 21)	33	–	**33**
Charge to the income statement	–	(2)	**(2)**
Effect of translation to presentation currency	(99)	(2)	**(101)**
Balance at 31 December 2008	**554**	**10**	**564**

During 2008, the Group reassessed the amount of decommissioning obligations for its operations in the Russian Federation due to changes in inflation and discount rates, and the results of an independent audit of ore reserves affecting the expected mines closure dates. As a result, additional decommissioning obligations were raised, which was presented as change in estimate.

Key assumptions used in estimation of environmental obligations were as follows:

	31/12/2008	31/12/2007
Discount rates	5.0% – 12.0%	6.0% – 7.7%
Future expected increase of expenses	25.0%	25.0%
Expected closure date of mines	up to 2054	up to 2056

Present value of expected cost to be incurred for settlement of environmental obligations was as follows:

	31/12/2008	31/12/2007
Due from second to fifth year	209	148
Due from sixth to tenth year	19	72
Due from eleventh to fifteenth year	74	53
Due from sixteenth to twentieth year	183	156
Due thereafter	79	154
	564	**583**

43. TRADE AND OTHER PAYABLES

	31/12/2008	31/12/2007
Financial liabilities		
Trade payables	281	352
Insurance payable	4	22
Payables for acquisition of property, plant and equipment	78	44
Payables for treasury shares	47	–
Other creditors	135	168
Total financial liabilities	**545**	**586**
Non-financial liabilities		
Provision for onerous contracts	51	–
Total non-financial liabilities	**51**	**–**
Total	**596**	**586**

US Dollars million

43. TRADE AND OTHER PAYABLES (CONTINUED)

The maturity profile of the Group's financial liabilities was as follows:

	31/12/2008	31/12/2007
Due within one month	322	406
Due from one to three months	151	45
Due from three to twelve months	72	135
Total	**545**	**586**

44. DERIVATIVE FINANCIAL INSTRUMENTS

	31/12/2008	31/12/2007
Cash flow hedges		
Nickel future contracts	4	10
Platinum future contracts	–	6
Total cash flow hedges	**4**	**16**
At fair value through profit and loss		
Derivatives held for trading	11	11
Total at fair value through profit and loss	**11**	**11**
Less: current portion due within twelve months and presented under current liabilities	**(15)**	**(24)**
Long-term derivative financial liabilities	**–**	**3**

The maturity profile of the Group's derivative financial liabilities was as follows:

	31/12/2008	31/12/2007
Cash flow hedges		
Due within one month	1	2
Due from one to three months	1	7
Due from three to twelve months	2	7
Total	**4**	**16**
At fair value through profit and loss		
Due from one to three months	11	2
Due from three to twelve months	–	6
Due from one to five years	–	3
Total	**11**	**11**

Derivative financial liabilities designated as at fair value through profit and loss were as follows:

	31/12/2008	31/12/2007
Derivatives held for trading, at fair value	11	11
	11	**11**
Change in fair value due to change in market risk factors	–	72
Realised gain on derivatives held for trading	44	6
Income on derivatives classified as held for trading	**44**	**78**

Derivatives held for trading represent nickel futures that were entered into by Norilsk Nickel Harjavalta Oy and valued at 31 December 2008 at fair value of total portfolio of futures contracts. The portfolio consisted of contracts with expiration dates between January and March 2009.

At 31 December 2007, derivatives held for trading represented nickel and copper forward contracts entered into by Norilsk Nickel Africa after the approval of Activox Project in August 2006, valued at fair value and closed at the end of December 2008.

US Dollars million

45. DIVIDENDS

On 30 June 2008, the Company declared a final dividend in respect of the year ended 31 December 2007 in the amount of RUR 112 (USD 4.77) per share. The total amount of USD 902 million, recognised in the consolidated financial statements, net of USD 8 million due to Group subsidiaries, was paid to the shareholders on 29 August 2008.

On 21 December 2007, the Company declared an interim dividend in respect of the year ended 31 December 2007 in the amount of RUR 108 (USD 4.36) per share. The total amount of USD 792 million, recognised in the consolidated financial statements, net of USD 7 million due to Group subsidiaries, was paid to the shareholders on 7 February 2008.

On 28 June 2007, the Company declared a final dividend in respect of the year ended 31 December 2006 in the amount of RUR 120 (USD 4.64) per share. The total amount of USD 842 million, recognised in the consolidated financial statements, net of USD 8 million due to Group subsidiaries, was paid to the shareholders on 16 August 2007.

46. DISPOSAL OF SUBSIDIARIES

On 5 May 2008, the Group sold its interest in LLC “Norilsk-Telecom”, a 100% subsidiary of the Group, for a cash consideration of USD 53 million. The carrying value of Norilsk Telecom net assets at the date of disposal amounted to USD 55 million.

On 24 March 2008, the Group sold its interest in Nor-Med Limited, a 75% subsidiary of the Group, for a cash consideration of USD 2 million. The carrying value of Nor-Med Limited net assets at the date of disposal amounted to USD 3 million.

On 25 May 2007, the Group sold its interest in Vimon Investments Limited BVI, a company which owned the entire share capital of CJSC “Kraus-M”, a subsidiary of the Group, to a related party for a cash consideration of less than USD 1 million (refer to note 47). Under the terms of the sale agreement, intragroup debt of Vimon Investments Limited amounting to USD 41 million was assigned to the buyer. The carrying value of Vimon Investments Limited net assets at the date of disposal amounted to USD 18 million.

At the dates of disposal aggregated net assets of the subsidiaries disposed of were as follows:

	Year ended 31/12/2008	**Year ended 31/12/2007**
Property, plant and equipment	45	73
Intangible assets	1	–
Trade and other receivables	22	3
Inventories	3	–
Other taxes receivable	1	4
Cash and cash equivalents	8	–
Employee benefit obligations	(2)	–
Deferred tax liabilities	(3)	(14)
Borrowings	(6)	(48)
Trade and other payables	(11)	–
Group’s share of assets disposed of	**58**	**18**
Loss on disposal	(3)	(18)
Proceeds from disposal of subsidiary	**55**	**–**
Less: Cash and cash equivalents disposed of	(8)	–
Net cash inflow from disposal of subsidiaries	**47**	**–**

US Dollars million

47. RELATED PARTIES

Related parties are considered to include shareholders, affiliates and entities under common ownership and control of the Group's major shareholders and key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

	Sale of goods and services		Purchase of goods and services	
Transactions with related parties	**Year ended 31/12/2008**	**Year ended 31/12/2007**	**Year ended 31/12/2008**	**Year ended 31/12/2007**
Entities under common ownership and control of the Group's major shareholders	64	200	92	102
Associates of the Group	21	15	124	255
Total	**85**	**215**	**216**	**357**

On 20 December 2008, OGK-3 purchased from the Smart Hydrogen Incorporated, an associate of the Group, 35% of Plug Power Incorporated for a cash consideration of USD 33 million (refer to note 28).

During the year ended 31 December 2008, the Group provided loans to entities under common ownership and control of the Group's major shareholders in the amount of USD 78 million and to associates of the Group in the amount of USD 46 million (2007: USD 51million and USD 21 million, respectively).

Interest income received by the Group from entities under common ownership and control of the Group's major shareholders amounted to USD 12 million and from associates of the Group amounted to USD 1 million for the year ended 31 December 2008 (2007: USD 25 million and USD 1 million, respectively).

In May 2007, the Group sold its investment in a subsidiary to entity under common ownership and control of the Group's major shareholders for a cash consideration of less than USD 1 million (refer to note 46).

	Investments and cash		Accounts receivable	
Outstanding balances with related parties	**31/12/2008**	**31/12/2007**	**31/12/2008**	**31/12/2007**
Entities under common ownership and control of the Group's major shareholders	–	1,488	23	29
Associates of the Group	21	20	1	3
Total	**21**	**1,508**	**24**	**32**

	Loans and borrowings received		Accounts payable	
Outstanding balances with related parties	**31/12/2008**	**31/12/2007**	**31/12/2008**	**31/12/2007**
Entities under common ownership and control of the Group's major shareholders	–	8	9	22
Associates of the Group	–	–	21	15
Total	**–**	**8**	**30**	**37**

All balances are expected to be settled in cash. At 31 December 2008, the Group recognised impairment provision for loans provided to the related parties of the Group in the amount of USD 140 million (2007: USD 70 million) (refer to note 29) and for accounts receivable from the related parties of the Group in the amount of USD 4 million (2007: USD 3 million).

US Dollars million

47. RELATED PARTIES (CONTINUED)

Terms and conditions of transactions with related parties

Sales to and purchases from related parties of electricity, heat energy and natural gas supply were made at prices established by the Federal Utility Committee and Federal Tariff Service, government regulators responsible for establishing and monitoring prices on the utility and telecommunication markets in the Russian Federation.

Sales of construction, transportation, repair and other services were made at prices calculated at budgeted cost, generally determined based on Russian accounting standards, of services plus a margin varied from 1% to 25%.

Loans were provided to related parties at the rate 6.5% for RUR-denominated loans (2007: from 6.4% to 8.0%) and from 5.6% to 6.1% for USD-denominated loans (2007: 6.1%).

Compensation of key management personnel

Remuneration of key management personnel of the Group was as follows:

	Year ended 31/12/2008	Year ended 31/12/2007
Salary and performance bonuses	57	39
Termination benefits	24	1
Share appreciation rights	4	–
Social security taxes	2	1
Total	**87**	**41**

48. COMMITMENTS

Capital commitments

At 31 December 2008, contractual capital commitments amounted to USD 890 million.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2033. According to the terms of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of lease period and an option to buy land at any time, at a price established by the local authorities.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2008 were as follows:

Due within one year	12
From one to five years	21
After five years	28
Total	**61**

Intergovernmental agreement with Kingdom of Norway

In 2001, the governments of the Russian Federation and Kingdom of Norway signed an intergovernmental agreement in respect of provision of technical assistance in the reconstruction of metallurgical facilities of Pechenganickel Combine, a branch of OJSC "Kolskaya Mining and Metallurgical Company". Total investments in the reconstruction of metallurgical facilities were agreed to be USD 175 million, financed as follows:

Grants from Kingdom of Norway	42
Loan from Nordic Investment Bank	30
Contribution by the Group	103
Total	**175**

At 31 December 2008, total investment of the Group in reconstruction of metallurgical facilities of Pechenganickel Combine amounted to USD 18 million.

48. COMMITMENTS (CONTINUED)

Long-term contract with Talvivaara

OMG Harjavalta, a subsidiary of the Group, has entered into a ten-year agreement with Talvivaaran Kaivososakeyhtiö Oy ("Talvivaara") to purchase total output of intermediate product containing nickel and cobalt at future prevailing market prices. During this period the Group is obliged to purchase at least 300,000 tons of nickel.

Long-term contracts with OM Group

In 2007, the Group entered into a five-year supply agreement with OM Group Incorporated to supply up to 2,500 metric tons (mt) per year of cobalt, up to 2,500 mt per year of cobalt contained in cobalt hydroxide concentrate and up to 1,500 mt per year of cobalt contained in cobalt sulphate solution, along with various nickel and copper based raw materials produced by Harjavalta Nickel Oy.

Social commitments

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

The Group's commitments will be funded from its own cash resources.

49. CONTINGENCIES

Litigation

At 31 December 2008, unresolved tax litigation amounted to approximately USD 18 million (2007: USD 55 million). Management believes that the risk of an unfavourable outcome of the litigation is possible.

In 2007 Federal Service for Supervision of Natural Resource Usage of the Russian Federation ("Federal Service") required the Group to compensate for the damage of water resources in the amount of USD 240 million. In 2008 Federal Service has filed a lawsuit against the Group in the amount of USD 148 million. Management of the Group estimates the risk of satisfying this claim as possible.

In addition, the Group had a number of claims and litigation relating to sales and purchases of goods and services. 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 the development stage, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

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

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

49. CONTINGENCIES (CONTINUED)

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

With regards to matters where practice concerning payment of taxes is unclear, management estimate possible tax exposure at 31 December 2008 to be USD 234 million (2007: USD 146 million).

Environmental matters

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

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

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements and the terms of license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

Recent volatility in global and Russian financial markets

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that certain assets may be not be recovered at their carrying amount in the ordinary course of business. In addition, in development of certain of the Group's critical estimates and areas of critical judgment, management uses projected cash flows. These projected cash flows are dependent on various assumptions including historical experience and growth rates. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group.

US Dollars million

50. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital structure in order to safeguard the Group's ability to continue as a going concern and to maximise the return to shareholders through the optimisation of debt and equity balance.

The capital structure of the Group consists of debt, which includes long- and short-term borrowings, cash and cash equivalents and equity attributable to shareholders of the parent company, comprising issued capital, other reserves and retained earnings.

Management of the Group regularly reviews its gearing ratio, calculated as the proportion of net debt to equity to ensure that it is in line with the Group's investment grade, international peers and current rating level requirements.

The Group is subject to external capital requirements imposed by banks on certain loans, such as gearing ratio of not exceeding 75%. During 2008 the Group complied with external capital requirements.

Financial risk factors and risk management structure

In the normal course of its operations, the Group is exposed to a variety of financial risks: market risk (including interest rate, currency and equity investments price risk), credit risk and liquidity risk. The Group has in place risk management structure and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Risk management is carried out by a financial risk management department, which is part of treasury function. The Group has adopted and documented policies covering specific areas, such as market risk management system, credit risk management system, liquidity risk management system and use of derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group's interest rate risk arises from long- and short-term borrowings at floating rates.

The Group performs thorough analysis of its interest rate risk exposure regularly. Various scenarios are simulated. Based on these scenarios, the Group is able to calculate the financial impact of an interest rate shift of 4%. The table below details the Group's sensitivity to a 4% increase in those borrowings subject to a floating rate. The sensitivity analysis is prepared assuming that the amount of liabilities at floating rates outstanding at the balance sheet date was outstanding for the whole year.

	LIBOR-impact	
	Year ended 31/12/2008	**Year ended 31/12/2007**
Loss	233	251

Management believes that the Group's exposure to interest rate risk fluctuations does not require additional hedging activities.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument denominated in foreign currency will fluctuate because of changes in exchange rates.

The major part of the Group's revenue and related trade accounts receivable is denominated in US dollars and therefore the Group is exposed primarily to USD currency risk. Foreign exchange risk arising from other currencies is assessed by management of the Group as immaterial.

US Dollars million

50. FINANCIAL RISK MANAGEMENT (CONTINUED)

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2008 and 2007 were as follows:

	Assets		Liabilities	
	31/12/2008	**31/12/2007**	**31/12/2008**	**31/12/2007**
USD	1,999	5,273	6,339	6,764
EURO	142	66	63	86
AUD	–	2	–	–
Other currencies	24	21	48	14
Total	**2,165**	**5,362**	**6,450**	**6,864**

Currency risk is monitored on a monthly basis utilising sensitivity analysis to asses if a risk for a potential loss is at an acceptable level. The Group calculates the financial impact of exchange rate fluctuations within 20% on profit for the year in respect of USD-denominated assets and liabilities. The following table presents the increase/(decrease) of the Group's profit before tax to a 20% strengthening of the functional currencies of the Group entities against USD.

	US Dollar - impact	
	31/12/2008	**31/12/2007**
USD/RUR	879	345
USD/BWP	(11)	(46)
USD/AUD	–	–

Management has assessed the Group's exposure to currency risk is at an acceptable level and thus no exchange rate hedges are used.

Equity investments price risk

The Group is also exposed to equity investments price risk arising from equity investments. Certain portion of the Group's investments is held for strategic rather than trading purposes. The sensitivity analysis below has been determined based on exposure to equity price risks at the reporting date.

If equity prices had been 15% higher:

- loss for the year ended 31 December 2008 would have been unaffected as the quoted investments are classified as available-for-sale (2007: USD nil);
- investment revaluation reserve within equity balance would increase by USD 50 million (2007: USD 380 million).

If equity prices had been 15% lower:

- loss for the year ended 31 December 2008 would increase by USD 8 million as a result of increase of impairment loss (2007: USD nil);
- investment revaluation reserve within equity balance would decrease by USD 42 million (2007: USD 380 million).

In 2008, the Group's sensitivity to equity investments price risk changed significantly compared to 2007 due to recent volatility in global and Russian financial markets and significant decrease of fair value of all available-for-sale investments.

50. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposures to customers, including outstanding uncollateralised trade and other receivables. The Group's exposure to credit risk is continuously monitored and controlled.

Prior to dealing with new counterparty, management assesses the credit worthiness of a potential customer or financial institution. Where the counterparty is rated by major independent credit-rating agencies, this rating is used to evaluate creditworthiness; otherwise it is evaluated using an analysis of the latest available financial statements of the counterparty.

Credit limits for the Group as a whole are not set up.

The balances of ten major counterparties are presented below:

	Outstanding balance	
	31/12/2008	**31/12/2007**
Bank A	1,286	3,438
Bank B	1,214	665
Bank C	180	642
Bank D	55	593
Bank E	70	550
Total	**2,805**	**5,888**
Company A	65	10
Company B	15	37
Company C	12	40
Company D	8	41
Company E	5	5
Total	**105**	**133**

The Group is not economically dependent on a limited number of customers because majority of its products are highly liquid and traded on the world commodity markets. Metal and other sales to the Group's customers are presented below:

	Year ended 31/12/2008			**Year ended 31/12/2007**		
	Number of customers	**Turnover, USD million**	**%**	**Number of customers**	**Turnover, USD million**	**%**
Largest customer	1	895	6	1	1,392	8
Next 9 largest customers	9	3,502	25	9	4,589	27
Total	**10**	**4,397**	**31**	**10**	**5,981**	**35**
Next 10 largest customers	10	1,774	13	10	1,986	12
Total	**20**	**6,171**	**44**	**20**	**7,967**	**47**
Remaining customers		7,809	56		9,152	53
Total		**13,980**	**100**		**17,119**	**100**

The Group had a concentration of cash and bank deposits with a related party commercial bank that at 31 December 2007 represented 9% of total cash and bank deposit balance. During the year ended 31 December 2008, this bank ceased to be a related party of the Group.

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

US Dollars million

50. FINANCIAL RISK MANAGEMENT (CONTINUED)

The maximum exposure to credit risk for cash and cash equivalents, loans and trade and other receivables is as follows:

	31/12/2008	31/12/2007
Cash and cash equivalents	1,995	4,008
Loans, trade and other receivables	2,054	4,459

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group has a well-developed liquidity risk management structure to exercise control over its short-, medium- and long-term funding. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities. Management continuously monitors rolling cash flow forecasts and performs analysis of maturity profiles of financial assets and liabilities, and undertakes detailed annual budgeting procedures.

Presented below is the maturity profile of the Group's borrowings (maturity profiles for other liabilities presented in notes 39, 43 and 44) based on contractual undiscounted payments, including interest:

31/12/2008	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due there-after
Fixed rate bank loans and borrowings									
Principal	**627**	9	–	506	1	1	–	–	110
Interest	**84**	3	7	20	4	4	4	4	38
	711	**12**	**7**	**526**	**5**	**5**	**4**	**4**	**148**
Floating rate bank loans									
Principal	**5,813**	4	–	353	3,189	1,218	838	34	177
Interest	**167**	6	12	52	50	22	8	5	12
	5,980	**10**	**12**	**405**	**3,239**	**1,240**	**846**	**39**	**189**
Total	**6,691**	**22**	**19**	**931**	**3,244**	**1,245**	**850**	**43**	**337**
31/12/2007									
Fixed rate bank loans and borrowings									
Principal	**1,745**	8	376	824	504	2	–	–	31
Interest	**148**	10	19	65	29	2	2	2	19
	1,893	**18**	**395**	**889**	**533**	**4**	**2**	**2**	**50**
Floating rate bank loans									
Principal	**6,331**	–	222	2,543	323	2,245	665	333	–
Interest	**606**	29	57	183	190	113	32	2	–
	6,937	**29**	**279**	**2,726**	**513**	**2,358**	**697**	**335**	**–**
Total	**8,830**	**47**	**674**	**3,615**	**1,046**	**2,362**	**699**	**337**	**50**

US Dollars million

50. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2008 and 2007, the Group had following financing facilities for the management of its day to day liquidity requirements:

	31/12/2008	31/12/2007
Committed credit lines		
Credit lines arranged by BNP Paribas (Suisse) S.A. and Societe Generale	3,500	6,000
Syndicated credit facility arranged by Calyon, Bank of Tokyo-Mitsubishi UFJ Ltd., Bayerische Hypo-und Vereinsbank AG (a member of UniCredit Group), ING Wholesale Banking, Societe Generale, Sumitomo Mitsui Banking Corporation, The Royal Bank of Scotland Plc	1,500	–
Syndicated revolving credit facility arranged by Barclays Capital, ING Bank N.V. and Societe Generale	450	450
Syndicated credit facility arranged by Bayerische Landesbank, Calion Deutschland, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main and ING Bank N.V., Frankfurt Branch	376	–
OJSC “Gazprombank”	44	–
OJSC “Sberbank”	–	611
Syndicated revolving credit facility arranged by Societe Generale	–	400
Total committed credit lines	**5,870**	**7,461**
Uncommitted credit lines		
OJSC “Bank of Moscow”	300	–
CJSC “Commerzbank (Eurasia)”	200	40
CJSC “Calyon Rusbank”	150	65
CJSC “BNP Pariba”	125	75
CJSC “ING Bank (Eurasia)”	100	100
CJSC “Raiffeisenbank”	100	40
LLC “Deutsche Bank”	56	58
OJSC “Uralsib Bank”	50	50
CJSC “BSGV”	40	40
VTB Bank (France) SA	25	489
OJSC AKB “MBRR”	20	20
CJSC “West LB Vostok”	12	83
“Barclays Bank” PLC	5	–
CJSC “Drezdner Bank”	3	50
CJSC “Natexis Bank”	–	50
LLC “HSBC Bank (RR)”	–	40
OJSC “Eurofinance Mosnarbank”	–	38
CJSC “Citibank”	–	25
Total uncommitted credit lines	**1,186**	**1,263**
Bank overdraft facilities		
ING (Switzerland)	100	100
Rosbank (Russia)	85	102
BNP Paribas Suisse (Switzerland)	75	75
Credit Suisse (Switzerland)	75	75
Natexis (France)	75	75
Banque Cantonale Vaudoise (Switzerland)	50	50
UBS (Switzerland)	40	40
Sampo (Finland)	–	45
Total bank overdraft facilities	**500**	**562**
Total borrowing facilities	**7,556**	**9,286**
Less: Outstanding letters of credit	(530)	(587)
Less: Obtained bank loans related to the above facilities	(5,805)	(6,811)
Net facilities available at the end of the year	**1,221**	**1,888**

US Dollars million

51. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that the carrying value of financial instruments such as cash (refer to note 34), short-term accounts receivables (refer to note 32) and payables (refer to note 43), short-term loans given (refer to note 29), derivative financial instruments (refer to note 44), short-term and long-term available-for-sale investments (refer to note 29), values of which were mainly determined with reference to quoted market prices, approximate their fair value.

Certain financial instruments such as held-to maturity financial assets, long-term accounts receivable and finance leases obligations were excluded from fair value analysis either due to their insignificance or due to the fact that assets were acquired or liabilities assumed close to the reporting dates and management believes that their carrying value either approximates their fair value or may not significantly differ from each other.

Presented below is information about loans and borrowings, whose carrying values differ significantly from their fair values.

	31/12/2008		31/12/2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans and borrowings				
Fixed-rate guaranteed and convertible notes	609	539	528	543
Variable-rate loans and borrowings	5,831	5,635	6,352	6,352
Total	**6,440**	**6,174**	**6,880**	**6,895**

The fair value of financial assets and liabilities presented in table above is determined as follows:

- the fair value of fixed rate guaranteed and convertible notes was determined based on market quotations existing at the reporting dates; and
- the fair value of variable-rate loans and borrowings at 31 December 2008, was calculated based on the present value of future cash flow (principle and interest), discounted at the best management estimation of market rates, taking into consideration currency of the loan, expected maturity and risks attributable to the individual borrower exists at the reporting date. The discount rates ranged from 2.15% to 3.80% for USD-denominated loans and borrowings. The fair value of variable rates loans and borrowings at 31 December 2007 approximate their carrying value.

52. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Buy-back of the Company issued ordinary shares

At 13 January 2009, the Company acquired 94,855 of its shares for a cash consideration of USD 20 million (refer to note 36).

Change of export custom duties

The government of Russian Federation amended customs tariffs on certain metal exports, which are effective from 29 January 2009. As a result, the following export customs tariffs are applicable to certain Group’s products:

- 2009 ─ 10% (2008: 10%) of the relevant customs value for refined copper and untreated copper alloy;
- 2009 ─ nil (2008: 10%) of the relevant customs value for copper cathode and cathode sections; and
- 2009 ─ nil (2008: 5%) of the relevant customs value for unalloyed nickel.

Had the new export custom duties been applicable during the year ended 31 December 2008, loss before tax for the year would have decreased by USD 313 million as a result of decrease of selling and distribution expenses.

Australian operations

On 16 February 2009, management of the Group made a decision to place on indefinite care and maintenance the Black Swan and Lake Johnson nickel operations in Australia.

53. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

			Effective % held	
Subsidiaries by business segments	**Country**	**Nature of business**	**31/12/2008**	**31/12/2007**
Mining and metallurgy				
OJSC "RAO "Norilsk Nickel"[1]	Russian Federation	Investment holding	100.0	98.9
CJSC "NORMETIMPEX"	Russian Federation	Distribution	100.0	100.0
OJSC "Kolskaya Mining and Metallurgical Company"	Russian Federation	Mining	100.0	100.0
LLC "Institut Gypronickel"	Russian Federation	Science	100.0	100.0
OJSC "Norilsky Kombinat"[1]	Russian Federation	Rental of equipment	99.9	98.8
OJSC "Kombinat "Severonickel"[1]	Russian Federation	Rental of equipment	100.0	98.9
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"[1]	Russian Federation	Rental of equipment	100.0	98.9
LLC "Norilskgeologiya"	Russian Federation	Geological works	100.0	100.0
LLC "GRK "Bystrinskoye"[1]	Russian Federation	Mining	99.9	98.8
Norilsk Nickel (Asia) Limited	China	Distribution	100.0	100.0
Norimet Limited	Great Britain	Investment holding	100.0	100.0
Norilsk Nickel Europe Limited	Great Britain	Distribution	100.0	100.0
Norilsk Nickel Finance Luxembourg S.A.	Luxembourg	Financing	100.0	100.0
Norilsk Nickel Holding S.A.	Switzerland	Investment holding	100.0	100.0
Metal Trade Overseas S.A.	Switzerland	Distribution	100.0	100.0
Stillwater Mining Company	United States of America	Mining	53.5	54.5
Norilsk Nickel USA	United States of America	Distribution	100.0	100.0
Norilsk Nickel (Cyprus) Limited	Cyprus	Investment holding	100.0	100.0
Norilsk Nickel Harjavalta Oy[2]	Finland	Metallurgy	100.0	100.0
Norilsk Nickel Finland Oy[2]	Finland	Investment holding	100.0	100.0
Norilsk Nickel Cawse Pty Limited[2]	Australia	Mining	100.0	100.0
MPI Nickel Limited[2]	Australia	Mining	100.0	100.0
Norilsk Nickel Australia Pty Limited[2]	Australia	Mining	100.0	100.0
Norilsk Process Technology Pty Limited[2]	Australia	Science	100.0	100.0
Tati Nickel Mining Company Pty Limited[2]	Botswana	Mining	85.0	85.0
Norilsk Nickel Africa Pty Limited[2]	Republic of South Africa	Mining	100.0	100.0
Energy and utility				
OJSC "Taimyrgaz"[1]	Russian Federation	Gas extraction	98.7	98.4
OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya"[3]	Russian Federation	Electricity production and distribution	100.0	100.0
OJSC "Taimyrenergo"[1]	Russian Federation	Rental of equipment	99.9	98.8
OJSC "OGK-3"[4]	Russian Federation	Electricity production and distribution	82.7[5]	65.2
Transport and logistics				
OJSC "Yenisey River Shipping Company"	Russian Federation	River shipping operations	43.9	43.9
OJSC "Arkhangelsk Sea Commercial Port"[6]	Russian Federation	Sea shipping operations	72.8	53.1
CJSC "Alykel"	Russian Federation	Airport	100.0	100.0
CJSC "Taimyrskaya Toplivnaya Kompaniya"	Russian Federation	Supplier of fuel	100.0	100.0
Other				
LLC "Norilsknickelremont"	Russian Federation	Repairs	100.0	100.0
LLC "UK "Zapolyarnaya stolitsa"	Russian Federation	Subcontractor in construction	100.0	100.0
LLC "Norilsk Telecom"[7]	Russian Federation	Telecommunications	–	100.0
LLC "Zapoliarnaya stroitelnaya companiya"	Russian Federation	Construction	100.0	100.0
LLC "Norilskyi obespechivaushyi complex" [1]	Russian Federation	Production of spare parts	99.9	98.8

[1] Increase of ownership in 2008 due to acquisition of shares in OJSC "RAO "Norilsk Nickel" (refer to note 6).
[2] Acquired in 2007 (refer to note 6).
[3] Increase of ownership in 2007 (refer to note 6).
[4] Acquired in 2007 with subsequent increase of ownership in 2008 (refer to note 6).
[5] The Group effective ownership in OGK-3 was calculated as follows:

- 60.7% of shares are held by the Company;
- 14.1% of shares are held by OJSC "Intergeneratsiya", a subsidiary of the Group;
- 4.5% of shares are transferred under repurchase agreements; and
- 3.4% of own shares acquired by OGK-3 in January-February 2008.

[6] Increase of ownership in 2008 (refer to note 6).
[7] Classified as asset held for sale at 31 December 2007 and disposed in 2008 (refer to note 35 and 46).

53. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (CONTINUED)

			Effective % held	
Associates by business segments	**Country**	**Nature of business**	**31/12/2008**	**31/12/2007**
Mining and metallurgy				
Nkomati Nickel Mine[1]	Republic of South Africa	Mining	50.0	50.0
Energy and utility				
Smart Hydrogen Inc.	British Virgin Islands	Holding company	50.0	50.0
Plug Power Inc.[2]	United States of America	Designer of energy products	28.8	17.3
RUSIA Petroleum[3]	Russian Federation	Gas extraction	20.7	–
OJSC “TGK-14”[4]	Russian Federation	Electricity production and distribution	27.8	27.7
OJSC “Krasnoyarskenergo”[5]	Russian Federation	Electricity production and distribution	–	25.7
OJSC “Norilskgazprom”	Russian Federation	Gas extraction	29.4	29.4
OJSC “Kolenergo”[5]	Russian Federation	Electricity production and distribution	–	24.9
OJSC “KTK”[6]	Russian Federation	Steam and hot water production	50.0	50.0

[1] Acquired in 2007 (refer to note 28).
[2] Smart Hydrogen Incorporated disposed of its 35% ownership in Plug Power Incorporated to the OGK-3 (refer to note 28).
[3] Acquired in 2008 (refer to note 28).
[4] Increase of ownership in 2008 (refer to note 28).
[5] Reorganaised to OJSC “MRSK Sibiri” and OJSC “MRSK Severo-Zapada” with decrease of Group’s ownership (refer to note 28).
[6] Established in 2007 (refer to note 28).