

OJSC «MMC NORILSK NICKEL»



ANNUAL REPORT 2002



Contents

	Page
1. Mission and strategy	2
2. Operating and IAS financial highlights	3
3. Letter from the General Director — Chairman of the Management Board	6
4. Letter from the Chairman of the Board of Directors	10
5. Review of plans made for 2002 and plans for 2003	13
6. Overview of operations	17
7. Production Plan to 2015	23
8. Review of corporate developments	27
9. Review of market developments	31
10. Risk factors	37
11. Review of operating performance	39
12. Review of distribution	49
13. Review of financial performance	53
14. Review of capital investments	59
15. Commitment to environmental protection	62
16. Overview of human resources, labor relations and social policies	65
17. Share capital and share prices	69
18. Corporate governance report	73
19. Information for shareholders	85
Appendix: Consolidated annual financial statements	

Mission and Strategy

Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel (“MMC Norilsk Nickel” or the “Company”) and its subsidiaries (the “Norilsk Nickel Group” or the “Group”) are the leading producers in Russia and among the leading producers in the world of base and platinum group metals (PGMs). The Norilsk Nickel Group’s joint products are nickel, copper, palladium, platinum and gold. The Group’s by-products are, amongst others cobalt, rhodium, silver, iridium and ruthenium. The Group is the world’s largest producer of nickel and palladium and one of the largest producers of platinum.

Mission — What is the key objective of the Norilsk Nickel Group?

- To increase long-term shareholder value

Strategy — How can this objective be achieved?

- Sustainable and effective development of existing production base,
- Reduction of costs and expenditures in main production areas,
- Development of independent energy supplies,
- Focus on efficient distribution, promotion and marketing of joint products,
- Improvement of financial management and introduction of state-of-the-art information technologies that facilitate higher efficiency of business operations and executive decision-making,
- Adherence to world-class corporate governance and investor relations practices,
- Identification of strategic opportunities in base, precious and other metals where the Norilsk Nickel Group has a strategic interest or a competitive advantage, and
- Divestment of non-core assets.

Operating Highlights

	2002	2001
Production volume		
Nickel from own ores ('000 tons)	218	223
Copper from own ores ('000 tons)	450	471
Gold ('000 ounces)	932 ⁽¹⁾	132
Platinum-group metals (compared with previous year, %)	101%	100%
Sales volume		
Nickel ('000 tons)	241	240
Copper ('000 tons)	442	449
Gold ('000 ounces)	1,326 ⁽¹⁾	82
Palladium (compared with previous year, %)	37%	63%
Platinum (compared with previous year, %)	74%	139%

Note:

⁽¹⁾ Assuming full year of production and sales for Polyus, which the Group acquired in November 2002. The gold output and sales of Polyus amounted to 807 thousand ounces in 2002. The financial statements of the Group consolidate 128 thousand ounces, which was the output for the period from date of acquisition to 31 December 2002.

Consolidated IAS Financial Highlights⁽¹⁾

(in millions of US Dollars or as noted)

	2002	2001
Gross metal sales revenue	3,094	4,382
Gross profit from metal sales	1,343	1,982
Profit attributable to ordinary shareholders	584	1,235
Headline earnings ⁽²⁾	315	411
Property, plant and equipment	6,350	6,050
Total assets	9,743	10,859
Total debt	822	2,079
Share capital and reserves	7,305	6,860
Total liabilities	2,438	3,999
Capital investments	351	510
Total number of issued shares, in millions	213.9 ⁽³⁾	213.9 ⁽⁴⁾
Fully diluted headline earnings per share, US cents	149.5	195.1
Declared dividend per share, US cents	68 ⁽⁵⁾	74

Notes:

⁽¹⁾ The consolidated financial statements of MMC Norilsk Nickel were prepared in accordance with International Accounting Standards (IAS). The 2002 financial statements were audited and the 2001 results were reviewed by Deloitte & Touche.

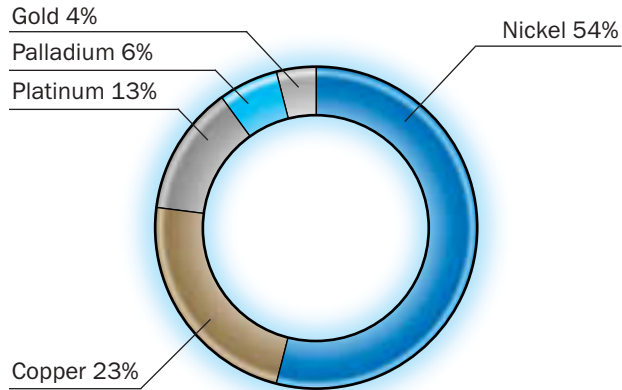
⁽²⁾ Excluding gains on embedded derivative of USD 269 and USD 824 million in 2002 and 2001, respectively.

⁽³⁾ Including 3.3 million of treasury shares.

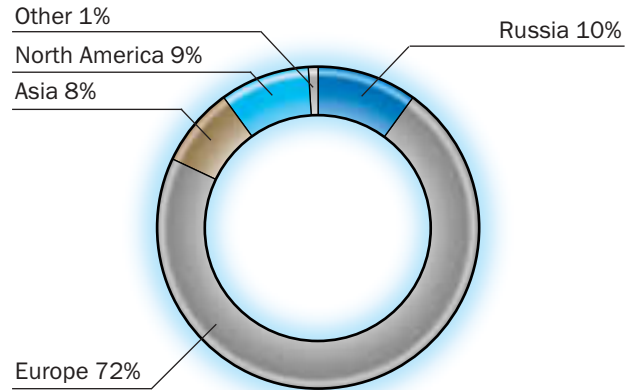
⁽⁴⁾ Excluding 38.8 million shares that were repurchased and cancelled in accordance with a resolution of the Extraordinary Meeting of Shareholders dated 29 March, 2002, and including 5.8 million of treasury shares.

⁽⁵⁾ On 4 June 2003, the Board of Directors proposed to the Annual Meeting of Shareholders a dividend of 21.7 roubles (USD 0.68) per share.

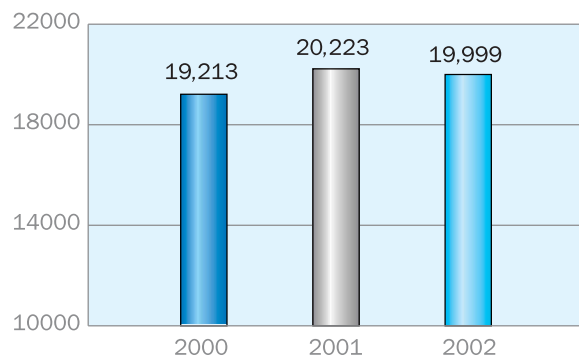
IAS revenue distribution by metal in 2002



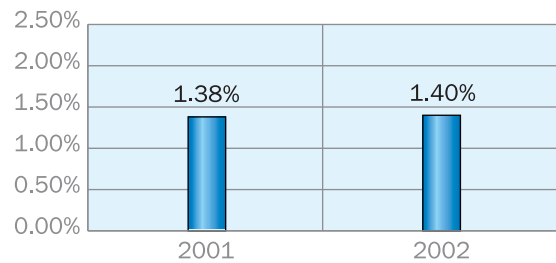
IAS revenue distribution by geographical market in 2002



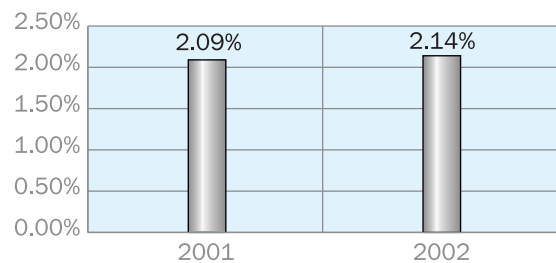
Volume of ore mined in Taimyr and Kola Peninsulas ('000 tons)



Average nickel content in ore mined in Taimyr and Kola Peninsulas (%)

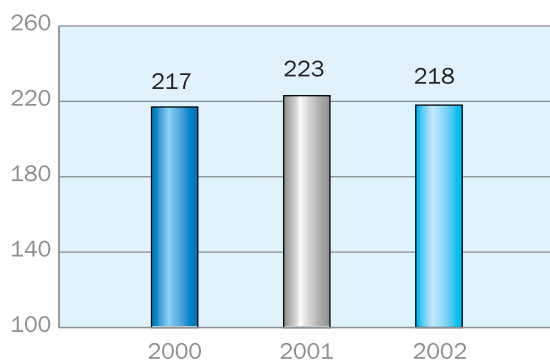


Average copper content in ore mined in Taimyr and Kola Peninsulas (%)



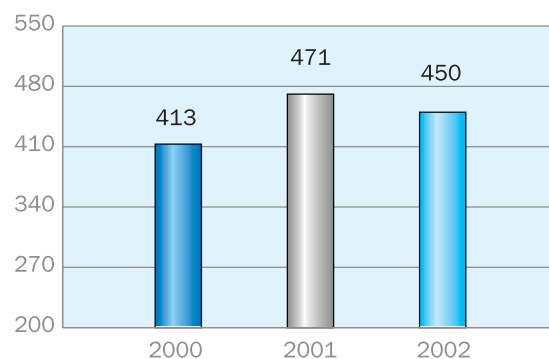
Volume of nickel production

('000 tons)



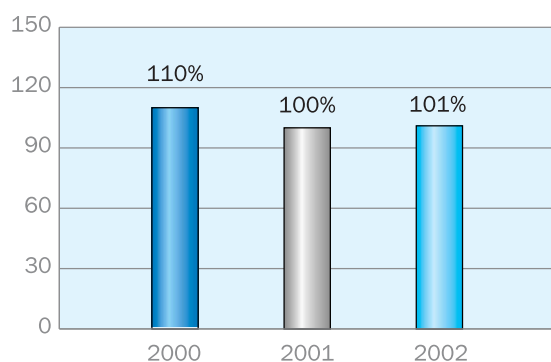
Volume of copper production

('000 tons)



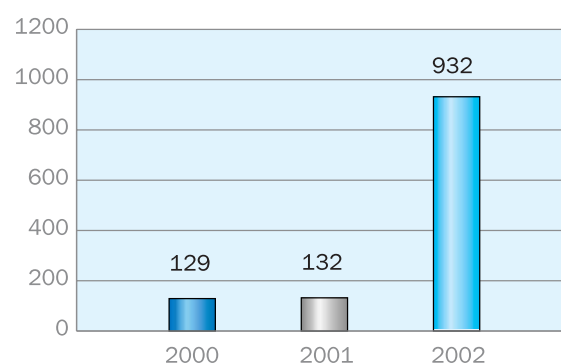
Volume of PGMs production

(as % of the previous year)



Volume of gold production⁽¹⁾

('000 ounces)



Note:

⁽¹⁾ Including 807 thousand ounces of gold produced by Polyus in 2002. The Group acquired Polyus in November 2002. The financial statements of the Group consolidate 128 thousand ounces, which was the output for the period from date of acquisition to 31 December 2002.

Letter from the General Director — Chairman of the Management Board



Dear Shareholders,

For the Norilsk Nickel Group, 2002 was a year of hard work and important accomplishments, laying a solid foundation for carrying out the plans and achieving the targets formulated by the Group's Management last year. In line with our mission to create long-term shareholder value, these plans were to:

- prepare the Production Plan to 2015,
- improve our operating performance,
- implement our new distribution policy,
- improve our corporate governance and disclosure,
- mitigate the environmental impact of our operations, and
- review and pursue strategic opportunities in Russia and abroad.

This annual report is an example of our progress and marks an important step in the life of the Group. For the first time the annual report includes audited

consolidated financial statements that have been prepared in compliance with the International Accounting Standards (IAS) and audited in accordance with International Standards on Auditing.

Results for the year — Operating and financial review

Several factors influenced world prices for the Group's products last year:

- slowdown in major economic centers,
- significant development of the role of China in the global industry,
- weak demand for palladium, and
- political instability generated by expectations of war in Iraq.

As a result of a combination of these factors, the palladium market in 2002 suffered from historical lows in demand and price. However, this was

offset by strong nickel and platinum prices and a growing gold price, once again confirming the stability that the exceptional diversity of our ores provides to our financial and operating performance.

In 2002, our nickel production decreased by 2.2% to 218 thousand tons and copper production by 4.5% to 450 thousand tons. Production of palladium and platinum remained at around 2001 levels. Our gold production in 2002 rose to 932 thousand ounces (assuming consolidation of a full year of production at Polyus of 807 thousand ounces) from 132 thousand ounces in 2001.

In 2002, the Group posted a net profit of USD 584 million on metal sales revenues of USD 3,094 million. Excluding a non-cash gain arising from the fair valuation of a financial instrument, the Group's 2002 headline earnings were USD 315 million compared to USD 411 million in 2001. This represented a slight increase in the headline earnings margin for the year, an accomplishment of which we are proud given the significant decline in revenues from palladium sales.

Gross metal sales revenues in 2002 decreased from USD 4,382 to USD 3,094, mainly due to an 86% drop in palladium sales (63% drop in terms of physical volumes) and the effect of the accounting treatment for hyperinflation. The drop in palladium sales arose from a combination of lower market prices and the short-term negative effect on sales volumes resulting from the Group's long-term palladium policy to enter into long-term contracts with end-users.

In 2002, the Group increased nickel sales revenue by 1% to USD 1,689 million, with 95% of sales outside Russia. Nickel sales in physical terms amounted to 241 thousand tons. Revenue from sales of copper reduced by 14% to USD 718 million, with 80% of sales outside Russia. Copper sales volume amounted to 442 thousand tons in 2002. Palladium sales decreased by 86% in USD terms to USD 187 million and by 63% in physical volume. Platinum sales revenue reduced by 29% to USD 387 million.

Revenue from gold sales increased by 319% to USD 113 million due to the Group's decision to stockpile gold in 2001 in anticipation of the elimination of Russian export duties on gold on 1 January 2002 and its acquisition of Polyus, Russia's largest gold producer in November 2002.

Cost of metal sales in 2002 decreased by 27% to USD 1,751 million. The main reasons for this change were lower physical volumes of palladium and platinum sales, lower purchases from third parties, the reduction in the tax on mining, and the Group's continued efforts to cut costs across our operations.

In 2002, the Group also managed important reductions in selling, general and administrative expenses and other expenses. Among these, the Group benefited from lower export customs duties, tax penalties and social costs (expenses on the maintenance of social sphere facilities and donations made).

Consequently despite the drop in gross metal sales revenues, the Group increased its headline earnings from 9% to 10% of gross metal sales revenues.

Shaping the future

In December 2002, the Group's management approved the Production Plan to 2015 for our operations in the Taimyr and Kola Peninsulas. The Plan was published in early 2003 after its approval by the Board of Directors. The Plan is based on the following four key principles:

- adjusting metal production volumes in line with expected market demand,
- increasing efficiency of production,
- identifying solutions to mitigate environmental impact of the Group's operations, and
- ensuring sustainability and cost-efficiency of the Group's operations.

In 2002, we continued to invest in our operations in the Taimyr and Kola Peninsulas. Capital investments totaled USD 351 million, of which around USD 117 million were spent on mining, USD 20 million on enrichment, USD 45 million in metallurgy and USD 28 million in energy.

New focus on distribution

In 2002, we made significant strides in our new distribution policy to target sales directly to end consumers and major regional distributors. In 2002, nickel sales to end consumers increased from 48% to 77% of total nickel sales, with only a minor increase in copper sales to 73% from 70% in 2001. The share of long-term contracts in 2002 accounted for 86% of nickel sales and 80% for copper sales.

In May 2002, Norimet, our London-based subsidiary, and Almazuvelirexport, the government entity responsible for the export of precious metals, signed an agreement, allowing Norimet to sell palladium, platinum and other PGMs directly to customers outside of Russia. This agreement was a dramatic development for both the Group and the palladium and platinum industry globally. We are confident that this agreement will allow us to solidify our relations with major end-users of palladium and platinum and revitalize our sales of these metals starting as early as 2003. To date, we have already seen evidence of this in the number of new contracts we have signed with end-users of palladium.

Another major step in this direction was the signing of definitive agreements with Stillwater Mining Company ("Stillwater"), based in the United States, whereby the Group will acquire a 51% interest in Stillwater for USD 100 million and 877 thousand ounces of palladium. The transaction provides us with excellent mining and metallurgical assets at an attractive price and a platform from which to increase significantly our palladium sales in North America.

Furthermore, Stillwater and the Group have agreed to negotiate in good faith within six months of completion of the transaction, an agreement under which Stillwater will purchase from the Group at least one million ounces of palladium per year for further resale under long-term contracts to end-users in North America.

We consider the above agreements as important steps in enhancing our future profitability and that the Stillwater transaction is in the best interests of

our shareholders and customers. This transaction is our first investment in North America and we are committed to making it a success.

Diversification — expansion into gold

The 2002 financial year saw our expansion into gold production. Through the acquisition of Polyus, we have become Russia's largest gold producer. The acquisition, at the attractive price of USD 226 million, was immediately accretive to earnings and provides us with a strong management team and platform from which to further expand our gold production.

Focus on core activities

As part of our strategy to focus on core activities we disposed of certain non-core assets in 2002, including our shares in Novolipetsk Metal Works, Cherepovets Steel-Rolling Plant and the Nakety laterite nickel project in New Caledonia. We have also made progress in our policy to dispose of non-core activities in the Taimyr and Kola Peninsulas.

Securing energy supplies and transportation links

Working in the remote conditions of the Taimyr Peninsula above the Arctic circle, we are committed to ensure our own stable and reliable energy supplies and secure transportation links. Consequently, during 2002 we increased our shareholdings in the Yenisey River Shipping Company and Krasnoyarskenergo and continued to develop the Pelyatka gas-condensate field. In February 2003 the first four wells of the Pelyatka field became operational.

Investing in environment protection

We are committed to mitigating the environmental impact of our operations. In 2002, we reduced total sulfur dioxide emissions in the Taimyr Peninsula and Kola Peninsula by 4.2% and 12.6%, respectively. Our Production Plan to 2015 outlines the environmental investments required to further reduce these emissions. We began a number of

these investments in 2002, including the reconstruction of the Pechenganickel Combine in the Kola Peninsula.

Investing in human resources

In 2002, we continued to invest in human resources and adhere to our policy of social responsibility. In addition to our existing personnel training programs, we launched a number of social programs for our employees. In 2002, an additional 486 employees participated in the Six Pensions Plan and 757 employees received life-long professional pensions. In December 2002, the Polar Division of MMC Norilsk Nickel launched the “Joint Corporate Pension” program to provide pension funds for retired employees relocating to the “Mainland”.

On behalf of the Management Board, I would like to thank all our employees for their conscientious efforts and our shareholders for their continued support. I strongly believe that the commitment of our employees combined with the support from our shareholders will provide a solid foundation for the Norilsk Nickel Group to further strengthen our position as a global leader in the mining industry.

Sincerely,

Michael D. Prokhorov

General Director and Chairman of the Management Board

4 June 2003

Letter from the Chairman of the Board of Directors



Dear Shareholders,

The year 2002 was remarkable for the extent of achievement and progress at the Norilsk Nickel Group. We strengthened our management structure, completed our restructuring, continued to optimize our existing operations, undertook strategic acquisitions, adhered to high standards of corporate governance and delivered solid financial returns despite difficult market conditions in palladium, one of our core metals.

Strengthening our management structure

In 2002, we strengthened our management team by adding two new members to our Management Board and by restructuring the management of the Polar Division of MMC Norilsk Nickel.

⁽¹⁾ Additional information on the members of the Management Board is provided in the section "Management Board of MMC Norilsk Nickel" (see page 76).

The new Management Board members are Jokves Rozenberg, who also became the Chairman of the Scientific and Technological Council of MMC Norilsk Nickel, and Igor Komarov, who was appointed as Chief Financial Officer. Prior to their appointments, Mr. Rozenberg was Deputy General Director of MMC Norilsk Nickel, and Mr. Komarov was Deputy Chairman of the Board of OAO AKB "Savings Bank of the Russian Federation" (Sberbank)⁽¹⁾.

In July 2002, we announced a change to the management structure of the Polar Division of MMC Norilsk Nickel. A new management board was created with Vitaly Bobrov as its head.

Completion of corporate restructuring

In 2002, we completed our corporate restructuring, the purpose of which was to make MMC Norilsk Nickel, the company which owns the operating

assets on the Taimyr Peninsula, the Group's capitalization center. Among other benefits, the new corporate structure has enabled the Group to pay dividends to our shareholders without double taxation.

Optimization of existing operations

Our Management Board and Board of Directors approved the Production Plan to 2015 which describes the mining plan and investments in mining, enrichment and metallurgical facilities that the Group will undertake at our operations in the Taimyr and Kola Peninsulas over the next twelve years⁽²⁾. The Plan demonstrates our commitment to improve efficiency at these operations and to mitigate the environmental impact of our operations. Over the course of the next three years, we have allocated considerable sums to fund research into the best solution for reducing sulfur dioxide emissions into the atmosphere. We are confident that we will be able to do so.

The expected annual investment required for the implementation of the Production Plan is estimated to be in the range of USD 300 to 450 million (including USD 300 to 400 million through 2005). These investments are intended to create long-term value for our shareholders, by providing a projected return on investment (ROI) and a projected internal rate of return (IRR) materially higher than 20% and an investment payback period of less than four to five years.

Strategic acquisitions

We are immensely proud of the four to strategic acquisitions that we undertook in 2002. These clearly demonstrate how quickly the Group has matured over the last few years.

As part of our strategy to diversify our revenue and earnings base through investing in strategic mining projects, we acquired the largest gold producer in Russia, Polyus, in November 2002 for USD 226 million (reflected as USD 233 million in the Group's financial statements due to hyperinflation accounting). We are looking forward to using this platform to participate in the consolidation of the highly attractive Russian gold mining industry.

In November 2002, as part of our effort to establish long-term relationships with users of palladium and platinum, we entered into definitive agreements to acquire 51% of the Stillwater Mining Company, in the form of newly issued shares for USD 100 million and 877 thousand ounces of palladium. We are very excited about this transaction as it is a key part of our strategy to revitalize our palladium sales. In addition, we are confident that we acquired a world-class mining asset at an attractive price.

Enhancing corporate governance

The Group is committed to adhering to world-class standards of disclosure and corporate governance. We continued to make progress in both areas during the year.

In 2002, we received the approval of the Russian Government to disclose information on our nickel and cobalt production and sales and reserves at certain ore bodies. Since the third quarter of 2002, we have regularly published our base metals figures. In 2003, Micon International Limited, an internationally recognized firm in this field, will audit the base metal reserves of the two Group's largest ore bodies in the Taimyr Peninsula: Talnakh and Oktyabrsky deposits.

In 2002, we made amendments to MMC Norilsk Nickel's charter and by-laws to embrace the standards and recommendations of the Corporate Governance Code issued by the Russian Federal Commission for the Securities Market. As part of our commitment to improve corporate governance practices, independent directors were elected to the Company's Board of Directors.

Delivering solid financial returns

Despite a significant drop in gross metal sales revenues from in 2002, we delivered a higher headline earnings margin, generated strong cash flows from operating activities, improved the structure of our current assets and liabilities, significantly reduced our borrowings, made investments in our existing operations, and made several strategic acquisitions.

⁽²⁾ For a more detailed discussion of the Production Plan to 2015, please go to page 24.

In fact, for the first time in recent years, the Group generated strong positive cash flows before financing activities. All this in a year that saw revenues from the sale of palladium drop by 86%.

In line with our dividend policy, the Board of Directors at its meeting on 4 June 2003, proposed for approval to the Annual General Meeting of Shareholders, to be held on 30 June 2003, a dividend of 21.7 roubles (USD 0.68) per share for a total amount of USD 145 million. This represents 25% of profit attributable to ordinary shareholders calculated in accordance with IAS.

On behalf of the Board of Directors, I would like to thank our Management Board and employees for the extraordinary efforts that they have made during this

remarkable year. We are immensely proud of what we have accomplished in 2002 and look forward to continuing to work together to create long-term value for our shareholders.

I also want to thank you, our shareholders, for your confidence as we continue along the process of making the Norilsk Nickel Group into a world-class mining and metals company.

Sincerely,

Andrey A. Klishas

Chairman of the Board of Directors

4 June 2003

REVIEW OF PLANS MADE FOR 2002 AND PLANS FOR 2003



Review of Plans Made for 2002 and Plans for 2003

Review of plans made for 2002	Plans for 2003
Production	
<ul style="list-style-type: none"> ✓ Optimize production of ores and metal — Publish the Production Plan to 2015 (approved by Management Board in 2002 but published in 2003, after approval by Board of Directors) 	<ul style="list-style-type: none"> ✓ Publish the Production Plan to 2015 • Optimize mining and metallurgical processes in accordance with the Production Plan to 2015 ✓ Bring the Pelyatka gas condensate deposit into operation
Distribution	
<ul style="list-style-type: none"> ✓ Increase sales of nickel and palladium under long-term contracts and to end consumers ✓ Cease sales of palladium to traders on the spot market 	<ul style="list-style-type: none"> • Increase metal sales in line with market demand • Further increase sales of base metals and PGMs under long-term contracts and to end consumers • Sign the PGM distribution agreement with Stillwater Mining Company
Finance	
<ul style="list-style-type: none"> ✓ Rationalize costs, including labor costs ✓ Introduce open tenders for the purchases of supplies and raw materials ✓ Reduce social infrastructure expenses ✓ Improve working capital management 	<ul style="list-style-type: none"> • Continue to improve financial and working capital management • Continue to reduce operating costs • Prepare for the introduction of a new management information system

Corporate development

- | | |
|--|--|
| <ul style="list-style-type: none"> ✓ Review and pursue new strategic opportunities domestically and internationally: <ul style="list-style-type: none"> • Purchase of Polyus, Russia's largest gold producer; and • Signing definitive agreements to acquire 51% of Stillwater Mining Company ✓ Sell non-core assets: shares in the Novolipetsk Metal Works and Cherepovetsky Steel Rolling Plant ✓ Review Nakety laterite nickel project in New Caledonia (made decision to exit) | <ul style="list-style-type: none"> • Review and pursue new strategic opportunities domestically and internationally • Complete the integration of Polyus into the Group • Complete the purchase of 51% of the Stillwater Mining Company |
|--|--|

Corporate governance

- | | |
|---|---|
| <ul style="list-style-type: none"> ✓ Effect changes to the Charter and by-laws to embrace the recommendations of the Code of Corporate Governance of the Federal Commission for the Securities Market ✓ Elect three independent directors to the Board of Directors ✓ Establish a Management Board with a clear allocation of responsibilities ✓ Announce a long-term dividend policy | <ul style="list-style-type: none"> • Raise the role of the Board of Directors • Increase the number of independent directors • Create Committees of the Board of Directors |
|---|---|

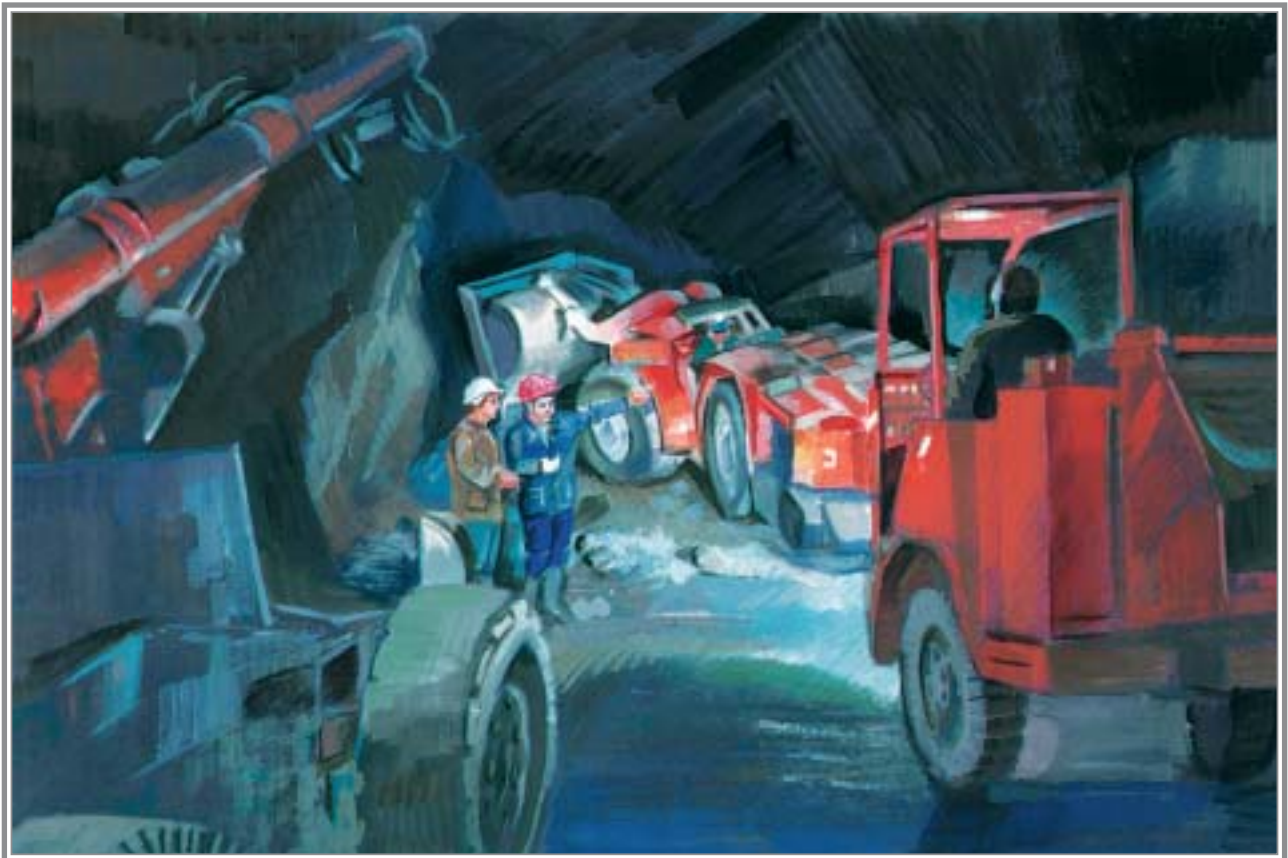
Information disclosure and transparency improvement

- | | |
|---|---|
| <ul style="list-style-type: none"> ✓ Release 2000 and 2001 IAS financial statements ✓ Remove state secrecy from the information on base metals production and sales, and on public disclosure ✓ Remove state secrecy from the base metals' reserves in the Talnakh and Oktyabrsky deposits ✓ Organize regular presentations and telephone conferences for investors | <ul style="list-style-type: none"> ✓ Release audited 2002 IAS financial statements before the Annual General Meeting of Shareholders • Publish quarterly IAS financial reports • Issue quarterly reports on base metals production and sales • Remove state secrecy from the data on PGMs reserves, production and sales (2003/2004) • Perform international audit of base metal reserves at the Talnakh and Oktyabrsky deposits • Organize regular presentations and telephone conferences for investors |
|---|---|

Key:

«✓» defines a plan that was implemented in 2002; «—» defines a plan that was not implemented in 2002; «•» defines a plan for 2003.

OVERVIEW OF OPERATIONS



Overview of Operations

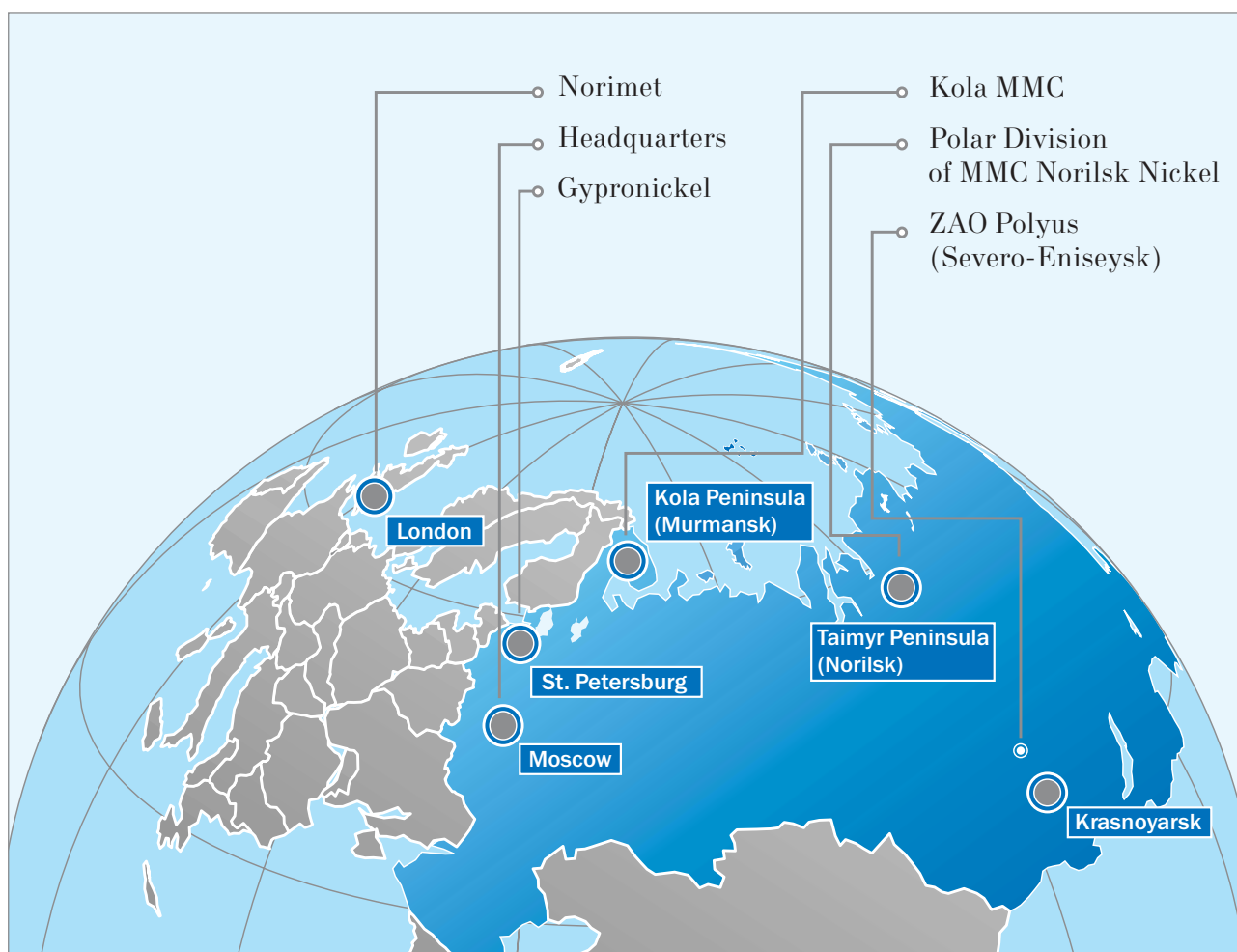
The Norilsk Nickel Group's main operating divisions are:

- the Polar Division of MMC Norilsk Nickel and ancillary activities, located in the Taimyr Peninsula,
- Kola MMC, and ancillary activities, located in the Kola Peninsula (incorporating the Pechenganickel and Severonickel Combines), and

- Polyus (acquired in November of 2002) located near Severo-Eniseysk in the Krasnoyarsk Region⁽¹⁾.

The Group has its headquarters in Moscow. Its distribution activities are managed through its Moscow headquarters and its London based subsidiary, Norimet Limited. The Group's research institute, Gypronickel, is located in St. Petersburg.

⁽¹⁾ Throughout this annual report, we will refer to activities in the Taimyr Peninsula as "Taimyr Peninsula", activities in the Kola Peninsula as "Kola Peninsula" and the activities of Polyus as "Severo-Eniseysk".



Mining

The Norilsk Nickel Group operates mines on the Taimyr Peninsula, the Kola Peninsula, and near Severo-Eniseysk in the Krasnoyarsk Region.

Taimyr and Kola Peninsula mines produce ores containing nickel, copper, palladium, platinum, gold and sundry by-products. The mines near Severo-Eniseysk produce ores containing gold.

Mine	Type of mine	Extracted ore ⁽¹⁾
Taimyr Peninsula		
Oktyabrsky deposit		
Oktyabrsky mine	Underground	Rich, cuprous, disseminated
Taimyrsky mine	Underground	Rich
Talnakh deposit		
Komsomolsky	Underground	Rich, cuprous
Mayak	Underground	Rich, disseminated
Skalistaya (under construction)	Underground	Rich
Norilsk 1 deposit		
Medvezhy Ruchey mine	Open pit	Disseminated
Zapolyarny mine	Underground	Disseminated
Kola Peninsula		
Zhdanovskoye deposit		
Tsentralny mine	Open pit	Disseminated
Severny Gluboky (under construction)	Underground	Disseminated
Zapolyarnoe deposit		
Severny mine	Underground	Disseminated
Kaula-Kotselvaara mine	Underground	Disseminated
Severo-Eniseysk⁽²⁾		
Olimpiadinskoe deposit	Open pit	Primary and oxidized

Notes:

⁽¹⁾ Rich ores have a higher content of base and precious metals, while cuprous ores have a higher content of copper. Disseminated ores have a lower content of all metals. Oxidized ores mined at the Olimpiadinskoe deposit have a higher content of gold than primary ores.

⁽²⁾ Polyus also holds licenses for the development of the Tyradinskoye, Olenye and Blagodatnoye fields, located near the Olimpiadinskoe gold deposit.

Enrichment

The Norilsk Nickel Group operates two enrichment plants in the Taimyr Peninsula (the Norilsk and Talnakh Enrichment Plants) and one in the Kola Peninsula (Pechenganickel's Enrichment Plant No.1).

Taimyr Peninsula

The Talnakh Enrichment Plant processes some of the rich and cuprous ores mined at the Talnakh-Oktyabrsky deposit to produce nickel, copper and pyrrhotite concentrates.

The Norilsk Enrichment Plant processes the entire volume of disseminated ores from deposits located on the Taimyr Peninsula, a portion of rich and cuprous ores from the Talnakh and Oktyabrsky deposits, and stored pyrrhotite concentrate to produce nickel and copper concentrates.

Kola Peninsula

The Group operates an enrichment plant in the Kola Peninsula. Pechenganickel's Enrichment Plant No. 1 processes disseminated ores extracted from the Kola Peninsula mines to produce collective copper/nickel concentrates.

Severo-Eniseysk (Polyus)

Please see the next section "Metallurgy".

Metallurgy

The Norilsk Nickel Group operates a Sinter Factory and three metallurgical plants in the Taimyr Peninsula (Nadezhda Metallurgical Plant, Copper Plant and Nickel Plant), three metallurgical facilities in the Kola Peninsula (Pechenganickel's Smelting Shop and Severonickel's Copper and Nickel Shops) and two metallurgical facilities near Severo-Eniseysk.

Taimyr Peninsula

The Nadezhda Metallurgical Plant processes nickel and pyrrhotite concentrates produced by the Talnakh Enrichment Plant and copper concentrates

from high-grade matte separation shop at the Nickel Plant to produce high-grade matte and copper anodes. The high-grade matte is sent to the Nickel Plant and the Severonickel Combine in the Kola Peninsula for further processing. The copper anodes are sent to the Copper Plant for refining.

The Sinter Factory and the Nickel Plant process nickel concentrates generated by the Norilsk Enrichment Plant, enriched stored pyrrhotite concentrates, and a portion of high-grade matte from the Nadezhda Metallurgical Plant, to produce nickel cathodes and cobalt.

The Copper Plant processes copper concentrates produced by the Norilsk and Talnakh Enrichment Plants and copper anodes from the Nadezhda Metallurgical Plant to produce copper cathodes.

The precious metals concentrate production shop, which is part of the Copper Plant, processes slimes from the electrolysis shops of the Copper Plant and the Nickel Plant into precious metal concentrates.

Kola Peninsula

The Smelting Shop of the Pechenganickel Combine processes concentrates generated by Pechenganickel's Enrichment Plant No.1, to produce high-grade mattes for further processing at the Severonickel Combine.

The Severonickel Combine processes high-grade mattes received from the Polar Division of MMC Norilsk Nickel and from the Pechenganickel Combine, along with scrap, waste and raw materials from both domestic and foreign suppliers. The main products of the Combine are nickel and copper cathodes and precious metals concentrates.

Severo-Eniseysk (Polyus)

At Severo-Eniseysk the Group operates two gold extraction plants using hydrometallurgical and bio-hydrometallurgical (bioleaching) technologies to process the primary and oxidized ores mined at the Olimpiadinskoe deposit.

Precious metals refining

The Norilsk Nickel Group processes its precious metal concentrates from the Taimyr and Kola Peninsulas and gold from Polyus under toll refining agreements at independent precious metals refineries (Krasnoyarsk Precious Metals Plant, Prioksk Precious Metals Plant and Ekaterinburg Precious Metals Plant).

Transportation

The Taimyr Peninsula is completely isolated from Russia's road and railroad networks. As a result, all goods are shipped to and from the Peninsula by sea, river or air. The Norilsk Nickel Group ships refined nickel and copper to end-users and high-grade mattes to the Kola Peninsula using the North Sea Route via the Group-owned Dudinka Port, located 60 kilometers from Norilsk on the Enisey River. The Group also uses the North Sea Route to receive raw materials and other supplies from Murmansk Commercial Sea Port and Arkhangelsk Commercial Sea Port (in which the Group has a 35% stake) and during summer months by the Enisey river. The North Sea Route is available for navigation with ice-breakers throughout the whole year, other than for several weeks in late spring when the ice melts and water levels rise. The only company providing shipping services on the North Sea Route is the Murmansk Sea Shipping Company.

To protect these critical transportation links, the Group recently signed a 10-year agreement with the Ministry of Transport of the Russian Federation under which the Government guarantees open shipping lanes via the North Sea Route. In 2002, the Group increased to 43.9% its stake in the Enisey River Shipping Company, the company providing shipping services on the Enisey River.

The Kola Peninsula and Severo-Eniseysk operations are fully connected to other parts of Russia and Europe by roads and railroads. The Kola Peninsula also benefits from its proximity to the Murmansk Port.

Energy

The Taimyr Peninsula is isolated from Russia's national power grid, hence all electricity and power is produced in the Peninsula. The main supplier of electrical power to the Group's operations is Norilskenergo, a division of the Group, operating three power plants using gas condensate. The remaining needs are covered by Taimyrenego, an entity wholly-owned by RAO Unified Energy Systems (RAO UES), which operates two hydro-electric plants. Fuel and gas are supplied by Norilskgazprom. To further increase the Group's autonomy with regard to energy supplies, Taimyrgaz, a subsidiary of MMC Norilsk Nickel, is currently developing the Pelyatka gas condensate deposit. It is expected that when it is fully operational, Pelyatka will supply all of the Group's gas needs in the Taimyr Peninsula through at least 2010.

The Group's energy needs in the Kola Peninsula and Severo-Eniseysk are met by Kolaenergo and Krasnoyarskenenergo (both RAO UES subsidiaries), respectively. In 2002, the Group increased its stake in Krasnoyarskenenergo to 23.5%.

Research, development and geology

The Norilsk Nickel Group performs certain technological research, development and undertakes certain geological work near its operations and in selected areas in Russia, using its own staff and resources and Russian research institutes (including the Group's Gypronickel research institute located in St. Petersburg).

The Group is committed to providing as much disclosure as is possible under Russian law concerning its geological assets. In 2003, the Group mandated Micon International Limited to audit the base metal reserves of its two largest bodies: Oktyabrsky and Talnakh deposits.

Distribution

The Norilsk Nickel Group markets its base metals internationally through its London-based subsidiary

Norimet Limited. The first half of 2002, Almaz-yuvelirexport, the Russian government entity responsible for the export of precious metals, was the exclusive export sales agent for platinum group metals.

In May 2002, Norimet and Almazyuvelirexport entered into a contract allowing Norimet to negotiate, market and sell palladium, platinum and other PGMs directly to international customers. Under the agreement, Almazyuvelirexport acts as the Group's export agent transporting metals from Russia, storing them abroad and receiving a commission fee for these services.

Before May 2002, the Group exported PGMs through RAO Norilsk Nickel and Almazyuvelirexport, which was the only agent authorized by the government to export PGMs. RAO Norilsk Nickel has a 10-year quota (expiring in 2008) for the export of palladium. MMC Norilsk Nickel has a 5-year quota for the export of platinum.

The Group's sales and marketing department, located at its Moscow headquarters, oversees Norimet's activities and is responsible for domestic sales of base and precious metals.

PRODUCTION PLAN TO 2015



Production Plan to 2015

In December 2002, the Management Board approved the Production Plan to 2015 for its operations in the Taimyr and Kola Peninsulas. In March 2003, the Board of Directors approved the Plan, at which time it was made public.

The Production Plan is based on the following four principles:

- adjusting metal production in line with expected market demand,
- increasing efficiency of production,
- identifying solutions to mitigate the environmental impact of the Group's operations, and
- ensuring the sustainability and cost-efficiency of the Group's operations.

The Group is confident that the implementation of the Production Plan to 2015 will provide for the maximum growth of long-term shareholder value and achieve the following investment criteria:

- a projected return on investment (ROI) and internal rate of return (IRR) on investments in production of significantly above 20%,
- investment pay back period of less than 4-5 years.

The Group estimates that the capital expenditures required to put in place its Production Plan to 2015 will average USD 300-450 million per year through 2015 (including USD 300-400 million per year in 2003-2005). These capital expenditures will be financed from internally generated funds.

The Production Plan to 2015 remains subject to future optimization based on the results of an extensive research and commercial testing program to be conducted through the end of 2005.

Overview

Adjusting metal production in line with expected market demand: focus on ores richer in the metals that demonstrate strong market fundamentals.

The Group will mine approximately 14 million tons of ore per year in the Taimyr Peninsula and approximately 6 million tons of ore per year in the Kola Peninsula.

In the Taimyr Peninsula, the Group will continue to mine approximately 8 million tons of rich ores per year and will increase its volumes of cuprous ores from 2.5 million tons per year in 2002 to approximately 5 million tons per year. Due to current enrichment capacity constraints, the Group will reduce its volumes of disseminated ores so as to maintain the total amount of ore mined in the Taimyr Peninsula close to the current level of 14 million tons per year.

The production of nickel in the Taimyr Peninsula is expected to average approximately 200 thousand tons per year, copper approximately 400 thousand tons per year, and palladium, platinum and gold approximately their respective current levels.

Subject to market developments through 2005, the Group may further increase its production of base metals and precious metals in the Taimyr Peninsula by increasing mining volumes and current capacity up to 20 million tons per year in subsequent years and by accelerating the processing of stored pyrrhotite and other concentrates.

The Group will maintain its volume of ore mined at approximately 6 million tons in the Kola Peninsula by bringing the Severny-Gluboky mine into operation. Production in the Kola Peninsula from locally mined ores is expected to average approximately 40 thousand tons per year for nickel and approximately 20 thousand tons per year for copper.

In total, the Group anticipates to produce approximately 240 thousand tons of nickel and 420 thousand tons of copper, and to maintain production of palladium, platinum and gold at their respective current levels.

Increasing efficiency of production: increase in metal extraction rates, reduction of consumption of resources and raw materials, reduction of costs of production

In the Taimyr Peninsula, the Group will develop the smelting facilities at the Copper Plant and the Nadezhda Metallurgical Plant and close the Sinter Factory and smelting shop of the Nickel Plant by

2007. These steps are currently expected to result in a reduction of approximately USD 50 million a year in smelting costs, mainly through energy costs, and to substantially reduce labor and general operating costs.

Depending on the results of the research to be conducted by the end of 2005, the Group will decide whether to introduce at its operations in the Taimyr Peninsula:

- collective flotation technology at its enrichment plants, which is currently estimated to increase extraction rates at the enrichment stage by 1% to 5% for base metals and PGMs, and
- high grade matte leach-refining technology at the Nadezhda Metallurgical Plant, allowing the Group to close down the Nickel Plant fully and realize an estimated reduction in electric power costs at the refining stage of up to 25%, reduction in expenses for materials and reagents of up to 20% and a substantial reduction in other operating expenses.

In the Kola Peninsula, the Group will continue to pursue opportunities to increase metal extraction rates, reduce consumption of resources and raw materials, and reduce costs of production.

Identifying solutions to mitigate the environmental impact of the Group's operations: significant reduction in air and water pollution

By closing the Sinter Factory and smelting shop at the Nickel Plant and smelting concentrates in auto-genous smelters at the Copper Plant and the Nadezhda Metallurgical Plant in the Taimyr Peninsula, the Norilsk Nickel Group expects to minimize the number of facilities releasing gases into atmosphere and increase the sulfur dioxide content in easy-to-capture "rich" gases. As part of this program, the Group plans to construct sulfur processing facilities at the Copper Plant and the Nadezhda Metallurgical Plant to extract sulfur from the "rich" gases in an efficient manner.

The Group estimates that these steps will eliminate atmospheric emissions of solid pollutants and

reduce emissions of sulfur dioxide into the atmosphere in the Taimyr Peninsula by 70% from current levels by 2010. The Group expects that the introduction of the high grade matte leaching technology at the Nadezhda Metallurgical Plant, if implemented, would lead to a further reduction in sulfur dioxide emissions.

The Group plans to install salt emission purification technology to reduce fresh water consumption, implement a closed water circulation scheme and fully eliminate harmful emissions into the water system in the Taimyr Peninsula.

In the Kola Peninsula, the Group is currently modernizing its enrichment and metallurgical capacity under an inter-governmental Russian-Norwegian agreement. The modernization program, which is partly funded through grants and credits from the Norwegian government and the Nordic Investment Bank, is expected to reduce emissions of sulfur dioxide by over 90% from current levels by the middle of 2006.

Ensuring sustainability and cost efficiency of Group's operations

The Norilsk Nickel Group will maintain its substantial energy independence and low energy costs in the Taimyr Peninsula by putting into operation the Pelyatka gas field located near Norilsk. The Group will also secure the stability and sustainability of its whole production cycle by investing in transportation and other infrastructure, where necessary.

Capital expenditure estimates

Mining

The Norilsk Nickel Group will invest approximately USD 125 million per year in the Taimyr Peninsula. These investments will be largely targeted at the Oktyabrsky and Taimyrsky mines and the construction of the Skalistaya mine. The Group will invest approximately USD 25 million per year in the Kola Peninsula, mainly to bring the Severny-Gluboky mine into operation.

In the event the Group chooses to increase the amount of ore mined to 20 million tons per year in the Taimyr Peninsula from 14 million tons, an additional investment of approximately USD 30 million per year would be required.

Enrichment

The Norilsk Nickel Group will invest approximately USD 30 million per year to maintain existing enrichment capacity levels in the Taimyr and Kola Peninsulas.

To increase the amount of ore mined to 20 million tons per year in the Taimyr Peninsula would require additional investments of approximately USD 160 million over approximately four years to increase the capacity at the Talnakh Enrichment Plant.

Metallurgy

The Norilsk Nickel Group will invest approximately USD 400 million over the next five years to increase and modernize smelting capacities in the Copper Plant and the Nadezhda Metallurgical Plant and to close the Sinter Factory and smelting shop of the Nickel Plant in the Taimyr Peninsula.

Norilsk Nickel will decide on whether to install high grade matte leaching technology based on results of research and commercial testing to be conducted through the end of 2005. If implemented, these investments would fit within the overall capital expenditure budget of USD 300-450 million per year.

Beyond these investments the Group expects to make only minimal maintenance investments in its metallurgical plants in the Taimyr and Kola Peninsulas.

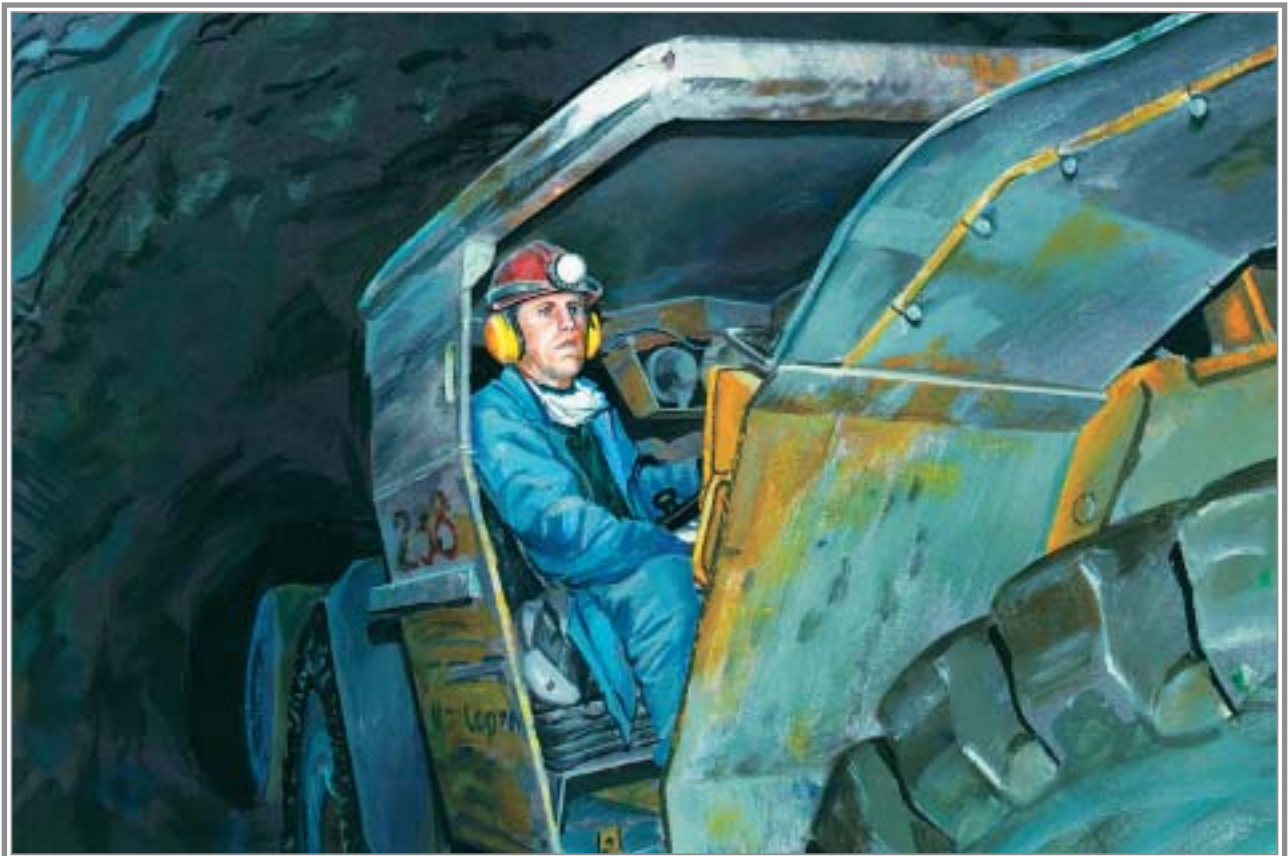
Research and commercial testing program

Investments in research and commercial testing will total up to USD 30 million in 2003-2005, including a pilot plant to test high grade matte leaching technology.

Environment and infrastructure

The Norilsk Nickel Group estimates that investments required to reduce the environmental impact of its operations and to maintain sustainable infrastructure will fall within its above-stated projected capital expenditure budget of USD 300-450 million per year.

REVIEW OF CORPORATE DEVELOPMENTS



Review of Corporate Developments

The Norilsk Nickel Group undertook a number of strategic acquisitions and divestments in 2002. Among these were:

- the acquisition of Polyus, Russia's largest gold producer;
- signing definitive agreements to acquire a 51% stake in the Stillwater Mining Company;
- the divestiture of non-core assets and the pursuit of other opportunities in Russia.

Acquisition of Polyus

The Norilsk Nickel Group acquired Polyus, in November 2002 for USD 226 million in cash (reflected as USD 233 million in the Group's financial statements due to hyperinflation accounting).

Polyus mines gold-containing ores in open pit mines at the Olimpiadninskoye deposit in Severo-Eniseysk in the Krasnoyarsk Region. Polyus also holds licenses to develop the Tyradinskoye, Olenye and Blagodatnoye deposits located near the Olimpiadninskoye deposit. Polyus uses a unique biohydrometallurgic production technology (bioleaching) to process primary ores, characterized by a low waste product rate and environmental safety. Its gold output in 2002 amounted to approximately 807 thousand ounces.

The acquisition of Polyus enables the Group to diversify its revenues and earnings and to decrease its cash flow sensitivity to cyclical developments on the world markets. The Group executed this transaction at an attractive acquisition price and expects significant accretion to earnings per share starting from 2003. As a result of the acquisition the Group has become the largest producer of gold in Russia with a 17% market share and a share in global gold production of approximately 1%. The acquisition provides a strong management team and a platform for the Group's expansion on the global gold market through consolidation of the Russian gold mining industry.

Transaction with Stillwater Mining Company

As part of its effort to establish long-term relationships with end consumers in November 2002, the Norilsk Nickel Group entered into definitive agreements to acquire 51% of the Stillwater Mining Company, located in the United States.

Stillwater is located in Montana, in the United States and is the only major producer of palladium and platinum outside Russia and South Africa. Its proven and probable reserves amount to 25 million ounces of palladium and platinum as at 31 December 2002. The Company's output in 2002 amounted to 617 thousand ounces of palladium and platinum. The company has long-term delivery contracts with major automobile producers in the United States, including Ford and General Motors. Stillwater shares are quoted on the New York Stock Exchange.

Under the agreements, the Group will acquire a 51% interest in Stillwater in the form of 45.5 million newly-issued common shares. The Group will pay USD 100 million in cash and palladium totaling approximately 877 thousand ounces. Also, according to the agreements under certain circumstances the Group may acquire an additional 10% of the currently outstanding shares of Stillwater at USD 7.50 per share. As a result, the Group's interest in Stillwater may rise to 56%.

Furthermore, Stillwater and the Group agreed to negotiate in good faith within six months after the completion date, an agreement under which Stillwater will acquire at least one million ounces of palladium per year from the Group for further resale under long-term contracts with consumers in North America, which represents 39% of the global consumption of palladium and 47% of the global consumption of palladium for automobile catalytic converters.

The transaction requires permissions from certain Russian and the United States governmental agencies, approval of the transaction by Stillwater's shareholders and obtaining agreement from Stillwater creditor banks. As of 4 June 2003,

the Group and Stillwater have attained the following:

- Permission from the Ministry of Economic Development and Trade of the Russian Federation — received,
- Permission from the Central Bank of the Russian Federation — in process,
- Permission from the Federal Trade Commission of the United States — in process, Stillwater and the Group have filed answers to the second request,
- Deposit of palladium consideration in an account outside Russia — the Group deposited 877 thousand ounces of palladium with JP Morgan Chase in London,
- Permission from the German antitrust authorities — received,
- Amendments to Stillwaters' loan agreement with bank creditors — approved,
- Registration of proxy statement with the Securities and Exchange Commission of the United States — Stillwater has registered the proxy statement, and
- Stillwater shareholders approval — Extraordinary Meeting of Shareholder to be held on 16 June, 2003.

Divestment of non-core assets

In 2002, the Norilsk Nickel Group continued its strategy to divest non-core assets, including:

- OAO “Novolipetsky Metallurgical Combined Plant” for 5,513 million roubles; and
- OAO “Cherepovetsky Steel Rolling Plant” for 48 million roubles.

Based on the results of a preliminary technical feasibility study and after detailed consideration of

all the material terms and investment risks, the Group decided to exit the Nakety laterite nickel project in New Caledonia.

Strategic steps to maintain control over transportation and energy

Given that its core operations are located in the Russian Far North above the Arctic Circle, the Group is committed to maintaining strict control over its energy sources and transportation links. In 2002, the Group undertook the following steps:

- Increased its stake in the OAO “Yenisey River Shipping Company” from 23.8% to 43.9% for USD 17 million,
- Increased its stake in OAO “Krasnoyarskenergo” to 23.5% through the acquisition of 19.7% of shares for USD 38 million, and
- Invested in the Pelyatka gas-condensate field near Norilsk.

Other opportunities in Russia

In keeping with its diversification strategy, the Norilsk Nickel Group seeks opportunities to exploit world-class ore bodies containing gold and other minerals in Russia. The Group plans to participate in certain privatizations of gold companies and deposits which are expected to occur in 2003 or 2004 and continues geological surveying in the Taimyr Peninsula. Research to date in the Taimyr Peninsula indicates good prospects for discovering significant new ore bodies with parameters similar to those of the ore bodies currently being developed by the Group.

The Group is also continuing research and geological surveying at its South-East Gremiaha titanium deposit in the Kola Peninsula.

REVIEW OF MARKET DEVELOPMENTS



Review of Market Developments

Nickel

During 2002, the average annual London Metal Exchange (“LME”) price of nickel increased by 13.9% as compared to 2001 (USD 5,948 per ton) and amounted to USD 6,772 per ton. Nickel is the only base metal whose price grew in 2002.

The global nickel market had a minor surplus of around 12 thousand tons in 2002.

Demand

World primary nickel consumption equaled 1.17 million tons in 2002. The record high global production of stainless steel was the main reason for the 6.2% growth in primary nickel consumption in 2002. Growth in stainless steel production came mainly from the United States and China. The lack of scrap and an increase in austenitic brands also added to the increase in primary nickel consumption.

Supply

World primary nickel production grew by 1.4% to 1.19 million tons in 2002. The additional growth was driven by increased production in Australia and Latin America. No new major projects were commissioned in 2002, although some existing projects increased capacity slightly.

The Norilsk Nickel Group expects that the introduction of new stainless steel production capacity in various regions of the world, the absence of large new nickel projects and the expectation of a global economic recovery in 2004-2005 will support the nickel market in coming years.

Average annual nickel price (US dollars per ton)

	2002	2001	2000
Nickel	6,772	5,948	8,641

Source: London Metal Exchange.

LME nickel price in 2002 (in US dollars per ton)



Source: London Metal Exchange.

Copper

In 2002, the average annual LME copper price decreased slightly compared to that of the previous year and amounted to USD 1,560 per ton. This downward trend was largely attributable to slower than expected economic growth in developed countries.

The global refined copper market reached a surplus of around 251 thousand tons.

Demand

Global refined copper consumption grew by 2% to 15 million tons in 2002, mainly as a result of increased demand from China.

Supply

Global mine production of copper decreased by 0.7% and amounted to 14 million tons. Global refined copper production (including secondary refined production) decreased by 1.7% and amounted to 15 million tons in 2002. The leading producers reduced refined copper production in 2002 to decrease the excess supply of copper (around 700 thousand tons in 2001). The reduction of copper scrap exports from CIS countries was a contributing factor to the decrease in primary metal production.

In Russia, refined copper production increased by 6.2% and amounted to 895 thousand tons in 2001, more than 50% of which was produced by the Norilsk Nickel Group. Refined copper consumption in the Russia increased by approximately 24% in 2002.

The Group expects that copper demand in 2003 will largely depend on the world economy growth and demand from China.

Average annual copper price (US dollars per ton)

	2002	2001	2000
Copper	1,560	1,578	1,814

Source: London Metal Exchange.

LME copper price in 2002 (in US dollars per ton)



Source: London Metal Exchange.

Palladium

The 2002 year was characterized by a further decline in palladium prices and demand. The average annual price in the London Platinum and Palladium Market (“LPPM”) decreased by 44% from 2001 to USD 337 per ounce, starting the year at USD 440 per ounce and ending at USD 233 per ounce.

Demand

The weakness of the palladium market in 2002 was mainly due to a sharp decline in demand by almost 2 million ounces. Automobile production, primarily in North America, played the most significant role, reducing consumption from 2.4 million ounces in 2001 to 0.6 million ounces in 2002. The decrease in consumption was caused by lower demand from automobile manufacturers and by their suppliers depleting inventories and introducing new technologies with lower palladium loadings.

The demand for palladium from other industries, such as electronics, chemistry, jewelry and dentistry remained stable and, in some cases, increased slightly.

Supply

In response to lower demand for palladium the metal’s supply reduced from 7 million ounces in 2001 to 5 million ounces in 2002. In light of a sharp decrease of supplies from Russia, South African and Northern American producers together with companies processing scrap expanded supply slightly.

In total, the excess palladium supply somewhat reduced from approximately 0.6 million ounces in 2001 to 0.5 million ounces in 2002.

Average annual palladium price

(US dollars per troy ounce)

	2002	2001	2000
Palladium	337	603	682

Source: London Platinum and Palladium Market.

Spot market palladium price in 2002

(in US dollars per troy ounce)



Source: Bloomberg.

Platinum

The average annual price on LPPM increased by 2% to USD 540 per troy ounce, despite a steady increase of around 25% over the course of the year.

Demand

In 2002, platinum demand grew by 5% to 6.5 million ounces primarily due to the higher consumption by the jewelry industry and greater use of the metal in catalytic converters in automobiles.

In 2002, jewelry demand for platinum grew by 9% to 3 million ounces, with purchases by Chinese fabricators rising 14% to 2 million ounces. A recovery in Japanese purchases was due to less platinum being available from inventories following significant depletion of stocks in 2001.

Demand for platinum from the automobile catalytic converter industry grew by 3.6% last year to 2.6 million ounces. Including stock draw-downs, the underlying use of platinum in automobile catalytic converters grew by 17%, due to growth in sales of diesel cars, tighter emissions regulations and greater use of platinum-based catalytic converter at the expense of palladium.

Supply

In 2002, market supply rose by less than 2% to 6 million ounces, mainly coming from increased production in South Africa, creating a platinum deficit of around 570 thousand ounces in 2002. The deficit was of approximately 370 thousand ounces in 2001.

In addition to the market deficit, the growth of platinum prices was further stimulated by news of problems facing the development of new projects in South Africa and good prospects for fuel cell technology.

Average annual platinum price

(US dollars per troy ounce)

	2002	2001	2000
Platinum	540	529	544

Source: London Platinum and Palladium Market.

Platinum spot market price

(in US dollars per troy ounce)



Source: Bloomberg.

Gold

In 2002, the average annual price of gold increased by 15% and amounted to USD 311 per ounce, ending at USD 349 per ounce for the year.

Demand

In 2002, industrial gold demand decreased by almost 10% to 99 million ounces. Jewelers in India (by about 20%), Egypt and Saudi Arabia experienced the sharpest decline in demand. Demand for jewelry in Europe and the United States during the Christmas season was much lower than expected. Jewelry fabrication in 2002 fell 11% to 84 million ounces. The electronics industry increased its demand for gold by 3% as compared to weak demand in 2001 (still 26% below the year 2000).

During the year certain producers who were closing their hedging portfolios created an additional demand for 14 million ounces of gold, three times higher than in 2001. Most of the demand was in the first half of 2002. Such demand supported the price above USD 300 per troy ounce. At the end of 2002, demand for gold as an investment instrument increased due to world instability caused by expectations of war in Iraq, the diplomatic situation in North Korea, and slow growth in the world economy. The total investment demand was 14 million ounces in 2002 against 8 million ounces in 2001.

Supply

Total gold supply in 2002 is estimated at 106 million ounces. World gold mine production in 2002 fell by a marginal 1 million ounces to 81 million ounces. This was the first decline in gold mine production in eight years. A significant decline in production in the United States, Australia and China was partly compensated by the increase in gold production in Russia and Peru.

Average annual gold price (US dollars per troy ounce)

	2002	2001	2000
Gold	311	271	279

Source: Bloomberg.

Gold price in 2002 (in US dollars per troy ounce)



Source: Bloomberg.

RISK FACTORS



Risk Factors

Outlined below are the main risk factors that may affect the Norilsk Nickel Group's operations and financial results. The risks outlined below may have a significant effect on operations, sales, profits, assets, liquidity and capital resources of the Group. These risks should be considered in the context of all estimates and projections presented in this annual report. Certain risks which at the present time are regarded as insignificant may eventually become material.

Market risks

Metal prices, as well as global demand and supply for metals, depend largely on the growth rate of the global economy and activities of other producers and consumers. World prices of the Group's metals have a direct effect on the Group's financial results.

National currency exchange rate risk

A large percentage of the Norilsk Nickel Group's sales are in US Dollars. At the same time, a large portion of its expenses are in Russian roubles. Therefore, changes in the national currency (rouble) exchange rate against the US Dollar have an effect on the Group's financial results.

Work safety and environmental protection

The Norilsk Nickel Group's operations are regulated by a number of legislative acts on work safety and environmental protection. Changes in legislation in these areas may have adverse effects on production costs and, consequently, the Group's financial results.

Production

There are certain risks related to production which cannot be predicted or controlled by management, such as harsh weather conditions in the Far North or any force-majeur circumstances that may have a direct effect on the Group's operations. Transportation of supplies and products may be suspended due to poor weather conditions. Major accidents involving energy supply systems, mines, enrichment or metallurgical plants may have a negative effect on the financial results of the Group.

Mergers and acquisitions

The Group develops its business partly through the acquisition of companies in Russia and abroad. These transactions bear risks relating to the Group's ability to integrate efficiently the acquired company, as well as to achieve expected cost savings and synergies.

REVIEW OF OPERATING PERFORMANCE

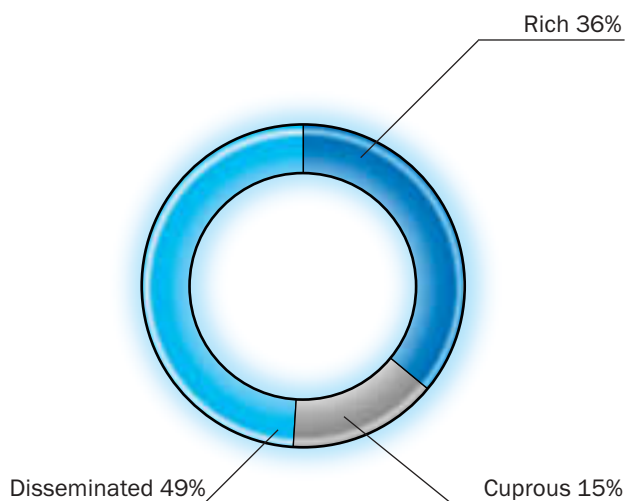


Review of Operating Performance

Mining

In 2002, the Norilsk Nickel Group mined approximately 20 million tons of ore, roughly the same amount as in 2001. Of this, 13 million tons were mined in the Taimyr Peninsula and 7 million tons in the Kola Peninsula. Total ore mined in the Taimyr and Kola Peninsulas increased by around 4% and decreased by around 10%, respectively.

Ore extraction by type of ore in 2002

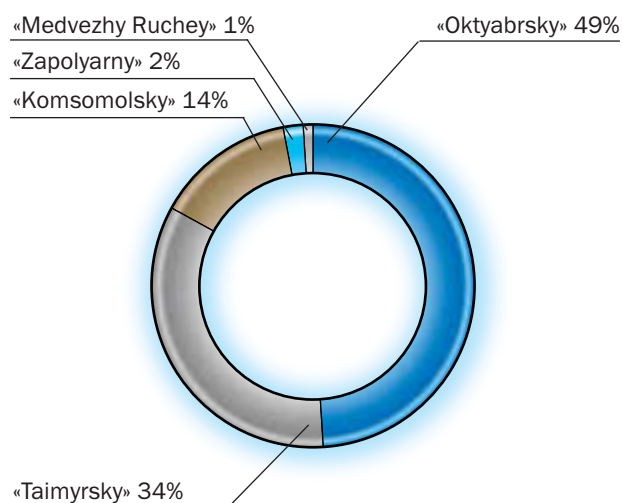


This increase in the proportion of ores mined in the Taimyr Peninsula to over 65% in 2002 from 62% in 2001.

In the Taimyr Peninsula, the Group reduced mining of rich ores slightly, from 7.5 to 7.2 million tons as compared to 2001, but increased the mining of cuprous ores from 2.2 to 3.0 million tons. The Group mined around 2.9 million tons disseminated ores, the same amount as in 2001.

The Oktyabrsky mine continued to be by far the most productive mine in the Taimyr Peninsula due to the spectacularly high metal content of its rich ores. Despite representing around 36% of all ores mined there, it generated 49% of all nickel produced, 62% of all copper produced, and 53% of all palladium and platinum produced. The Taimyrsky mine, which also benefits from the high metal content of its rich ores, also contributed strongly to metals produced, despite shutting down production of disseminated ores in 2002.

Extraction of nickel in ore by mines in the Taimyr Peninsula in 2002

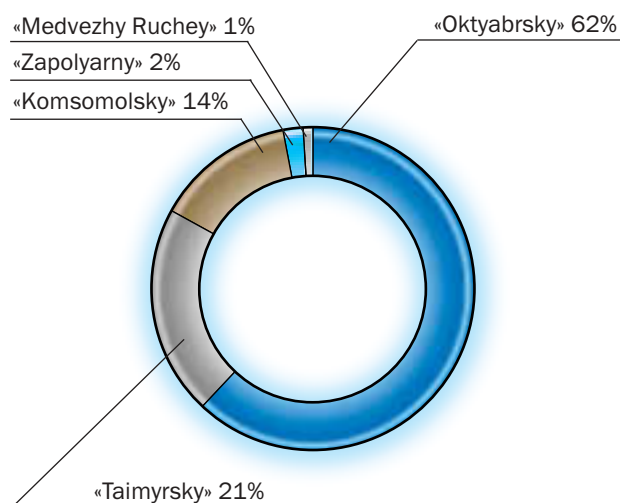


The Norilsk-1 deposit, Medvezhy Ruchey and Zapolyarny mines, provided a higher proportion of palladium and platinum than nickel and copper due to the nature of their ores.

In the Kola Peninsula, the Group only mines disseminated ores. These ores are richer in nickel than disseminated ores in the Taimyr Peninsula but contain very low amounts of palladium and platinum. The Tsentralny mine was the main contributor to ore mined and metals produced.

The metal content from the Group's most productive ores in the Taimyr Peninsula, the rich ores from the Oktyabrsky and Taimyrsky mines, remained constant in 2002. Metal contents in rich ores from the Komsomolsky mine increased slightly in 2002. While some ores mined in certain mines in the Taimyr Peninsula decreased in metal content slightly in 2002, the Group is confident that the mining plan included in the Production Plan to 2015 will more than offset this trend.

Extraction of copper in ore by mines in the Taimyr Peninsula in 2002



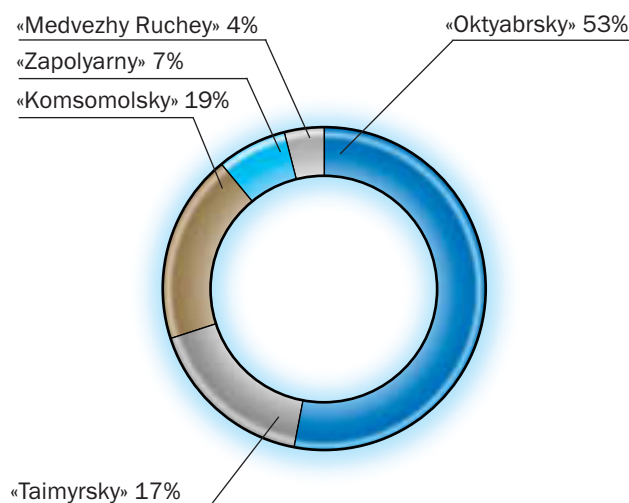
The metal content from disseminated ores from the Kola Peninsula increased slightly in 2002, mainly resulting from an increase in metal content in ores from the Severny mine. Metal content from ores in the Tsentralny mine, the largest in the Kola Peninsula, remained flat in 2002.

On average, metal content in ores mined in the Taimyr and Kola Peninsulas in 2002 increased slightly in 2002. The main cause of this was the proportionally higher share of ores mined in the Taimyr Peninsula.

Average metals contents in ore mined in the Taimyr and Kola Peninsulas in 2002 (in % or as noted)

	2002	2001
Nickel	1.40	1.38
Copper	2.14	2.09
PGM (g/ton)	5.94	5.72

Extraction of PGMs in ore by mines in the Taimyr Peninsula in 2002



In 2002, the output of Polyus' primary ores decreased by 17.5% to 3.8 million tons. Gold content in extracted primary ores fell from 4 g/ton in 2001 to 3.7 g/ton in 2002. However, oxidized ore extraction increased by 8% to 1.4 million tons in 2002. Gold content in oxidized ore increased from 11.3 g/ton in 2001 to 11.6 g/ton in 2002.

Enrichment

Norilsk Enrichment Plant

In 2002, volumes of ores processed by the Norilsk Enrichment Plant declined since the processing of rich ores was transferred to the Talnakh Enrichment Plant. The transfer was implemented in order to cut down on transportation costs by processing ore at a location closer to the mines.

It also allowed the Norilsk Enrichment Plant to increase the amount of stored pyrrhotite concentrates it processed. Due to the metal content of store pyrrhotite concentrates, their increase led to an increase in the content of nickel in nickel concentrates from 4.3% in 2001 to 4.5% in 2002 and a decrease in the content of copper in nickel concentrates from 2.6% to 2.2%.

Talnakh Enrichment Plant

The Talnakh Enrichment Plant processed approximately the same amount of ore and maintained approximately the same recovery rates as in 2002. The Plant continued to develop the selective/collective/selective enrichment process, which yielded in 2002 an increase of 0.9% in the extraction rate of nickel into nickel concentrate.

Pechenganickel's Enrichment Plant No.1

In 2002, Pechenganickel's Enrichment Plant No.1 improved its recovery rates for nickel and copper due to the increased content of these metals in processed ores and the improvement in the enrichment processes of the Plant. As a result, the content of nickel in nickel concentrate increased from 7.4% in 2001 to 7.8% in 2002.

Processing of accumulated metal-containing waste materials

In 2002, the Taimyr Peninsula processed approximately 832 thousand tons of metal-containing waste materials (including stored pyrrhotite concentrates) containing 14 thousand tons of nickel and 12 thousand tons of copper.

The Kola Peninsula processed approximately 92 thousand tons of metal-containing waste materials containing 3 thousand tons of nickel and 3 thousand tons of copper.

Metallurgy

In 2002, the Norilsk Nickel Group continued to make progress in increasing the recovery rates at its metallurgical facilities. In the Taimyr Peninsula, nickel and copper recovery rates from concentrates increased to 92.8% and 94.6%, respectively. In the Kola Peninsula, nickel recovery rates from concentrates increased to 96.2% for the Pechenganickel Smelting Plant and the Severonickel Combine, while copper recovery rates decreased slightly.

Metal production

In 2002, nickel production from own ores decreased by 2.2% to 218 thousand tons as compared to 2001 and copper production decreased by 4.5% down to 450 thousand tons. Production of palladium and platinum remained relatively constant when compared to that of 2001 (up by 1%).

As a result of the acquisition of Polyus in the fourth quarter of 2002, total gold output by the Group in 2002 increased to approximately 932 thousand ounces. Polyus produced 807 thousand ounces, of which approximately 128 thousand ounces were

included in the consolidated financial statements of the Group.

In the Taimyr Peninsula, nickel production decreased by 4% in 2002 to 120 thousand tons and copper by 5% to 365 thousand tons, while increasing inventories of semi-finished products. Nickel and copper production in the Kola Peninsula reduced by 4% to 100 thousand tons and by 11% to 89 thousand tons respectively in comparison to 2001. The reduction was primarily due to reduced volumes of toll refining contracts with external customers. Of the 100 thousand tons of nickel and 89 thousand tons of copper, the Kola Peninsula pro-

duced 65 thousand tons of nickel and 64 thousand tons of copper under the tolling agreement with the Taimyr Peninsula.

The production of nickel from “own ores” in the Kola Peninsula grew by 1% to 33 thousand tons in 2002, while tolling volumes of high grade matte received from the Taimyr Peninsula remained almost constant at 65 thousand tons in terms of nickel volumes. Copper production from own ores at the Kola Peninsula reduced by almost half to 21 thousand tons in 2002. This decrease was driven by transfer of the processing of copper scrap purchased from external suppliers to the Taimyr Peninsula.

Ore mining at the Norilsk Nickel Group*(in '000 tons)*

Mine	Ore	2002	2001	2000
Taimyr Peninsula				
Oktyabrsky mine	Rich	4,139	4,245	4,304
	Cuprous	572	451	201
	Disseminated	28	22	28
	Total	4,739	4,718	4,533
Taimyrsky mine	Rich	2,925	2,763 ⁽¹⁾	2,679
Komsomolsky mine ⁽²⁾	Rich	7	434	556
	Cuprous	2,396	1,726	1,392
	Total	2,403	2,160	1,948
Mayak ⁽²⁾	Disseminated	477	422	299 ⁽³⁾
Skalisty ⁽²⁾	Rich	165	122	87
Zapolyarny mine	Disseminated	1,388	1,464	1,417
Medvezhy Ruchey mine	Disseminated	993	931	876
Total	Rich	7,236	7,526	7,710
	Cuprous	2,968	2,177	1,593
	Disseminated	2,886	2,877	2,536
	Total	13,090	12,579	11,839
Kola Peninsula				
Tsentralny mine	Disseminated	5,618	6,398	6,144
Severnny mine	Disseminated	649	630	611
Kaula-Kotselvaara mine	Disseminated	641	616	619
Total	Total	6,908	7,644	7,374
Severo-Eniseysk (Polyus)⁽⁴⁾				
	Oxidized	1,367	1,268	1,226
	Sulphuric	3,760	4,556	2,133
Total	Total	5,127	5,824	3,359

Notes:⁽¹⁾ Including 38 thousand tons of disseminated ore.⁽²⁾ Before 2002 Mayak and Skalisty mines were part of Komsomolsky.⁽³⁾ Including 84 thousand tons of rich ore produced by Mayak mine.⁽⁴⁾ Polyus was acquired in November 2002. 2001 and 2000 are presented for information purposes only.

Enrichment of ore at the Norilsk Nickel Group's Enrichment Plants*(in '000 tons)*

	2002	2001	2000
Norilsk Enrichment Plant			
Ore processed			
Rich ores	449	666	2,947
Disseminated and cuprous ores	5,615	5,869	3,952
Total	6,064	6,535	6,899
Processing of stored pyrrhotite concentrates	748	543	0
Concentrate output			
Nickel in nickel concentrates	42	39	65
Copper in copper concentrates	69	72	151
Talnakh Enrichment Plant			
Ore processed	6,986	7,001	5,108
Concentrate output			
Nickel in nickel concentrates	130	132	96
Copper in copper concentrates	214	228	155
Nickel in pyrrhotite concentrates	12	14	15
Taimyr Peninsula			
Ore processed, total	13,050	13,536	12,007
Concentrate output			
Nickel in nickel concentrates at SF + NMZ	172	171	161
Copper in copper concentrates at MZ	279	300	306
Kola Peninsula — Enrichment Plant No. 1 of the Pechenganickel Combine			
Ore processed	7,018	7,135	7,075
Concentrate output	414	411	432
Nickel in concentrates	32	30	30
Copper in concentrates	14	13	15

Notes:

SF — Sinter Factory.

NMZ — Nadezhda Metallurgical Plant.

MZ — Copper plant.

Ore enrichment — metal content in concentrate*(in %)*

	2002	2001	2000
Taimyr Peninsula			
Norilsk Enrichment Plant			
Nickel concentrate at SF			
Nickel	4.5	4.3	4.8
Copper	2.2	2.6	2.7
Nickel concentrate at NMZ			
Nickel	4.7	4.5	6.5
Copper	2.1	2.3	2.8
Copper concentrate from ore			
Nickel	1.6	1.6	1.4
Медь	24.4	24.2	25.5
Enrichment of stored pyrrhotite concentrate			
Nickel	3.5	2.9	—
Copper	1.9	1.4	—
Talnakh Enrichment Plant			
Nickel concentrate			
Nickel	9.0	9.0	9.2
Copper	4.5	4.5	4.9
Copper concentrate			
Nickel	1.2	1.1	1.1
Copper	27.8	28.0	28.4
Pyrrhotite concentrate			
Nickel	1.9	2.2	2.6
Copper	0.4	0.6	1.0
Kola Peninsula			
Enrichment Plant No. 1 of the Pechenganickel Combine			
Concentrate			
Nickel	7.8	7.4	7.1
Copper	3.3	3.2	3.6

Notes:

SF — Sinter Factory.

NMZ — Nadezhda Metallurgical Plant.

Extraction of metals*(in %)*

	2002	2001	2000
Taimyr Peninsula			
<i>Enrichment — extraction of metals to concentrate</i>			
Norilsk Enrichment Plant			
Nickel concentrate			
Nickel	68.0	67.5	73.1
Copper	21.5	22.1	17.8
Copper concentrate			
Nickel	6.9	8.7	8.5
Copper	69.8	70.0	75.4
Enriched stored pyrrhotite concentrate			
Nickel	75.7	81.2	65.0
Copper	76.9	82.4	77.9
Talnakh Enrichment Plant			
Nickel concentrate			
Nickel	73.8	72.9	70.2
Copper	22.2	21.9	23.5
Copper concentrate			
Nickel	5.4	5.1	4.6
Copper	75.2	75.2	71.7
Pyrrhotite concentrate			
Nickel	6.8	7.8	11.0
Copper	0.9	1.3	2.7
Total for Taimyr Peninsula			
Nickel	83.6	83.7	84.1
Copper	96.6	96.7	95.9
<i>Metallurgy — extraction of metals from concentrates</i>			
Nickel	92.8	92.5	92.1
Copper	94.6	94.0	94.1
Kola Peninsula			
Enrichment Plant No. 1 of the Pechenganickel Combine			
Nickel	74.4	73.0	73.0
Copper	74.6	74.0	76.6
Severonickel			
Nickel	96.2	95.1	95.2
Copper	96.6	96.2	96.0

Volumes of metal production at the Norilsk Nickel Group*(in '000 tons or as noted)*

	2002	2001	2000
Taimyr Peninsula			
Electrolytic nickel	120	125	123
Electrolytic copper	365	384	358
Platinum-group metals (compared with previous year, %)	101	101	111
Gold ('000 ounces)	115	122	119
Kola Peninsula			
Electrolytic and carbonyl nickel			
From own ores	33	33	36
Tolling for Polar Division (Taimyr Peninsula)	65	65	58
Tolling for external customers	2	7	6
Total	100	105	100
Electrolytic copper			
From own ores	21	45	14
Tolling for Polar Division	64	42	41
Tolling for external customers	4	13	40
Total	89	100	95
Platinum-group metals (compared with previous year, %)	68	58	71
Gold ('000 ounces)	10	10	10
Severo-Eniseysk (Polyus)⁽¹⁾			
Gold ('000 ounces)	807	—	—
The Norilsk Nickel Group			
Electrolytic and carbonyl nickel			
Produced from own ores ⁽²⁾	218	223	217
Tolling for external customers	2	7	6
Total nickel	220	230	223
Electrolytic copper			
Produced from own ores ⁽²⁾	450	471	413
Tolling for external customers	4	13	40
Total copper	454	484	453
Platinum-group metals (compared with previous year, %) ⁽³⁾	101%	100%	110%
Gold ('000 ounces)	932	132	129

Notes:

⁽¹⁾ Polyus was acquired by the Norilsk Nickel Group in the fourth quarter of 2002. The numbers stated here reflect a full year production, not production consolidated in the financial statements. Since the date of acquisition Polyus produced 128,000 ounces, which were consolidated in the Group's financial statements. In 2001 and 2000 Polyus produced 514,000 ounces and 466,000 ounces respectively.

⁽²⁾ The volumes of nickel and copper production also include insignificant volumes of metals produced for internal needs and copper transferred to further value-added production.

⁽³⁾ Precious metals concentrates are refined under toll refining arrangements at the following plants: Krasnoyarsk Precious Metals Plant, Prioksk Precious Metals Plant and Ekaterinburg Precious Metals Plant.

REVIEW OF DISTRIBUTION



Review of Distribution

The Norilsk Nickel Group made significant progress in executing its distribution strategy in 2002. It has diversified the geographical base of its sales, increased the share of long-term contracts to end-users and developed its distribution network to offer wider coverage to medium and small end-users. While palladium sales suffered in 2002 from lower prices and demand, the Group has put in place a strong platform from which to sell and promote the usage of palladium.

Metal sales

(in '000 tons or as % to the previous year)

Products	Sales	
	2002	2001
Nickel		
Norimet export sales ⁽¹⁾	229	229
Direct export sales	1	2
Domestic sales	11	9
Total nickel	241	240
Copper		
Norimet export sales ⁽¹⁾	344	394
Direct export sales	13	2
Domestic sales	85	53
Total copper	442	449
Palladium	37%	63%
Platinum	74%	139%
Gold ('000 ounces)	1,326 ⁽²⁾	82

Notes:

⁽¹⁾ Export sales of Norimet include the volume of metals, produced by the Group, and metals purchased from third parties.

⁽²⁾ Assuming full year of production and sales for Polyus, which the Group acquired in November 2002. The gold output and sales of Polyus amounted to 807 thousand ounces in 2002. The gold output for the period from the date of acquisition to 31 December, 2002, amounted to 128 thousand ounces. This amount was included in the consolidated financial statements of the Group.

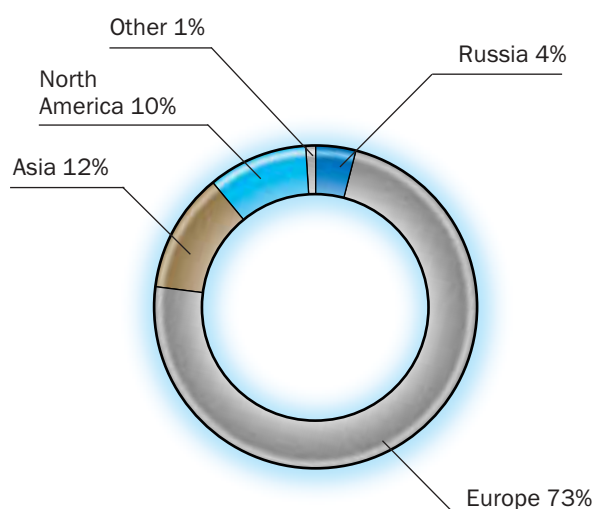
Nickel

The Norilsk Nickel Group sold 241 thousand tons of nickel in 2002, up from 240 thousand tons in 2001. Of this amount, 229 thousand tons were Norimet export sales (229 thousand tons in 2001), one thousand tons were export sales made by the Group's marketing department in Moscow (2 thousand tons in 2001), and 11 thousand tons were Russian domestic sales (9 thousand tons in 2001).

In 2002, as part of its new sales and marketing policy, the Group increased nickel sales to end consumers from 48% of the total nickel sales in 2001 to 77%. At the same time, the sales under long-term contracts (for one and more years) increased from 71% to 86% of total nickel sales.

In 2002, the Norilsk Nickel Group also succeeded in diversifying nickel sales internationally, gaining a stronger position in the North American market (increasing sales by USD 100 million), and in the fast growing Asian markets (increasing sales by approximately USD 90 million).

Geographical distribution of nickel sales in 2002



In order to reduce concerns about its nickel stock overhang, the Group in 2002 pledged 60 thousand tons of nickel against a USD 200 million loan from commercial banks. In April 2003, by which time nickel prices increased to over USD 8,000 per ton, the Group released 36 thousand tons from this pledge to meet high market demand. The Group intends to continue selling the pledged metal if and when market conditions require.

Copper

The Norilsk Nickel Group sold 442 thousand tons of copper in 2002, down from 449 thousand tons in 2001. Of this amount, 334 thousand tons were Norimet export sales (394 thousand tons in 2001), 13 thousand tons were export sales made by the Group's marketing department in Moscow (2 thousand tons in 2001) and 85 thousand tons were Russian domestic sales (53 thousand tons in 2001).

The share of copper sales to end-users increased to more than 70% of total copper sales

and sales under long-term contracts to approximately 80%.

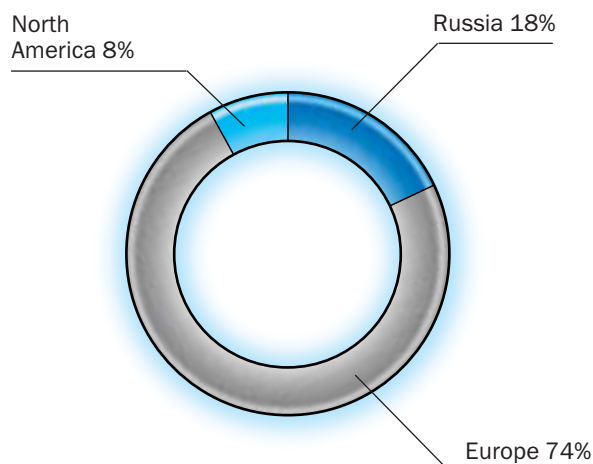
Due to the strong demand for copper and the high profitability of copper sales in Russia, the Group has pursued an aggressive sales policy that led to the increase supplies of copper and copper wire rod to the domestic market by approximately USD 90 million in 2002 (a four time increase in terms of tons of copper sold). Internationally, sales remain strongly focused on Europe, although sales to North America increased to 8% from 1% in 2001.

In 2002, the Group started to export copper wire rod, a value added product, with a higher sales price than that of cathode metal.

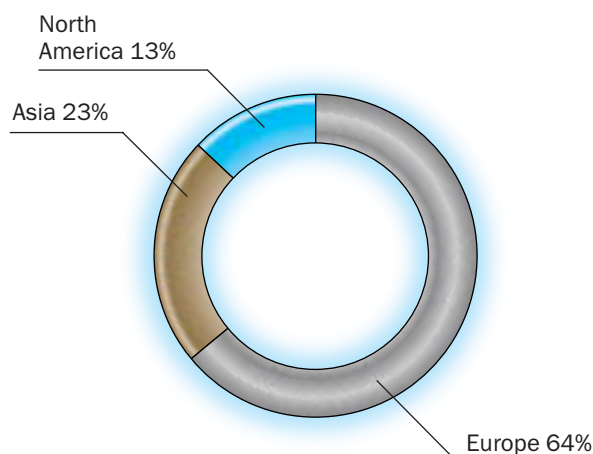
Palladium and platinum

In May 2002, Norimet and Almazynvelirexport signed an agreement allowing Norimet to market palladium and platinum directly to end-users. This agreement represents a dramatic development for both the Norilsk Nickel Group and the palladium

Geographical distribution of copper sales in 2002



Geographical distribution of palladium sales in 2002



and platinum industry globally. The agreement has allowed Group to develop strong direct relationships with end-users and thereby gain valuable information about industry developments.

From May 2002, the Group started to sell palladium and platinum to global end-users directly through its London-based distribution arm, Norimet Limited. In 2002 Norimet signed 42 refined palladium and platinum supply contracts with 29 customers, including General Motors, Mitsubishi Motors and other international palladium and platinum end-users. Since then, the number of contracts with end-users for palladium and platinum has increased to over 50, including Delphi.

Norimet has made important strides to diversify its palladium customer base. While automobile producers are still the largest single component at 34% of sales to date in 2003, end-users in the dental (30%), electronics (19%), chemical (10%) and jewelry (7%) industries represent the remaining two thirds of sales.

In 2002, Norimet also diversified its sales of platinum and palladium geographically. While in 2001, practically all palladium and platinum sales had been made in Europe, in 2002 the percentage of palladium sales to Asia and North America increased to approximately 36% of the total palladium sales in 2002 (with the remaining 64% sold in Europe). The share of platinum sales to Europe reduced to 94% of total sales with nearly 6% of sales coming from North America and Asia.

The sales of palladium under medium- and long-term contracts reached 86% and the sales to end-users – 71% of the total palladium sales in 2002.

Since the Group started these efforts only in the second half of 2002, and due to its policy to avoid sales to traders on the spot market, palladium sales in 2002 decreased by 86% and platinum sales by

29%. The Norilsk Nickel Group strongly believes that this was a short-term effect while it was implementing its new palladium and platinum distribution policy. The Group expects much stronger performance going forward starting in 2003.

In June 2001, the President of the Russian Federation signed Presidential Decree 742, which allowed the export of precious metal alloys and compounds, excluding these from existing quotas for these metals in their refined state. The Group took advantage of this Decree to make a trial delivery of anodes made of jewelry alloy of platinum and iridium to the United States and to launch the production of PGM-based salts. The Group expects that from 2003 the sales PGMs-based alloys and compounds will gradually increase as a share of the total palladium and platinum sales.

Gold

The Norilsk Nickel Group sells all of the gold that it produces in Russia through agreements with Gokhran and Russian-based commercial banks at prices based on a minor discount to international gold prices. Gokhran is the division of the Ministry of Finance of the Russian Federation which purchases, stores and sells precious metals on behalf of the Russian Government.

The Group significantly increased gold sales in 2002. This was due to its decision to stockpile gold in 2001 in anticipation of the elimination of Russian export duties on gold on 1 January, 2002, and its acquisition of Polyus, Russia's largest gold producer. Since the acquisition was completed in November, the Group's financial results for 2002 consolidate only two months of Polyus gold production (approximately 128 thousand ounces from a total of 807 thousand ounces).

REVIEW OF FINANCIAL PERFORMANCE



Review of Financial Performance

IAS financial highlights⁽¹⁾

(in millions of US Dollars)

	2002	2001
Gross metal sales revenue		
Nickel	1,689	1,673
Copper	718	834
Palladium	187	1,304
Platinum	387	544
Gold	113	27
Gross metal sales revenue	3,094	4,382
Cost of metal sales	(1,751)	(2,400)
Gross profit on metal sales	1,343	1,982
Selling, general and administrative expenses	(561)	(668)
Other net income/(expense)	27	(259)
Operating profit	809	1,055
Profit attributable to ordinary shareholders	584	1,235
Headline earnings ⁽²⁾	315	411
Cash and cash equivalents	424	978
Property, plants and equipment	6,350	6,050
Total assets	9,743	10,859
Short-term borrowings and borrowings, including capital leases	675	2,064
Long-term borrowings, including capital leases	147	15
Share capital and reserves	7,305	6,860
Total liabilities	2,438	3,999
Capital investments	351	510
Total number of issued shares, in millions	213.9 ⁽³⁾	213.9 ⁽⁴⁾
Fully diluted headline earnings per share, US cents	149.5	195.1
Declared dividend per share, US cents	68 ⁽⁵⁾	74

Notes:

⁽¹⁾ The consolidated financial statements of MMC Norilsk Nickel were prepared in accordance with International Accounting Standards (IAS). The 2002 financial statements were audited and the 2001 results were reviewed by Deloitte & Touche.

⁽²⁾ Excluding gains on embedded derivative of USD 269 and USD 824 million in 2002 and 2001, respectively.

⁽³⁾ Including 3.3 million of treasury shares.

⁽⁴⁾ Excluding 38.8 million shares that were repurchased and cancelled in accordance with a resolution of the Extraordinary Meeting of Shareholders dated 29 March 2002, and including 5.8 million of treasury shares.

⁽⁵⁾ On 4 June 2003, the Board of Directors decided to propose to the Annual Meeting of Shareholders a dividend of 21.7 roubles, which equals USD 0.68.

Income statement

In 2002, the Norilsk Nickel Group's gross metal sales revenues totaled USD 3,094 million, a 29% decline from 2001. The main reason was a reduction in palladium and platinum sales by 86% to USD 187 million and by 29% to USD 387 million, respectively. As a result, base metals revenues increased from 57% in 2001 to 78% in 2002. Polyus was consolidated into the financial statements for the last two months of 2002 and the increase in gold sales from Taimyr Peninsula operations (by reducing its stock built up over 2001 in anticipation of cancellation of export duties on gold) led to an increase in the share of gold sales from approximately 0.6% to 3.7% of the gross metal sales revenues.

Lower revenues from palladium sales were due to a significant decline in market prices and a reduction of physical sales volume by 63%. In line with its new distribution policy, the Group stopped selling palladium to traders on the spot market, and now sells almost all its palladium to end-users. The reduction of platinum sales revenues was mainly due to the decrease of the physical sales volume by 26%.

The favorable situation in the nickel market, coupled with a minor increase in physical sales volume of 1% to 241 thousand tons, contributed to the growth of revenues from the sales of this metal by 1% in comparison to 2001. The reduction of copper sales revenues by 14% from 2001 resulted from both lower physical volumes of sales and a decrease in copper prices. In 2002, the average realized export price of nickel increased from USD 5,906 per ton to USD 6,728 per ton while the average realized export price of copper remained almost unchanged at USD 1,563 per ton.

Export sales prices of nickel and copper ⁽¹⁾

(in US Dollars per ton)

Metal	Average sales price	
	2002	2001
Nickel	6,728	5,906
Copper	1,563	1,559

Note:

(1) Norimet exports sales prices.

The total cost of metal sales⁽¹⁾ declined by 27% and amounted to USD 1,751 million in 2002. The main reason for the decrease in the total cost of production was the decrease in other costs by USD 418 million, including:

- lower physical volumes of palladium and platinum sales,
- decline in purchases from third parties by USD 305 million resulting from lower volume of Norimet operations on the spot market,
- decline in mineral resource taxes by USD 158 million due to the abolishment of the old tax, and introduction of a new tax with significantly lower taxable base and rate, and
- the Group's continuing cost-cutting efforts.

⁽¹⁾ Production costs are allocated amongst joint (core) products based on the following key principles. All production costs are allocated to five joint products, i.e. nickel, copper, palladium, platinum and gold. The allocation is based on direct costs or using Relative Sales Value (RSV) of joint products. RSV of joint products is calculated as the actual saleable output produced during the period multiplied by the ruling metal prices at the London Metal Exchange or London Platinum and Palladium Market over the same period. Production costs allocated to joint products are reduced by the revenue generated from the sale of by-products, i.e. cobalt, rhodium, ruthenium, iridium and silver. Production cost per unit for each joint product is calculated by dividing the net production cost related to joint product by the actual saleable output produced during the period.

Cash operating costs decreased by USD 54 million to USD 1,418 million in 2002, mainly as a result of changes in the sales structure, a reduction of the physical output of principal metals, and the implementation of cost-cutting measures.

The structure of cash operating costs has almost not changed in 2002, with the two most significant items labor and consumables and spares contributing for approximately 38% and 41% of the total cash operating costs, respectively.

USD 2,916 per ton against USD 2,907 per ton in 2001. The cost of production per ton of nickel in the Kola Peninsula increased from USD 4,004 per ton in 2001 to USD 4,465 per ton in 2002. The cost of nickel production by both divisions remained at a low industry level, which guaranteed high competitiveness in the world market.

The cost of copper production increased in the Taimyr Peninsula from USD 638 per ton in 2001 to USD 756 per ton in 2002 and in the Kola Peninsula

Breakdown of cash operating costs

(in millions of US Dollars)

	2002		2001	
Consumables and spares	586	41%	584	40%
Labor	545	38%	589	40%
Utilities	94	7%	73	5%
Insurance	51	4%	56	4%
Platinum group metals toll refining cost	47	3%	52	3%
Repairs and maintenance	45	3%	67	5%
Tailing pipe maintenance and moving	36	3%	30	2%
Sundry	14	1%	21	1%
Total	1,418	100%	1,472	100%

Costs of consumables and spares, a significant part of cash operating costs, remained almost the same and amounted to USD 586 million in 2002 (USD 584 million in 2001).

As a result of employee reductions and linking wages to productivity, as agreed in the Group's Collective Agreement with trade unions, in absolute terms the total labor costs as part of cash operating costs reduced from USD 589 million in 2001 to USD 545 million in 2002. In 2002, the average number of employees of the Group was 84,086 (taking into account consolidation of Polyus for the last two months of the year, the total average number of employees was 84,545). Compared to 2001, the total number of employees was reduced by 5,313 employees, or 6%.

In 2002, the cost of nickel production in the Taimyr Peninsula did not change, amounting to

from USD 846 per ton to USD 1,032 per ton respectively.

The principal reason for the increase in the unit cost of production of nickel and copper was the decrease in the price of palladium, which lowered the amount of costs allocated to this metal under joint product accounting. In addition, the growth in the cost of copper production was caused by higher copper scrap prices in 2002.

The cost of production per troy ounce of gold in the Taimyr Peninsula increased by USD 47 per troy ounce to USD 180 per troy ounce in 2002. The cost of production per troy ounce of gold at Polyus in 2002 was USD 113.

As a result of fixed assets additions in 2002, amortization of operating assets slightly increased from USD 370 million in 2001 to USD 386 million.

In 2002, the Group recognized gains on derivatives transactions totaling USD 215 million, which includes:

- gain on embedded derivative of USD 269 million (2001 — USD 824 million), resulting from the repayment and revaluation of the loan from the Ministry of Finance of the Russian Federation, and
- total loss on metal trading in the spot market in the amount of USD 54 million (2001 – USD 9 million).

ings margins grew from 9% to 10% in 2002, quite an accomplishment given the significant decrease in revenues.

As a result of changes in accounting for direct and indirect costs included in the calculation of taxable income in 2002, the profit tax payments were significantly lower than those that would have been made, if such changes to the Russian accounting system had not taken place.

Unit cost of production per metal

Metal	Taimyr Peninsula		Kola Peninsula		Severo-Eniseysk
	2002	2001	2002	2001	2002
Nickel (<i>in US Dollars per ton</i>)	2,916	2,907	4,465	4,004	–
Copper (<i>in US Dollars per ton</i>)	756	638	1,032	846	–
Gold (<i>in US Dollars per troy ounce</i>)	180	133	–	–	113

During 2002, the Group's selling, general and management expenses also decreased from USD 668 million to USD 561 million, which was mainly due to the reduction of export customs duties by USD 90 million resulting from a decrease in the nickel export duty and a decline in export sales volumes of palladium and platinum.

Other non-operating expenses declined by USD 99 million to USD 146 million in 2002 due to the decrease in costs of maintenance of social sphere facilities that were transferred to municipal ownership and a decrease in donations made.

Profit attributable to ordinary shareholders amounted to USD 584 million in 2002, a decrease from USD 1,235 million in 2001. The main cause for the drop was the much larger fair value gains on embedded derivative in 2001 and the drop in gross metal revenue sales in 2002.

The headline earnings (calculated as net profit after taxes adjusted for fair value gains on embedded derivative) were USD 315 million in 2002 as compared to USD 411 million in 2001. Headline earn-

Balance sheet

The Norilsk Nickel Group took important steps to improve the structure of its current assets and liabilities in 2002. The Group decreased inventories by USD 276 million to USD 1 836 million, trade accounts and other receivables by USD 227 million to USD 356 million, and other current assets by USD 376 million to USD 668 million. The Group's other current liabilities decreased from USD 2,193 million to USD 1,020 million including the settlement of the loan from Ministry of Finance.

The Group also used its strong cash flows generated from operating activities and reduced working capital requirements to repay short-term borrowings. In 2002, it reduced short-term borrowings by USD 725 million to USD 382 million and entered into long-term borrowing contracts with more attractive terms and conditions. Among these was the three year loan for USD 200 million from a syndicate of Western banks using 60 thousand tons of nickel inventories as security.

Property, plant and equipment increased by USD 300 million as a result of the Group's capital expenditure program and its acquisition of Polyus.

The Group's share capital and reserves increased by USD 445 million to USD 7,305 million.

Cash flow

In 2002, the Norilsk Nickel Group generated strong operating cash flows, allowing it to invest in its operating assets and make certain strategic acquisitions while producing positive cash flows before financing activities for the first time in recent years.

Cash flows from operating activities increased by USD 488 million to USD 603 million as a result of the cost-cutting initiatives and working capital improvements mentioned above.

Cash flows used in investing activities increased by USD 154 million to USD 464 million, resulting mainly from the Group's purchase of property, plant and equipment for USD 351 million, the acquisition of Polyus for USD 233 million (in hyperinflation adjusted US Dollars) and proceeds from sales of certain non-core assets, including Novolipetsk Steel, for a combined USD 189 million (in hyperinflation adjusted US Dollars).

Cash flows used in financing activities increased to USD 625 million in 2002, as a result of the restructuring of its borrowings mentioned above and the Group's payment of dividends to shareholders.

As a result, the Group's cash position for the year reduced by USD 554 million to USD 424 million (not taking into account bank overdrafts).

REVIEW OF CAPITAL INVESTMENTS



Review of Capital Investments

In 2002, the Norilsk Nickel Group invested in a number of projects, including:

- the construction and commissioning of raw material base facilities ensuring timely replacement of decommissioned facilities and preservation of the current value of the extracted ores,
- upgrade and technical re-equipment of capacities

Mining

Taimyr Peninsula

The Norilsk Nickel Group invested a total of USD 117 million in the development of its mining operations in 2002, the same amount as in 2001. Of this, USD 20 million was invested in the Taimyrsky mine, USD 21 million in the Oktyabrsky mine, and USD 34 million in the Komsomolsky mine.

Structure of the Group's capital investments per IAS⁽¹⁾

(in millions of US Dollars)

Purpose	2002	2001
Production facilities		
Mining	117	117
Enrichment	20	47
Metallurgy	45	70
Energy	28	36
Auxiliary facilities	23	42
Total production facilities	233	313
Other investments	118	197
Total capital investment	351	510

Note:

(1) Increase of construction in progress in the property, plant and equipment on the Group's balance sheet.

related to the ore enrichment processes and metallurgic processes,

- implementation of automatic systems for the management of technological processes,
- performance of environment protection activities to reduce emission and improve natural environment.

As part of its plans to optimize costs and capital investments, the Norilsk Nickel Group decreased capital investments by 31% from USD 510 million in 2001 to USD 351 million in 2002. Capital investments into production facilities reduced by 26% from 2001 to USD 233 million, or 66% of the total volume of capital construction. Other investments reduced by almost USD 80 million to USD 118 million.

At the Taimyrsky mine, investments were used for the reconstruction and stripping of new horizons. At the Oktyabrsky mine reserves were developed and cuprous ores were stripped, prepared and developed. Investments in the Komsomolsky mine were used mainly for the construction of the Skalistaya mine and replacement of decommissioned facilities.

Kola Peninsula

In 2002, the Group's largest mining investments in the Kola Peninsula consisted of USD 3 million for the stripping and development of ore reserves at 620 and 740 meters below ground at the Severny mine, and USD 18 million on continuing construction of the underground Severny-Gluboky mine.

Enrichment

Taimyr Peninsula

The Norilsk Nickel Group invested USD 9 million in the Norilsk Enrichment Plant to install gravitation processing for discarded tailings in Nelson apparatuses. Also, the Group reconstructed the Plant's ore preparation complex and installed two modern mills in the crushing and floatation workshop.

The Group implemented an improved selective/collective process of enrichment of rich and cuprous ores at the Talnakh Enrichment Plant. The full implementation of this process will provide an increase in recovery rates of copper to copper concentrates by 4% and of nickel to nickel concentrates by 3%, without reducing the quality of the concentrates or losses of base and precious metals with discarded tailings.

Kola Peninsula

In the Kola Peninsula, the Group invested USD 5 million during 2002 to reconstruct Enrichment Plant No. 1 to increase nickel content in concentrates to between 9-10%.

Metallurgy

Taimyr Peninsula

In 2002, the Norilsk Nickel Group reconstructed part of one of the flash smelters at the Nadezhda Metallurgical Plant. The reconstruction of the line will be completed in 2003, and will provide for an

increase in the smelting rate of the nickel concentrate to one million tons per year.

Kola Peninsula

In 2002, the Severonickel Combine put into operation a technological system of cathode copper production, containing the following processes:

- roasting of copper concentrate in two fluidized-bed furnaces;
- leaching of copper concentrate cinder; and
- electrolytical extraction of copper.

The implementation of these processes will increase the capacity to produce cathode copper by 15 thousand tons, will balance capacities for the production of anode and cathode copper and will improve the technical and economical performance of copper production.

The Pechenganickel Combine placed into operation two new LAROX filter presses in the roasting workshop.

Energy

Taimyr Peninsula

In 2002, the Norilsk Nickel Group continued construction at the Pelyatka gas condensate deposit in the Taimyr Peninsula. The Group has already placed in operation the first four wells of the field and expects the field's 11 wells to be fully operational by 2006. When fully operational, the Pelyatka deposit is expected to provide for the daily needs in gas supplies for the Taimyr Peninsula operations through at least 2010.



Commitment to Environmental Protection

The Norilsk Nickel Group is committed to mitigating the environmental impact of all of its operations.

The Group has developed and approved a Production Plan to 2015 detailing the investments that the Group will make in the next few years to address, among other things, its strategy towards environmental protection. In 2002, the Group started making certain of these investments, including the upgrade of certain ecologically-unfriendly and outdated equipment, installation of equipment to capture harmful air and water emissions and systems reducing wastage, and the use of higher quality raw materials.

During 2002, these investments, and other measures taken by the Group, led to the reduction of sulfur dioxide emissions by 4.1% and 12.4% in the Taimyr and Kola Peninsulas, respectively.

During 2002, the Group also started the process of implementing an integrated system of quality and environment protection management. In time, the Group intends to have all of its operations meeting the international standards requirements of ISO 9001:2000 and ISO 14001:1996. Kola MMC is currently in the process of certifying its quality management system.

Taimyr Peninsula

The Group's Production Plan to 2015 focuses on the following strategies for mitigating the ecological impact of its operations in the Taimyr Peninsula:

- reduce the amounts of sulfur reaching the metallurgical processes by:
 - changing the structure of ores mined, with cuprous ores replacing disseminated ones, and
 - implementing technological solutions allowing for a more extensive extraction of pyrrhotite (a sulfur containing mineral) into production tailings during the enrichment process.

- increase the utilization of sulfur coming from "rich" gases, generated during metallurgical processes by:
 - closing down the Sinter Plant and the smelting facilities of the Nickel Plant, which emit sulfur in the form of hard-to-capture "poor" gases,
 - the reconstruction of the pyrrho-metallurgical facilities at the Copper and Nadezhda Metallurgical Plants, allowing the transfer of 80% of sulfur into "rich" gases, and
 - construction of facilities for the utilization of sulfur in "rich" gases at the Copper and Nadezhda Metallurgical Plants.

During 2002, the Group continued investing in the following:

- **Nickel Plant:** installation of natural gas conversion equipment in the roasting workshop,
- **Copper Plant:** construction of a two-zone Vanukov furnace, with gas cooling technology, the installation of equipment to filter of emitted gases (by Boliden Kontec AB), and equipment to filter moist gases,
- **Nadezhda Metallurgical Plant:** reconstruction of one of the flash smelters, reconstruction of the technological aspiration gases evacuation system and reconstruction of the gas filtering in the smelting and roasting sections, and
- **Other:** construction of a metal scrap utilization plant.

Kola Peninsula

The Group has entered into an agreement with the Norwegian government aimed at reducing sulfur dioxide emissions in the Kola Peninsula. In accordance with this agreement, the Group is currently reconstructing certain metallurgical facilities at the Pechenganickel and Severonickel Combines. The program's budget is USD 92 million, of which USD 30 million is in the form of a grant provided by the Norwegian government, USD 30 million is a loan with favorable terms and conditions from the Nordic

Bank and the remainder are funds to be invested by the Group.

The Group complies with the guidelines of the Convention on Trans-Border Air Pollution and Russian environment laws and regulations. In fact, the Kola Peninsula operations met the targets set by the Convention significantly ahead of schedule.

The program includes the following:

- increasing the nickel content in concentrates produced at Pechenganickel's Enrichment Plant No.1 to between 9-10%,
- the installation of "briquetting" technology at Pechenganickel's roasting workshop,
- the reconstruction of Pechenganickel's smelting workshop (including the construction of an oxygen workshop), and
- certain other investments at Severonickel.

Severo-Eniseysk (Polyus)

Polyus does not present significant ecological concerns due to its modern facilities and technologies.

Preservation of rare species

In 2002, the Group sponsored the state nature reserve "Putoransky" and a non-profit partnership "Working group on wild geese in the North Eurasia", a research and rare birds' protection organization, dedicated to the preservation of their natural habitat in Siberia. In particular, the Group provided financial support for the project dedicated to the preservation of the Taimyr population of the smallest Artic goose, piskulka, which is listed in the International Red Book and in the Russian Red Book. The small white-fronted wild goose has become the symbol of the Group's environmental programs.

OVERVIEW OF HUMAN RESOURCES, LABOR RELATIONS, AND SOCIAL POLICIES



Overview of Human Resources, Labor Relations, and Social Policies

During 2002, the Norilsk Nickel Group developed new personnel policies, facilitating the efficient implementation of Production Plan to 2015, socially responsible restructuring and development of a new operating model for its principal locations, all based on mutual responsibility and sustainable development.

The efficiency of the Group's human resources and social policies were highly regarded by the public and the Russian Government. In 2002 the Group received the "Personnel qualification, training and professional re-training" award at a national competition "Highly socially oriented company in Russia" organized by the Russian government and labor unions.

Transfer of social sphere infrastructure assets

In 2000 and 2001 most of social sphere infrastructure assets located in the city of Norilsk (housing stock, infant schools and other assets) were transferred from the Group's balance sheet to municipal ownership. The city of Norilsk began financing these assets from its local budget in 2002.

The Group's continued support and development of the social sphere is vital for the population of the region, as such the Group made certain voluntary contributions to sustain these assets in 2002.

Social programs

The Norilsk Nickel Group offers certain social programs for its employees designed specifically for the industry and locations where they work. The Group's social programs indicate the priorities of its social policy such as investments in personnel development and health protection.

Recreation programs

Employees are offered access to certain sanatorium-and-spa treatments and health protection programs. These are designed taking the Far North's climatic

conditions and the Group's continuous production cycle at the majority of its production facilities into account. In 2002, almost one third of the Group's employees and their family members went on vacations under resort medical treatment and healthcare programs, of which, 90% were treated in the Group's resorts and health spas. Approximately 25 thousand employees received vacation packages with discounts. More than three thousand children of employees went on vacations to the Black Sea, Moscow and Krasnoyarsk regions.

The Group organizes mass athletic and sporting events, as well as traditional mass sports days, to improve its employees' health. In 2002, about one fourth of all employees of the Group participated in such athletic events.

Socially responsible restructuring

During 2002, the Polar Division of MMC Norilsk Nickel introduced new social programs, aimed at optimizing the size and structure of its labor force. During 2002, 1,243 retired employees of the Polar Division relocated to the other regions in Russia with a better climate. These retired employees were offered "Six Pensions" and "Lifetime Professional Pension" programs, providing them with additional pension payouts.

In 2002, more than two thousand of the Group's former employees received financial support upon their retirement and relocated from the Far North to other regions in Russia.

Kola MMC employees with more than 15 years of service also receive lump sum benefits upon retirement. In 2002, cash benefits were provided to more than 250 retired employees. This helped to resolve the task of optimizing the employee age structure.

In December 2002, the Polar Division of MMC Norilsk Nickel launched a new "Joint Corporate Pension" program. The program provides for the joint provision of resources by the employees and the Group to finance retirement pensions, as well as relocation to the "Mainland". The program is offered mainly to highly-skilled employees.

Personnel development

The Norilsk Nickel Group provides effective remuneration packages to its employees. In 2002, the Group developed a new system of employee motivation aiming to achieve the goals set in the Production Plan.

Striving to increase labor productivity, the Group stimulates development and implementation of initiatives improving the organization of work. A highly professional and responsible work force allows the Group to introduce positions with multiple professional responsibilities.

Existing training and professional re-training programs efficiently facilitate technical upgrades and improvements in the organization of work. There are more than 200 corporate professional training programs available to the Group's employees. In 2002, more than 24 thousand employees attended training, qualified for a second or third profession or improved their professional qualifications.

In line with its Production Plan, the Group puts a special emphasis on the development of management. A new approach was introduced in 2002 based on competitive application process and new approaches to professional training and promotion of managers.

During 2002, approximately 7,500 managers and specialists received professional re-training in Russia and abroad. In order to study international experience, prospective employees are sent for training to industry leaders in mining and metallurgy.

The Group's production subsidiaries are significant employers in areas in which they operate, and run socially responsible and efficient hiring policies. In 2002, the Group developed and launched "Professional shift" and "Intern" programs, which provide testing and professional education for trainees in a close to real-life working environment. As a result, efficiency of recruitment and professional qualification of new hires have increased substantially.

Relations with trade unions and other public organizations

In May 2001, the Norilsk Nickel Group entered into a Collective Agreement with trade unions, representing its employees, as a means to resolve social and labor concerns.

On 25 October 2002, an employee conference declared that the Group was adhering to the terms and conditions of the Collective Agreement. At the same time, however, two trade unions, the Association of Trade Unions of MMC Norilsk Nickel and the Federation of Trade Unions of MMC Norilsk Nickel initiated a number of additional demands, including higher wages and longer vacations. These demands caused a collective labor dispute which the Group managed to resolve, avoiding a strike at its operations.

The labor dispute was terminated at an employee conference held on 12 March 2003. Consequently, employees agreed to discuss social and labor issues within the context of a larger social dialogue with the Group.

As part of the effort to increase interaction with employees on social and labor issues, the Group is developing the Group's Social Development Concept to 2015 to coincide with the Group's Production Plan to 2015.

There are a number of public organizations functioning at the Group, including the "Council of brigade-leaders", youth association "Leader", association of veterans and others, which represent interests of different employee groups and assist in the promotion of social partnership within the Group. The "Council of brigade-leaders" together with the Group's management concentrates on development initiatives on working conditions and organizational improvements. Youth associations protect the interests and promote professional growth of young employees.

Charity

The Norilsk Nickel Group pays significant attention to the creation of conditions for stable social development in the regions where its operations

are located through the implementation of special programs. The main principles of the Group's regional social policy are systematic approach, cooperation with local authorities and public communities, support of socially vulnerable members of population.

In the Taimyr Peninsula, the Group offered a program of assistance for the relocation of the certain citizens of the city of Norilsk from emergency and poor quality apartments to apartments of a higher quality. During 2002, about 250 families benefited from this program and moved to new apartments.

During 2002, the Group sponsored the educational institutions of the Norilsk region, Taimyr Autonomous District and Murmansk region through the financing of their capital renovations and purchase of equipment. The Group supports orphanages in Norilsk and Dudinka, Antipin's Children's House, the Cadet Corps of Norilsk for talented orphans, children from socially unprotected families and other special institutes.

The Group provides assistance to veteran unions, societies for the disabled and other social unions, which have a positive influence on local communities (such as tackling drug problems, protection of interests of socially vulnerable categories of population. etc).

In order to secure social stability in its operating regions, as well as to maintain accessibility and quality of social services for local communities, the

Group in 2002 launched the "Program of assistance to employees in education, healthcare, culture and sports of Norilsk region". In addition to financial support to government employees, the Group provided assistance to the local administration for the development of standards for pricing of social services taking into account conditions in the Far North. This program is expected to improve efficiency of the local social infrastructure.

The Group's employees also benefited from this charitable activity, including, through the Pensioners' Benefit Fund, about 8.5 thousand retired employees, who now live in the "Mainland" who received quarterly material assistance in 2002.

During 2002, the Group continued to provide assistance to the native population of the Taimyr Autonomous District. The Group purchased and shipped to regional villages sundry medical equipment for polyclinics and hospitals. The village libraries received 38,000 books from the Group. On "Reindeer Breeders and Fishermen Day" the Group awarded the best breeders and fishermen with snowmobiles, boats and other equipment. The Group participates in the local administration's projects supporting traditional handicrafts and the tundra population of the Taimyr Peninsula.

The Group's social responsibility policy is based on the principle of mutual responsibility and sustainable development. The Group seeks to build a relationship with its employees and environment, based on this key principle.

Share Capital and Share Prices

Restructuring

In 2002, the Norilsk Nickel Group completed a major corporate restructuring. Initiated in 2000, the restructuring was aimed at creating a more efficient financial and corporate structure by shifting the Group's capitalization center from RAO Norilsk Nickel to MMC Norilsk Nickel.

The restructuring was implemented through the issue of additional common shares of MMC Norilsk Nickel through a closed subscription among RAO Norilsk Nickel shareholders in exchange for common and/or preferred shares of RAO Norilsk Nickel.

At the Extraordinary General Meeting of Shareholders of the Norilsk Mining Company held on 21 February, 2001, shareholders approved the change of the company's name to Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel (MMC Norilsk Nickel) and adopted a new Charter (with the new company name and increasing the Company's charter capital, in connection with a successful placement of 122,301,272 additional common shares and registration of the equity issue results by the Federal Commission on Securities Market of Russia on 15 February, 2001). On this date, the shareholders also approved an increase in the Company's charter capital by placing 135,113,137 additional common shares through a closed subscription among RAO Norilsk Nickel shareholders and re-elected the Board of Directors.

Completed in 2001, these steps resulted in shareholders exchanging 96.9% of their RAO Norilsk Nickel shares for shares of MMC Norilsk Nickel. As part of the restructuring, RAO Norilsk Nickel issued Level-1 American Depositary Receipts (ADRs) for approximately 15% of its shares to accommodate foreign shareholders. At the same time, MMC Norilsk Nickel shares were listed on the leading Russian stock exchanges, RTS and MICEX, and started trading over the counter in ADR form.

As the next step of the restructuring, an Extraordinary General Meeting of Shareholders held on 29 March, 2002, approved by a majority vote

the reduction of the charter capital of MMC Norilsk Nickel through the repurchase and redemption of 38,761,525 shares held by RAO Norilsk Nickel (the "cross ownership" shares).

Through the repurchasing and cancelling the cross ownership shares, the charter capital of MMC Norilsk Nickel was reduced to 213,905,884 roubles (213,905,884 common shares with a nominal value of 1 rouble each). From 17 January to 17 July, 2002, MMC Norilsk Nickel offered outstanding RAO Norilsk Nickel shareholders the opportunity to swap their shares for MMC Norilsk Nickel shares. During this period, RAO Norilsk Nickel shareholders exchanged an additional 2,544,277 shares resulting in MMC Norilsk Nickel now owning 98.3% of RAO Norilsk Nickel.

Share capital and share prices

As of 1 January 2002, the charter capital of MMC Norilsk Nickel comprised 252,667,409 common shares with a par value of 1 rouble each, which was subsequently reduced to 213,905,844 upon the repurchase and redemption of 38,761,525 shares held by RAO Norilsk Nickel in the Company (see the section above).

MMC Norilsk Nickel shares are traded on the RTS electronic exchange and MICEX, the leading stock exchanges in Russia, under the tickers GMKN RU and GMKN4(5) RM, respectively.

In June 2001, MMC Norilsk Nickel signed a depository agreement with the Bank of New York, initiating an issue of Level-1 ADRs for MMC Norilsk Nickel shares (ADRs convert into common shares at a ratio of one to one). Custodial services for ADR transactions are rendered by ING Bank (Eurasia). ADRs are actively traded over the counter in the United States ("Pink Sheets" at NASDAQ), Great Britain (OTC section of the London Stock Exchange) and Germany (Berlin stock exchange), under the tickers NILSY US, MNOD LI, NNIR GR, respectively. From the beginning of the program, the number of ADRs in circulation increased by 12% and amounted on 31 December 2002, to 37.6 million, approximately 17.6% of the MMC Norilsk Nickel's charter capital.

MMC Norilsk Nickel is a constituent of key Russian stock indices, such as RTS, Interfax, Moscow Times, AK&M, as well as the stock indices of certain leading international investment institutions and stock exchanges, including the MSCI, CSFB, HSBC and the Bank of New York.

MMC Norilsk Nickel share price on RTS*
(in US Dollars)

	Minimum	Maximum	At end of the period
1998	0.25	6.70	0.40
1999	0.42	7.00	7.00
2000	6.10	12.05	7.30
2001	6.50	20.85	17.02
2002			
1 st quarter	15.00	21.97	21.80
2 nd quarter	19.05	25.00	20.80
3 rd quarter	16.50	22.85	16.50
4 th quarter	16.50	21.50	20.25

ADR prices at the London Stock Exchange

	Minimum	Maximum	At end of the period
2001	10.90	17.05	17.00
2002			
1 st quarter	15.03	22.00	21.90
2 nd quarter	18.90	24.85	20.90
3 rd quarter	16.40	23.20	16.40
4 th quarter	16.35	21.27	20.00

ADR price on electronic OTC section of Nasdaq

	Minimum	Maximum	At end of the period
2001	10.71	17.50	17.25
2002			
1 st quarter	14.90	22.25	22.25
2 nd quarter	18.75	24.75	20.90
3 rd quarter	16.45	23.02	16.45
4 th quarter	16.40	21.30	20.18

* Before the 4th quarter of 2001, the stock prices reflect the prices of RAO Norilsk Nickel shares. After the 4th quarter of 2001, the stock prices reflect the prices of MMC Norilsk Nickel shares.

MMC Norilsk Nickel stock price and main industry indices

(In USD for MMC Norilsk Nickel shares; indices are marked to MMC Norilsk Nickel share prices)



MMC Norilsk Nickel major shareholders⁽¹⁾*(Shareholders holding over 1% of MMC Norilsk Nickel shares as at 14 May 2003)*






Shareholder	Total number of shares held, '000	% of the total number of shares issued
Bektanco Holdings Co. Limited ⁽²⁾	26,738.2	12.50%
Dimonsenco Holdings Co. Limited ⁽³⁾	26,738.2	12.50%
Pharanco Holdings Co. Limited ⁽²⁾	26,738.2	12.50%
Rinsoco Trading Co. Limited ⁽³⁾	26,738.2	12.50%
The Bank of New York International Nominees ⁽⁴⁾	21,501.4	10.05%
«ZAO Credit Suisse First Boston Securities» ⁽⁴⁾	20,491.3	9.58%
ZAO «Holding Company Interros» ⁽⁵⁾	15,298.8	7.15%
LLC «Invest-Logica» ⁽⁶⁾	8,647.3	4.04%
Terpaly Holdings Co. Limited	4,493.9	2.10%
ZAO «Interros Estate» ⁽⁴⁾	4,266.1	1.99%
Safiser Investments Ltd ⁽⁷⁾	3,263.4	1.53%
Total	184,915.1	86.44%





Notes:⁽¹⁾ In total, the MMC Norilsk Nickel shareholders are comprised of 71,080 individuals, 106 companies and 25 nominees.⁽²⁾ Beneficially owned by Vladimir O. Potanin.⁽³⁾ Beneficially owned by Michael D. Prokhorov.⁽⁴⁾ The shares are held by ING Bank (Eurasia) ZAO as nominee (ADR program).⁽⁵⁾ Comprised of 15.1 million shares held by ING Bank (Eurasia) ZAO as nominee and 0.2 million shares held by ZAO Depository Clearing Company as nominee.⁽⁶⁾ Comprised of 7.6 million shares held by ZAO Depository Clearing Company as nominee and 1.1 million shares held by the non-profit partnership National Depository Center as nominee.⁽⁷⁾ This company is an affiliated party of MMC Norilsk Nickel. The shares are held by AKB Rosbank as nominee.

CORPORATE GOVERNANCE REPORT



Board of Directors of MMC Norilsk Nickel⁽⁴⁾




	Full name	Job title/brief biography
	Andrey A. Klishas	Chairman of the Board of Directors since 2001. Since 2001 — General Director and Chairman of the Management Board of ZAO “Holding Company Interros”, member of the Board of Directors at OAO “Federal Contracting Corporation “Roskhlebprodukt”. Since 2000, member of the Board of Directors at OAO “AKB Rosbank”. From 2000 to 2001, member of the Board of Directors, OAO “Sidanko”. Since 2002, member of the Board of Directors at ZAO “APK Agros”, OAO “Energomashexport — Power machines”. Mr. Klishas is 30.
	Sergey V. Aleksashenko	Member of the Board of Directors since 2002. Since 2000 - member of the Management Board and Deputy General Director at ZAO “Holding Company Interros”. Since 2002 – Chairman of the Board of Directors of OAO “Energomashexport – Power Machines”, member of the Board of Directors of ZAO “APK Agros”, AKB Rosbank, Rusia Petroleum. From 1995 to 1998 – First Deputy Chairman of the Central Bank of the Russian Federation. Mr. Aleksashenko is 43.
	Andrey E. Bugrov	Member of the Board of Directors since 2002. Since 2002 – Chairman of the Board of Directors and President of OAO “AKB Rosbank”, Deputy Chairman of the Board of Directors of ZAO “Holding Company Interros”, member of the Board of Directors of OAO “Energomashexport – Power machines”. From 1993 to 2002 – representative of the Russian Federation with the World Bank group, executive director of MBRD and IFC. Mr. Bugrov is 51.
	Guy de Selliers	Member of the Board of Directors since 2002. Since 1997 – member of the Board of Directors of Solvay S.A. Since 2001 - member of the International Advisors Board, Fortis Group, and member of the Board of Directors of OAO “Wimm Bill Dann”. From 1998 to 2001 – Chairman of the Eastern Europe Division of Fleming/JP Morgan/Chase. Mr. de Selliers is 50.
	Vladimir I. Dolgikh	Member of the Board of Directors since 2001. Chairman of the Board of “Krasnoyarskoe Zemliachestvo” Society. Mr. Dolgikh is 78.

	Full name	Job title/brief biography
	Larisa G. Zelkova	Member of the Board of Directors since 2001. Since 1998 – PR Director of ZAO “Interros Holding Company” and a member of the Board of Directors of ZAO “Publishing House “Komsomolskaya Pravda”. Since 1999 – member of the Board of ZAO “Prof-Media”. Ms. Zelkova is 34.
	Vladimir S. Lisin	Member of the Board of Directors since 2002. Since 1998, Chairman of the Board of Directors of OAO “Novolipetsk Metal Works”. Since 2001, member of the Board of Directors of Zenit Bank. Mr. Lisin is 46.
	Leonid B. Rozhetskin	Member of the Board of Directors since 2002. Deputy Chairman of the Management Board and Adviser to the General Director of MMC Norilsk Nickel. Member of the Board of Directors at LV Finance, ZAO “Sonic Duo”, OAO “MegaFon”. Former co-founder and Managing Director of Renaissance Capital. Mr. Rozhetskin is 36.
	Ekaterina M. Salnikova	Member of the Board of Directors since 2001. Since 1998, Director for Corporate Governance at ZAO “Holding Company Interros”. Since 2000 — member of the Board of Directors of OAO “Energomashexport — Power Machines”, ZAO “Prof-Media”. From 2000 to 2001, member of the Board of Directors of OAO “Sidanko”. Ms. Salnikova is 46.

Note:

⁽¹⁾ The Board of Directors was elected by the Annual Meeting of Shareholders on 30 June, 2002. The following directors were newly elected to the Board of Directors: Andrey E. Bugrov, Guy de Selliers, Vladimir S. Lisin and Leonid B. Rozhetskin. The other five directors were re-elected.

Management Board of MMC Norilsk Nickel

	Full name	Job title/brief biography
	Mikhail D. Prokhorov	General Director and Chairman of the Management Board. Former Chairman of the Management Board at AKB Uneximbank and member of the Board of Directors at ZAO “Holding Company Interros”, OAO “AKB Rosbank” and ZAO “International Finance Company”. Mr. Prokhorov is 37.
	Johnson T. Khagazheev	First Deputy General Director and First Deputy Chairman of the Management Board. Prior to 2002, General Director of the Polar Division of MMC Norilsk Nickel. Member of the Board of Directors of OAO “Kola MMC” and OAO “Krasnoyarsk Precious Metals Refining Plant”. Mr. Khagazheev is 62.
	Igor A. Komarov ⁽¹⁾	Deputy Chairman of the Management Board and Deputy General Director. Member of the Board of Directors of OAO “AKB Rosbank”. Until 2001, deputy Chairman of the Management Board of OAO “AKB Savings Bank of the Russian Federation” (Sberbank). Mr. Komarov is 38.
	Yuri A. Kotlyar	Deputy Chairman of the Management Board. General Director and Chairman of the Management Board of RAO “Norilsk Nickel”, Former General Director of Gypronickel. Former First Deputy Chairman of Roskomdragmet. Mr. Kotlyar is 64.
	Jokves I. Rozenberg ⁽¹⁾	Deputy Chairman of the Management Board and Deputy General Director. Member of the Board of Directors of OAO “Norilskgazprom”, Chairman of the Scientific and Technological Council of MMC Norilsk Nickel. Mr. Rozenberg is 59.
	Leonid B. Rozhetskin ⁽²⁾	Deputy Chairman of the Management Board and Adviser to the General Director. Member of the Board of Directors of MMC Norilsk Nickel. Member of the Board of Directors at LV Finance, ZAO “Sonic Duo”, OAO “MegaFon”. Former co-founder and Managing Director of Renaissance Capital. Mr. Rozhetskin is 36.
	Maxim V. Finsky	Deputy Chairman of the Management Board and Deputy General Director. Member of the Board of Directors of OAO “Murmansk Sea Shipping”. Former Chairman of Board of Directors of OAO “Confectionary Concern Babaevsky” and member of the Board of Directors of AKB International Finance Company. Mr. Finsky is 36.

⁽¹⁾ Appointed to the Management Board in 2002.⁽²⁾ Member of the Board of Directors of MMC Norilsk Nickel.

Members of the Management Board and the Board of Directors — equity ownership

Full name/position	Number of shares held	% of the total number of shares issued
Michael D. Prokhorov, General Director and Chairman of the Management Board	800,000 ⁽¹⁾	0.374 ⁽¹⁾
Johnson T. Khagazheev, First Deputy General Director, First Deputy Chairman of the Management Board,	37,400	0.01748
Yuri A. Kotlyar, Deputy Chairman of the Management Board	358	0.00017
Jokves I. Rozenberg, Deputy Chairman of the Management Board	897	0.00042
Sergey V. Aleksashenko, Member of the Board of Directors	20,000	0.00935
Vladimir I. Dolgikh, Member of the Board of Directors	479	0.00022
Total shareholding	858,237	0.40164

Note:

⁽¹⁾ Not including shares in beneficial ownership (see page 72).

Statement on corporate governance

In 2002, MMC Norilsk Nickel declared its intention to adhere to the standards and recommendations in the area of corporate governance laid out in the Code of Corporate Governance issued by the Federal Commission for the Securities Market of the Russian Federation (FCSM Code). MMC Norilsk Nickel's shareholders approved the changes to the charter bylaws of the Company to ensure compliance with the FCSM at the Annual General Meeting of Shareholders held on 30 June, 2002. The Company published a Report on Corporate Governance in its Quarterly Report for the fourth quarter of 2002 filed with the FCSM.

The efforts of MMC Norilsk Nickel have been recognized by the Investors Protection Association of Russia, who awarded the Company for the most significant improvement in corporate governance in 2002.

The FCSM Recommendations are categorized as follows, the General Meeting of Shareholders, Board of Directors, executive bodies, corporate secretary, major corporate actions, disclosure of information, control

over financial and economic operations, dividends and resolution of corporate conflicts. Except for a number of provisions and recommendation of the Code described at the end of this report, the Company follows all significant provisions and recommendations of the FCSM Code. The principal provisions on the implementation of the FCSM Code are given below.

General Meeting of Shareholders

The procedures for the General Meeting of Shareholders of the Company is regulated by "The Provisions of the General Meeting of Shareholders of MMC Norilsk Nickel", which was approved by the Annual General Meeting of Shareholders on 30 June 2002.

The Company seeks to ensure equal participation of all shareholders in meetings, giving them prompt notice of meeting, as well as to provide the shareholders with full and prompt information necessary to make decisions on issues included in the agenda.

Under the Federal Law "On Joint Stock Companies" and the recommendations contained in

Chapter 2 of the FCSM Code, the following decisions may be made only by a three-quarter majority vote of the General Meeting of Shareholders:

- Placement of the Company's shares (securities convertible into shares) through a closed subscription,
- Placement of common stock through an open subscription in an amount exceeding 25 percent of outstanding common shares.

Notices of the General Meeting of Shareholders, including time, venue and format of the meeting, agenda, annual reports and protocols of the General Meetings of Shareholders are available on the Company's Internet site.

Board of Directors

Pursuant to the Federal Law "On Joint-Stock Companies", the Board of Directors of MMC Norilsk Nickel is elected by the Annual General Meeting of Shareholders for one year. The Board of Directors consists of 9 people.

The Annual General Meeting of Shareholders of MMC Norilsk Nickel held on 30 June, 2002 elected a new Board of Directors of the Company. The following five board members were re-elected:

- Andrey A. Klishas,
- Sergey V. Aleksashenko,
- Vladimir I. Dolgikh,
- Larisa G. Zelkova, and
- Ekaterina M. Salnikova.

Four new members were elected to the Board of Directors:

- Andrey E. Bugrov,
- Guy de Selliers,
- Vladimir S. Lisin, and
- Leonid B. Rozhetskin.

The following members were not re-elected:

- Dmitry V. Zelenin,
- Johnson T. Khagazheev,
- Evgeny I. Ivanov, and
- Oleg V. Ereemev.

The Chairman of the Board of Directors is Mr. Klishas. The participation of the Company's Management Board members is limited to less than

25% pursuant to Art. 66 of the JSC Law. Mr. Rozhetskin was the only member of the Management Board to serve on the Board of Directors. The General Director was not a member of the Board of Directors.

To comply with the recommendation set forth in Chapter 3 of the FCSM Code three independent directors were elected to the Company's Board of Directors:

- Guy de Selliers,
- Vladimir I. Dolgikh, and
- Vladimir S. Lisin.

The criteria for the determination of independence of a member of the Board of Directors are included in the Company's Charter.

The key responsibilities of the Board of Directors include the formulation of strategy, control over financial and economic operations of the Company, protection of shareholders' rights, monitoring and control of activities of executive bodies.

To increase the role of the Board of Directors and to comply with the recommendations contained in Chapter 3 of the FCSM Code, the Charter and the Regulations on the Board of Directors incorporated a list of issues to be resolved by the Board of Directors at meetings held in person and a list of issues that require at least a two-third majority of the elected members of the Board of Directors, provided that at least one independent director is present at the meeting.

Board of Directors' activity in 2002

In 2002, the Board of Directors held 42 meetings in total, out of which 11 meetings were held in person. In 2002, the Board of Directors convened four times to approve quarterly reports to the FCSM for the first, second and third quarters and the preliminary approval of the annual report and the consolidated RAS annual accounts for 2001. The Board of Directors also reviewed and approved public disclosure of the IAS consolidated annual financial statements for the year ended 31 December 2001.

Attendance by the Directors of the Board meetings held in person in 2002

Director	Number of meetings ⁽¹⁾	Number of meetings attended
Sergey V. Aleksashenko	11	10
Andrey E. Bugrov ⁽²⁾	5	4
Guy de Selliers ⁽²⁾	5	4
Vladimir I. Dolgikh	11	11
Oleg V. Ereemeev ⁽³⁾	6	2
Dmitry V. Zelenin ⁽³⁾	6	5
Larisa G. Zelkova	11	10
Evgeny I. Ivanov ⁽³⁾	6	3
Andrey A. Klishas	11	11
Vladimir S. Lisin ⁽²⁾	5	2
Leonid B. Rozhetskin ⁽²⁾	5	5
Ekaterina M. Salnikova	11	11
Johnson T. Khagazhaev ⁽³⁾	6	0

Notes:

⁽¹⁾ Number of meetings of the Board of Directors held in person.

⁽²⁾ Elected to the Board of Directors at the Annual General Meeting of Shareholders on 30 June 2002.

⁽³⁾ Was not re-elected to the Board of Directors at the Annual General Meeting of Shareholders on 30 June 2002.

In 2002, the Board of Directors approved a dividend policy, according to which the Company will allocate 20-25% of IAS profit attributable to ordinary shareholders to pay dividends on ordinary shares starting from 2003. On 4 June 2003, the Board of Directors recommended that the Annual General Meeting of Shareholders, to be held on 30 June 2003, approve a dividend in the amount of 21.7 roubles (USD 0.68) per share, representing 25% of the IAS profit attributable to ordinary shareholders.

During 2002, the Board of Directors appointed Igor A. Komarov and Jokves I. Rozenberg as new members in the Company's management Board and approved the resignation of Dmitry V. Zelenin from the Management Board.

The Board of Directors regularly examined purchases and sales of assets or interests in the companies. A total of seven meetings were dedi-

cated to this subject in 2002. In particular, the Board of Directors approved the following transactions:

- Purchase of an additional 20.13% interest of Yenisey River Shipping Company;
- Purchase of 100% of Polyus;
- Purchase of 51% of Stillwater Mining Company (USA);
- Purchase of an additional 19.74% interest in Krasnoyarskenergo;
- Divestiture of a 9% interest in Novolipetsk Metal Works;
- Divestiture of a 2.8% interest in Cherepovetsky Steel Rolling Plant; and,
- Nakety laterite nickel project in New Caledonia.

Pursuant to current legislation, the Board of Directors reviewed interested-party transactions. In 2002, 76 interested-party transactions were approved, including 72 transactions conducted at market terms during the ordinary course of business with OAO AKB "Rosbank" and the remaining 4 transactions were within the Group with RAO Norilsk Nickel and Kola MMC.

In accordance with the provisions set out by FCSM Resolution No. 17/ps dated 31 May 2002, MMC Norilsk Nickel discloses a list of 2002 interested-party transactions in this report (see Table on the page 83 below).

Executive bodies

The General Director and the Management Board run the day-to-day activities of the Company. The General Director and the Management Board are elected and approved by the Company's Board of Directors.

In accordance with Chapter 4 of the FCSM Code the key responsibilities of the Management Board include:

- analysis and evaluation of the financial and economic activity of the Company, including results of implementation of the approved plans, programs, as well as review of reports and other information on the Company's activities, its subsidiaries, branches and representative offices,

- preparation and submission to the Board of Directors of preliminary reports of the financial and economic activities of the Company, and
- drafting of proposals for transactions subject to approval by the General Meeting of Shareholders or the Board of Directors.

According to the provisions of Chapter 4 of the FCSM Code some provisions have been introduced to the Company's Charter, according to which members of the Management Board:

- notify the Board of Directors through the Corporate secretary of any conflicts of interest,
- refrain from taking any actions which may lead to a conflict of interest, and
- notify the Board of Directors of their intent to enter into a transaction involving the Company securities prior to such transaction.

Corporate secretary

Pursuant to the provisions of Chapter 5 of the FCSM Code, the Company introduced the position of Corporate secretary. In March 2003, the Board of Directors appointed Vladimir S. Zhukov as the Corporate secretary.

Prior to his appointment as Corporate secretary Mr. Zhukov was Head of the Corporate Governance department of MMC Norilsk Nickel. Prior to that, Mr. Zhukov worked in the New York office of Credit Suisse First Boston. Mr. Zhukov graduated from the Plekhanov Economic Academy in Moscow and holds a Ph.D. in Corporate governance from the University of Nottingham in England.

The competence of the Corporate secretary includes, among others, the following functions:

- ensure control over compliance by the bodies and officials of the Company with the procedures that guarantee protection of rights and interests of shareholders,
- ensure control over arrangement and holding of meetings of shareholders in accordance with the requirements of the effective legislation of the Russian Federation and the Company's Charter and internal documents, and

- assist members of the Board of Directors in exercising their duties.

Major corporate actions

In addition to the limitations set forth by the Law of the Russian Federation in respect to approval of major corporate transactions, the Company approved tougher requirements to a number of transactions that require approval by the Board of Directors. In accordance with the recommendations contained in Chapter 6 of the FCSM Code, these include:

- decisions on transactions in the amount of 2% (two) or more of the book value of the Company's assets according to the accounting data at the latest reporting date, and
- decisions on making expenses in an amount exceeding the rouble or foreign currency equivalent of five million US Dollars at the Central Bank of Russia exchange rate at the decision date for the purposes not provided for by the Company's budget.

The Company submits information on major corporate actions to the FCSM on a regular basis.

Disclosure of information

The Group strives towards maximum transparency in its operations limited only by applicable legislation, specifically the legislation on state secrets, and the competitive environment, which it operates.

The Group also seeks to ensure equal and timely access to the information disclosed for its shareholders and the market community. The most important source of information disclosure is the Company's Internet site www.nornik.ru, which contains press-releases, information on current events, management presentations at conferences, RAS and IAS financial statements, FSCM reports, and other relevant information.

Notices of the General Meeting of Shareholders with basic information, including time, venue and the form of holding the meeting, the agenda, and the minutes of the General Meeting of Shareholders are available at the Company's Internet site.

Another important source of information disclosure is the annual report, freely available on the Company's Internet site. The Company seeks to follow best world practices in respect to the presentation and contents of the annual report.

To cover the most important events, such as the release of IAS financial statements and major corporate transactions, the Company holds special telephone conferences for investors and equity research analysts. Invitations for these conferences are sent by e-mail and are posted on the Company's Internet site.

In accordance with the Russian Federation Law "On State Secrets" and Russian Federation Presidential Decree "On Approving a List of Data Recognized as State Secret", the Group is prohibited from disclosing the following operating data:

- data on projected or actual physical volumes of production of platinum and platinum group metals,
- data on remaining reserves in the subsoil and on increases in explored reserves of platinum and platinum group metals,
- data on the cost of production of platinum and platinum group metals, and
- data on remaining reserves in the subsoil or on the extraction of strategic types of minerals.

Control over financial and economic operations

The Board of Directors is one of the key bodies that controls the financial and economic operations of the Company. In accordance with Chapter 8 of the FCSM Code, the key responsibilities of the Board of Directors include:

- approval of the system and procedures of internal controls and approval of the management information system,
- identification of main risks related to the Company's operations and implementation of measures and procedures to control such risks,
- monitoring management of the Company and its financial and economic activities, evaluation of the performance of the Company general director and members of the Management Board, control

over implementation of decisions made by the Board of Directors,

- approval of the regulations on the control and audit service of the Company,
- approval of major expenses not included in the Company's budget, and
- approval of changes in plans and budgets of the Company.

The financial and economic operations of the Company are also controlled by the Company's Audit Commission elected by the General Meeting of Shareholders; the Company's internal control and audit department, with the department head appointed by the Board of Directors.

Audit

The Group consolidated financial statements for 2002 were prepared in accordance with International Accounting Standards and audited in accordance with International Standards of Accounting by Deloitte & Touche. These consolidated financial statements are included in this annual report.

The 2002 financial statements for the Group's Russian operations have been prepared in accordance with Russian accounting standards were audited by Rosekspertiza. These financial statements are not included in this annual report.

Audit commission

MMC Norilsk Nickel's Audit Commission was elected at the Annual General Meeting of Shareholders on 30 June, 2002. The following persons were elected: Yulia V. Basova, Oleg V. Afanasiev, Vadim Yu. Meshcheryakov, Olga Yu. Rompel and Olesia V. Firsik. During the reported period, the audit commission held four meetings to review the following matters:

- election of the Chairman of the Audit Commission of MMC Norilsk Nickel,
- work plan of the Audit Commission for 2002-2003, work procedure of the Audit Commission and its authorities, election of the Audit Commission Secretary,

- work objectives of the Audit Commission members and discussion of the work procedure of the Audit Commission and its authorities, and
- opinion of the Audit Commission of MMC Norilsk Nickel based on audit of results of operations of the Company for 2002.

All members of the Audit Commission personally participated in all meetings of the Audit Commission.

Dividends

In 2002, MMC Norilsk Nickel's Board of Directors approved a dividend policy. The dividend policy is based on the payment of 20-25% of IAS profit attributable to ordinary shareholders in the form of annual dividends.

Based on the Group's IAS financial statements for 2002, the Board of Directors at a meeting held on 4 June proposed to the Annual General Meeting of Shareholders to be held on 30 June to approve the payment of a dividend in the amount 21.7 roubles per share (USD 0.68).

Further improvements in corporate governance

MMC Norilsk Nickel does not comply with the following provisions of the FCSM Code:

- Remuneration of members of the Management Board and the General Director, should be performance related.
 - The structure and amount of compensation of members of the Management Board and the General Director are approved by the Board of Directors.
 - The combined remuneration amount paid to the Company's top management is available in the quarterly reports filed with the FSCM.
- Committees of the Board of Directors
 - No Committees of the Board of Directors have been set up to date. In accordance with the Company's Charter, the decision to create these Committees can be made by the Board of Directors.

Further information about corporate governance developments at the Company is available on the Company's web-site at www.norilsknickel.ru.

MMC Norilsk Nickel interested-party transactions approved by the Board of Directors in 2002

Date of transaction	Description of transaction
<i>Transactions with OAO AKB “Rosbank”</i>	
23.01.2002	Sale of refined gold bullions to AKB “Rosbank”
25.03.2002	Sale of refined gold bullions to AKB “Rosbank”
3.01.2002	Placement of deposits in the amount of 1,075 million roubles
4.01.2002	Placement of deposits in the amount of 1,000 million roubles
4.01.2002	Placement of deposits in the amount of 300 million roubles
8.01.2002	Placement of deposits in the amount of 300 million roubles
8.01.2002	Placement of deposits in the amount of 600 million roubles
8.01.2002	Placement of deposits in the amount of 300 million roubles
9.01.2002	Placement of deposits in the amount of 300 million roubles
10.01.2002	Placement of deposits in the amount of 150 million roubles
11.01.2002	Placement of deposits in the amount of 200 million roubles
14.01.2002	Placement of deposits in the amount of 200 million roubles
15.01.2002	Placement of deposits in the amount of 200 million roubles
21.01.2002	Placement of deposits in the amount of 200 million roubles
22.01.2002	Placement of deposits in the amount of 150 million roubles
25.01.2002	Placement of deposits in the amount of 180 million roubles
28.01.2002	Placement of deposits in the amount of 300 million roubles
29.01.2002	Placement of deposits in the amount of 70 million roubles
31.01.2002	Placement of deposits in the amount of 350 million roubles
1.02.2002	Placement of deposits in the amount of 450 million roubles
4.02.2002	Placement of deposits in the amount of 100 million roubles
4.02.2002	Placement of deposits in the amount of 260 million roubles
6.02.2002	Placement of deposits in the amount of 200 million roubles
8.02.2002	Placement of deposits in the amount of 60 million roubles
11.02.2002	Placement of deposits in the amount of 150 million roubles
12.02.2002	Placement of deposits in the amount of 70 million roubles
13.02.2002	Placement of deposits in the amount of 100 million roubles
19.02.2002	Placement of deposits in the amount of 45 million roubles
20.02.2002	Placement of deposits in the amount of 35 million roubles
22.02.2002	Placement of deposits in the amount of 140 million roubles
27.02.2002	Placement of deposits in the amount of 25 million roubles
4.03.2002	Placement of deposits in the amount of 105 million roubles
6.03.2002	Placement of deposits in the amount of 130 million roubles
7.03.2002	Placement of deposits in the amount of 90 million roubles
13.03.2002	Placement of deposits in the amount of 605 million roubles
15.03.2002	Placement of deposits in the amount of 28 million roubles
21.03.2002	Placement of deposits in the amount of 30 million roubles
14.01.2002	Placement of deposits in the amount of USD 5 million
18.03.2002	Placement of deposits in the amount of USD 40 million
20.03.2002	Placement of deposits in the amount of USD 40 million
22.03.2002	Placement of deposits in the amount of USD 19,600,000 million
01.04.2002	Signing a General Agreement for the provision of financial advisory services
19.06.2002	Signing a USD 50 million Loan Contract.

19.06.2002	Signing a General Agreement for deposit transactions in the amount of USD 30 million
19.06.2002	Signing a Guarantee in the amount of 300 million roubles.
19.06.2002	Signing a Guarantee in the amount of USD 30 million.
11.07.2002	Purchase of services in safekeeping and depository registration of third party promissory notes owned by MMC Norilsk Nickel
08.07.2002	Signing of a Contract for the purchase and sale of precious metals
17.07.2002	Placement of deposits in the amount of USD 1 million
17.07.2002	Placement of deposits in the amount of USD 1 million
17.07.2002	Placement of deposits in the amount of USD 1 million
17.07.2002	Placement of deposits in the amount of USD 1 million
17.07.2002	Placement of deposits in the amount of USD 1 million
17.07.2002	Placement of deposits in the amount of USD 500,000 million
17.07.2002	Placement of deposits in the amount of USD 500,000 million
17.07.2002	Placement of deposits in the amount of USD 200,000 million
17.07.2002	Placement of deposits in the amount of USD 260,000 million
30.07.2002	Placement of deposits in the amount of USD 600,000 million
05.08.2002	Placement of deposits in the amount of USD 500,000 million
05.08.2002	Placement of deposits in the amount of USD 500,000 million
05.08.2002	Placement of deposits in the amount of 1 million roubles
06.08.2002	Placement of deposits in the amount of USD 500,000 million
08.08.2002	Placement of deposits in the amount of USD 370,000 million
09.08.2002	Placement of deposits in the amount of USD 1,300,000 million
22.08.2002	Placement of deposits in the amount of USD 900,000 million
28.08.2002	Placement of deposits in the amount of USD 325,000 million
29.08.2002	Placement of deposits in the amount of USD 20,000 million
28.10.2002	Signing a RUR billion loan contract No. RK/061/02
28.10.2002	Signing an Additional Agreement to the contract for cash settlement services of 21.12.1998 (contract for opening and maintaining a current account in Russian roubles) in the amount of 2,200 million roubles.
28.10.2002	Signing an Additional Agreement to the contract for cash settlement services of 11.07.1997 in the amount of 2,200 million roubles.
28.10.2002	Signing an Additional Agreement to the contract for cash settlement services of 24.08.2000 in the amount of 2,200 million roubles.
28.10.2002	Signing an Additional Agreement to the contract for cash settlement services of 04.07.2001 (contract for opening and maintaining a current account in Russian roubles) in the amount of 2,200 million roubles.
Other transactions	
5.12.2002 ⁽¹⁾	Purchase of cobalt concentrate of up to 500 tons
6.12.2002 ⁽¹⁾	Purchase of ordinary nominal shares in OAO "PromEstate" with the value of 408 million roubles.
15.12.2002 ⁽²⁾	Signing an Equipment Lease
31.12.2002 ⁽²⁾	Signing an Agreement for lease of office equipment and furniture

Notes:⁽¹⁾ Transaction with OJSC Kola MMC.⁽²⁾ Transaction with RAO Norilsk Nickel.

INFORMATION FOR SHAREHOLDERS



Information for Shareholders

Dividends

Based on the 2002 results prepared in accordance with International Accounting Standards, MMC Norilsk Nickel's Board of Directors proposed for the approval at the Annual General Meeting of Shareholders of MMC Norilsk Nickel to be held on 30 June, 2003 dividends of 21.7 roubles per share. The payment of dividends will be made by 29 August, 2003.

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on 30 June 2003 at 1 p.m. in Moscow on Leningradsky Prospect, 49.

Registration of the participants of the Annual General Meeting of MMC Norilsk Nickel will commence at 9 a.m. on 29 and 30 June 2003.

MMC Norilsk Nickel registrar

MMC Norilsk Nickel's registrar is ZAO National Registration Company (which operates under FCSM License dated 6 September 2002 #10-000-10-00252).

ZAO National Registration Company can be reached at:

Address: 121357, Moscow ul. Veresaeva, 6

Telephone: +7 (095) 440-63-45

Fax: +7 (095) 440-63-55

E-mail: Nrc@relline.ru

Shareholders' assistance offices

Address	Telephone	E-mail	MMC Norilsk Nickel representative
663305, Norilsk, Krasnoyarsk Krai, Leninsky Prospect, 16	+7 (3919) 46-28-64	Nornrc.zaonrc@Norcom.ru Nrc@relline.ru	Pavel A. Negrin
184500, Monchegorsk, Murmansk Oblast, p-t Metallurgov, 45-a	+7 (81536) 7-28-01, 7-23-13	Ergardt@monb.com Nrc@relline.ru	Andrey A. Ergardt
184415, Zapoliarnij, Murmansk Oblast, Lenina St., 1-a	+7 (81554) 7-8940	Filial Zapolar@monb.com	Irina Y. Kostareva
660049, Krasnoyarsk, Bograda St., 15	+7 (3912) 59-18-09	Nornic@krsn.ru	Vladimir A. Mikhailov

Investor Relations Department

Head of Investor Relations Department
MMC Norilsk Nickel
Voznesensky pereulok, 22 "Usadba Center"
Moscow, 103009
Russia

Telephone: + 7 (095) 785-1090

Fax: +7 (095) 797-8613

E-mail: polikarpovss@rao.nornik.ru

Internet

For Russian speakers: www.norilsknickel.ru

For English speakers: www.norilsknickel.ru/index.jsp?&lang=E

Design: design-studio **Dva Kapitana** /2003/
www.2kapitana.ru

Illustrations: **Sergey Soltan** /2003/
