Mining and Metallurgical Company Norilsk Nickel

Consolidated annual financial statements for the year ended 31 December 2004

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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EXCHANGE RATES – RUSSIAN ROUBLE

	2004	2003
Year-end rates		
1 US dollar	27.7487	29.4545
1 Euro	37.8104	36.8240
1 British pound	53.2886	52.2847
Average rates for the year		
1 US dollar	28.8150	30.6884
1 Euro	35.8185	34.6654
1 British pound	52.7686	50.1415

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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

Management is responsible for the preparation of consolidated annual financial statements that present fairly the financial position of the Group at 31 December 2004, the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management, within its competencies, is also responsible for:

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

The consolidated annual financial statements for the year ended 31 December 2004 were approved on 31 May 2005 by:

M. D. Prokhorov
General Director

D. A. Glotov
Deputy General Director

Moscow
31 May 2005

Deloitte.

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REPORT OF THE INDEPENDENT AUDITORS

To the management of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel":

We have audited the consolidated annual financial statements for the year ended 31 December 2004 of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), set out on pages 3-58. The consolidated annual financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated annual financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2004, and the results of its operations, its cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte & Touche
Moscow
31 May 2005

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

US Dollars million

	Notes	2004	2003
Metal sales revenues	4	**7,033**	**5,196**
Cost of metal sales	5	3,179	2,870
Gross profit on metal sales		**3,854**	**2,326**
Selling, general and administrative expenses	11	866	750
Other net operating expenses	12	153	60
Operating profit		**2,835**	**1,516**
Impairment of goodwill on acquisition	40	115	-
Interest expense	13	72	40
Net loss/(income) from investments	14	39	(37)
Net (gains)/losses on derivative transactions	15	(6)	44
Other non-operating expenses	16	108	131
Profit before taxation		**2,507**	**1,338**
Taxation	17	696	493
Profit after taxation		**1,811**	**845**
Minority interest	29	(21)	(16)
Net profit for the year		**1,832**	**861**

RECONCILIATION OF NET PROFIT AND HEADLINE EARNINGS FOR THE YEAR

	Notes	2004	2003
Net profit for the year		**1,832**	**861**
Adjusted for:			
Change in fair value of investments and other financial assets	14	46	24
Headline earnings for the year		**1,878**	**885**
Number of ordinary shares		**210,642,516**	**210,642,516**
Basic and fully diluted earnings per share (US cents)			
- Attributable	18	**869.7**	**408.7**
- Headline	18	**891.6**	**420.1**

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2004
US Dollars million

	Notes	2004	2003
ASSETS			
Non-current assets		**9,665**	**7,812**
Property, plant and equipment	20	6,644	6,068
Capital construction-in-progress	21	1,208	1,150
Investments in associates	22	162	108
Investments in securities and other financial assets	23	1,407	162
Inventories	24	75	90
Other non-current assets	26	169	234
Current assets		**3,967**	**3,441**
Inventories	24	1,442	1,492
Trade and other receivables	25	455	426
Other current assets	26	694	434
Investments in securities and other financial assets	23	30	135
Cash and cash equivalents	27	1,346	954
Total assets		**13,632**	**11,253**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves		**10,643**	**8,547**
Share capital	28	10	9
Share premium		782	737
Accumulated profits		9,485	7,457
Shareholders' equity		**10,277**	**8,203**
Minority interest	29	**366**	**344**
Non-current liabilities		**1,606**	**1,080**
Long-term borrowings	30	657	169
Deferred tax liabilities	31	740	775
Employee benefit obligations	32	50	64
Environmental obligations	33	155	60
Taxes payable	36	4	12
Current liabilities		**1,383**	**1,626**
Current portion of long-term borrowings	30	323	143
Current portion of employee benefit obligations	32	186	184
Short-term borrowings	34	208	122
Derivative financial instruments		5	27
Trade and other payables	35	373	368
Taxes payable	36	257	305
Dividends payable	37	10	304
Bank overdrafts	38	21	173
Total shareholders' equity and liabilities		**13,632**	**11,253**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004
US Dollars million

	Notes	2004	2003
Operating activities			
Cash flows from operations	39	3,498	2,199
Interest paid		(58)	(38)
Taxation paid		(936)	(485)
Net cash inflow from operating activities		**2,504**	**1,676**
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	40	(289)	(65)
Proceeds from disposal of subsidiaries, net of cash disposed of	41	25	5
Purchase of property, plant and equipment		(618)	(440)
Proceeds from sale of property, plant and equipment		57	21
Purchase of securities and other financial assets		(1,440)	(526)
Proceeds from sale of securities and other financial assets		237	367
Net cash outflow from investing activities		**(2,028)**	**(638)**
Financing activities			
Proceeds from short-term borrowings		1,998	531
Repayments of short-term borrowings		(2,034)	(833)
Proceeds from long-term borrowings		872	175
Repayments of long-term borrowings		(197)	(213)
Dividends paid	37	(618)	(147)
Net cash inflow/(outflow) from financing activities		**21**	**(487)**
Effect of translation to presentation currency for the year		47	25
Net increase in cash and cash equivalents		**544**	**576**
Net cash and cash equivalents at beginning of the year	27	**781**	**205**
Net cash and cash equivalents at end of the year	27	**1,325**	**781**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

US Dollars million

	Notes	Share capital	Share premium	Accumulated profits	Total
Balance at 31 December 2002		**9**	**683**	**6,512**	**7,204**
Net profit for the year		-	-	861	**861**
Dividends	19	-	-	(438)	**(438)**
Translation of foreign entities		-	-	(9)	**(9)**
Effect of translation to presentation currency for the year		-	54	531	**585**
Balance at 31 December 2003		**9**	**737**	**7,457**	**8,203**
Net profit for the year		-	-	1,832	**1,832**
Dividends	19	-	-	(308)	**(308)**
Translation of foreign entities		-	-	(18)	**(18)**
Effect of translation to presentation currency for the year		1	45	522	**568**
Balance at 31 December 2004		**10**	**782**	**9,485**	**10,277**

1. GENERAL

Organisation

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company" or "MMC Norilsk Nickel") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group") are the extraction and refining of base and precious metals and their sale in the commodities market. Further details regarding the nature of the business and structure of the Group are presented in note 48.

Basis of presentation

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

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

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

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations", which is more fully described in note 2 (a);
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories", which is more fully described in note 2 (h); and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which is more fully described in note 2 (i).

Reclassifications

Certain comparative information, presented in the consolidated annual financial statements for the year ended 31 December 2003, has been reclassified in order to achieve comparability with the presentation used in the consolidated annual financial statements for the year ended 31 December 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

The Group's accounting policies, which are consistent in all material respects with those applied in the prior reporting period, are set out below:

(a) Basis of consolidation

Subsidiaries

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

Control is presumed to exist when the holding company:

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

Subsidiaries that meet the definition of control are not consolidated by the Group if control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Such subsidiaries are accounted for as investments (refer to 2 (i)).

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

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

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

Associates

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

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

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

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

Accounting for acquisitions

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

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

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement during the period in which the circumstances are identified and is not subsequently reversed.

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

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

Foreign entities

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

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

Foreign operations

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

(b) Measurement and presentation currency

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

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

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

- all assets and liabilities, both monetary and non-monetary, and all items included in shareholders' equity, other than net profit for the reporting period, are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are included in shareholders' equity.

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

(c) Foreign currency transactions and balances

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

(d) Property, plant and equipment

Mining assets

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

Mineral rights, mineral resources and ore reserves

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

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits.

Mine development costs

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

Capitalised mine development costs include expenditure incurred in:

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

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

Mine development costs are amortised on a straight-line basis using the life of mine method, based on estimated proven and probable ore reserves, over a period of 7 to 30 years.

Mine infrastructure

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

Amortisation

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

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

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

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

Non-mining assets

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

• Buildings, plant and equipment	2% to 10%
• Motor vehicles	9% to 25%
• Office equipment	10% to 20%

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the lesser of:

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

Finance lease payments are allocated using the effective interest rate method, between:

- the lease finance cost, which is included in interest paid; and
- the capital repayment, which reduces the related lease obligation to the lessor.

(e) Capital construction-in-progress

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

(f) Impairment

An impairment review of assets is carried out when impairment indicators exist in relation to a cash generating unit, by comparing the carrying amount of the assets to their respective recoverable amount. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

The recoverable amount of mining and processing assets is the higher of fair value less cost to sell and value in use, unless the fair value less cost to sell is not possible to determine or if either of these amounts exceeds the assets carrying amount. The recoverable amount of mining assets whose fair value less cost to sell cannot be determined reliably is estimated on the basis of the present values of net future cash flows.

Changes in the present value of these future cash flows occur mostly from:

- fluctuating long-term gold prices;
- revised estimates of the grade or extent of the ore reserve; and
- changes in future expected operating costs.

The recoverable amount of the Group's investments is their fair value. For investments carried at fair value decline in fair value is recognized in profit or loss if there is objective evidence that investments are impaired.

The recoverable amount of other assets is higher of fair value less cost to sell and value in use, i.e. the amount, which the Group expects to recover from the future use of an asset, including its residual value on disposal.

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

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

Impairment losses are only reversed to the extent that the assets carrying amount does not exceed the original carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

(g) Research and exploration expenditure

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

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

(h) Inventories

Refined metals

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

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

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

Work-in-process

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

Stores and materials

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

(i) Financial instruments

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

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

Investments

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

Investments are classified into the following categories:

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

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost less any allowance for impairment. Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

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

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

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

Trade and other receivables

Trade and other receivables originated by the Group are measured at gross invoice value less provision for doubtful debts where considered appropriate.

Cash and cash equivalents

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

Borrowings

Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade and other payables are stated at their nominal value.

Commodity derivatives

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

Derivatives are initially measured at cost including associated transaction costs. Subsequently, these instruments are remeasured to their fair value.

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

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

Interest rate derivatives

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

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

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

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

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

(k) Borrowing costs

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

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

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

(l) Provisions

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

(m) Employee benefit obligations

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

Defined contribution plans

The Group contributes to the following defined contribution plans:

- Pension fund of the Russian Federation;
- Stillwater Mining Company savings plan.

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

Defined benefit plans

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

- *Six pensions plan,* whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- *Lifelong professional pension plan,* whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- *Joint corporate pension plan,* whereby a retired employee receives a monthly allowance equal to 1/150th of total Starting and Counter capital for the rest of his/her life. Starting capital represents the basic amount of RUR 21,000, as adjusted by certain factors to take into account seniority, salary level, etc. The Counter capital consists of a contribution to be funded by the Group of 3% of salaries paid to an employee during the period of participation in the plan.

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

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with an actuarial valuation being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the present value of the Group's defined benefit obligation are amortised over the expected average remaining lives of the participating employees. Past service cost is recognized immediately in the income statement to the extent that the benefits are already vested, and otherwise amortised on the straight-line basis over the average period until the benefit becomes vested.

The Group's obligation in respect of these defined benefit plans relating to post employment benefits is recognised in the balance sheet and represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

The principal assumptions used in valuing these benefits relate to:

- discount rates used in determining the present value of post employment benefits;
- projected salary and pension increases;
- pre-retirement increases to capital accounts; and
- life expectancy of members (or period of the benefit as defined).

(n) Treasury shares

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

(o) Taxation

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

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

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

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

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

(p) Revenue recognition

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

(q) Commodity sales contracts

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

(r) Operating lease payments

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

(s) Dividends declared

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

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

(t) Segmental information

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

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

(u) Government grants

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

(v) Decommissioning costs

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

Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

(w) Ongoing rehabilitation

Expenditure on ongoing rehabilitation costs is accounted for when incurred.

US Dollars million

3. SEGMENTAL INFORMATION

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

2004	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-Eniseysk and Bodaybo[1]	Subtotal Russian Federation	North America	Europe	Total
Metal sales revenue	**-**	**5,610**	**472**	**442**	**6,524**	**447**	**62**	**7,033**
Third party transactions	-	1,140	116	442	**1,698**	447	4,888	**7,033**
Intra-segment transactions	-	4,470	356	-	**4,826**	-	(4,826)	**-**
Operating (loss)/profit	(172)	2,470	184	170	**2,652**	25	158	**2,835**
Interest income	27	4	-	2	**33**	2	2	**37**
Interest expense	31	6	1	5	**43**	18	11	**72**
Gain on financial derivatives	-	-	-	-	**-**	-	6	**6**
Income/(loss) from associates	33	-	(1)	-	**32**	-	-	**32**
(Loss)/profit before taxation	(400)	2,513	180	56	**2,349**	9	149	**2,507**
Significant non-cash items								
Amortisation and depreciation	7	414	65	52	**538**	16	3	**557**
Impairment of goodwill on acquisition	-	-	-	115	**115**	-	-	**115**
Other non-cash expenses	84	153	20	1	**258**	3	-	**261**
Capital expenditures	**32**	**430**	**57**	**46**	**565**	**21**	**49**	**635**
Carrying amount of assets/liabilities								
Property, plant and equipment, including construction-in-progress	189	5,863	660	616	**7,328**	475	49	**7,852**
Investments in associates	130	-	23	9	**162**	-	-	**162**
Net operating assets	651	1,075	121	96	**1,943**	153	488	**2,584**
Total assets	2,919	7,626	892	782	**12,219**	775	638	**13,632**
Total liabilities	591	1,266	158	174	**2,189**	239	561	**2,989**
Average number of employees	**9,180**	**63,045**	**17,086**	**9,703**	**99,014**	**1,575**	**197**	**100,786**

[1] OJSC "Lenzoloto" and OJSC "Matrosov Mine", gold producers, were acquired with effect from 6 April 2004. CJSC "Tonoda", a gold producer, was acquired with effect from 14 December 2004. Results have been included from the dates of acquisition.

US Dollars million

2003	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-Eniseysk	Subtotal Russian Federation	North America[1]	Europe	Total
Metal sales revenue	**-**	**4,250**	**368**	**299**	**4,917**	**116**	**163**	**5,196**
Third party transactions	-	337	124	299	**760**	116	4,320	**5,196**
Intra-segment transactions	-	3,913	244	-	**4,157**	-	(4,157)	**-**
Operating (loss)/profit	(134)	1,414	133	144	**1,557**	7	(48)	**1,516**
Interest income	18	10	-	-	**28**	-	2	**30**
Interest expense	20	4	1	-	**25**	8	7	**40**
Loss on financial derivatives	-	-	-	-	**-**	-	44	**44**
Income from associates	29	-	-	-	**29**	-	-	**29**
(Loss)/profit before taxation	(239)	1,452	81	142	**1,436**	(1)	(97)	**1,338**
Significant non-cash items								
Amortisation and depreciation	5	360	59	27	**451**	6	-	**457**
Other non-cash expenses	24	85	47	-	**156**	2	25	**183**
Capital expenditures	**23**	**339**	**30**	**42**	**434**	**8**	**4**	**446**
Carrying amount of assets/ liabilities								
Property, plant and equipment including construction-in-progress	182	5,636	633	291	**6,742**	472	4	**7,218**
Investments in associates	108	-	-	-	**108**	-	-	**108**
Net operating assets	188	985	57	17	**1,247**	69	499	**1,815**
Total assets	1,161	7,420	815	339	**9,735**	745	773	**11,253**
Total liabilities	663	1,278	195	78	**2,214**	222	270	**2,706**
Average number of employees	**11,096**	**66,169**	**17,401**	**2,838**	**97,504**	**1,535**	**34**	**99,073**

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

US Dollars million

4. METAL SALES REVENUES

2004	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation						
Taimyr Peninsula	**5,610**	3,152	1,220	686	505	47
Kola Peninsula	**472**	412	45	1	10	4
Severo-Eniseysk and Bodaybo[1]	**442**	-	-	-	-	442
United States of America						
Montana	**447**	-	-	280	167	-
Europe	**62**	-	-	38	24	-
	7,033	**3,564**	**1,265**	**1,005**	**706**	**493**
By destination						
Europe	**4,100**	2,646	906	266	273	9
Russian Federation	**1,065**	215	356	1	10	483
Asia	**750**	429	-	210	110	1
North America	**1,118**	274	3	528	313	-
	7,033	**3,564**	**1,265**	**1,005**	**706**	**493**

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

[1] OJSC "Lenzoloto" and OJSC "Matrosov Mine", gold producers, were acquired with effect from 6 April 2004. CJSC "Tonoda", a gold producer, was acquired with effect from 14 December 2004. Results have been included from the dates of acquisition.
[2] Stillwater Mining Company, a palladium and platinum producer, was acquired with effect from 23 June 2003. Revenues have been included from the date of acquisition.

US Dollars million

	2004	2003

5. COST OF METAL SALES

	2004	2003
Cash operating costs	2,475	2,277
On-mine and concentrating costs (refer to note 6)	1,069	913
Smelting costs (refer to note 7)	600	598
Treatment and refining costs (refer to note 8)	328	352
Other costs (refer to note 9)	478	414
Amortisation and depreciation of operating assets (refer to note 10)	466	422
Decrease in metal inventories	238	171
Total	**3,179**	**2,870**

6. ON-MINE AND CONCENTRATING COSTS

	2004	2003
Labour	487	431
Consumables and spares	326	347
Repairs and maintenance	80	47
Insurance	55	23
Utilities	44	23
Tailing pile maintenance and relocation	17	16
Sundry on-mine and concentrating costs	60	26
Total (refer to note 5)	**1,069**	**913**

7. SMELTING COSTS

	2004	2003
Labour	181	193
Consumables and spares	135	207
Non-ferrous scrap metals purchased	98	81
Platinum group scrap metals purchased	77	10
Insurance	40	44
Utilities	31	31
Repairs and maintenance	29	25
Sundry smelting costs	9	7
Total (refer to note 5)	**600**	**598**

8. TREATMENT AND REFINING COSTS

	2004	2003
Labour	122	132
Consumables and spares	96	140
Platinum group metals toll refining cost	57	45
Utilities	17	16
Insurance	15	4
Repairs and maintenance	12	9
Sundry treatment and refining costs	9	6
Total (refer to note 5)	**328**	**352**

US Dollars million

9. OTHER COSTS

	2004	2003
Cost of refined metals purchased from third parties	211	179
Tax on mining and pollution tax	141	117
Transportation of metals	97	117
Other	29	1
Total (refer to note 5)	**478**	**414**

10. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2004	2003
Mining and concentrating	288	242
Smelting	137	128
Treatment and refining	41	52
Total (refer to note 5)	**466**	**422**

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003
Export customs duties	291	258
Salaries	201	136
Taxes other than mining, pollution and income taxes	77	95
Advertising	49	50
External research and development	40	9
Transportation expenses	35	51
Consulting services	35	45
Legal and audit services	24	20
Commission paid	14	8
Repairs and maintenance	12	10
Bank charges	12	9
Amortisation and depreciation	11	6
Insurance	9	11
Other	56	42
Total	**866**	**750**

12. OTHER NET OPERATING EXPENSES

	2004	2003
Loss on disposal of property, plant and equipment	140	60
Provision for other non-current assets (refer to note 26)	72	5
Provision for impairment of capital construction-in-progress (refer to note 21)	19	73
Foreign exchange loss/(gain)	12	(15)
Doubtful debts expensed/(recovered)	5	(21)
Decrease in provision for tax penalties	(56)	(29)
Net operating profit from non-mining entities	(37)	(11)
Other profits	(2)	(2)
Total	**153**	**60**

US Dollars million

	2004	2003

13. INTEREST EXPENSE

	2004	2003
Interest expense on borrowings	68	40
Unwinding of discount on decommissioning obligations (refer to note 33)	4	-
Total	**72**	**40**

14. NET LOSS/(INCOME) FROM INVESTMENTS

	2004	2003
Change in fair value of investments and other financial assets	46	24
Loss/(income) from associates (refer to note 22)	32	(29)
Loss/(profit) on disposal of investments and other financial assets	7	(1)
Dividends received	(9)	(1)
Interest income	(37)	(30)
Total	**39**	**(37)**

15. NET (GAINS)/LOSSES ON DERIVATIVE TRANSACTIONS

	2004	2003
Realised (gains)/losses	(6)	19
Unrealised losses	-	25
Total	**(6)**	**44**

16. OTHER NON-OPERATING EXPENSES

	2004	2003
Maintenance of social sphere facilities	53	75
Donations	52	47
Other	3	9
Total	**108**	**131**

17. TAXATION

	2004	2003
Current taxation	818	592
Deferred taxation (refer to note 31)	(122)	(99)
Total	**696**	**493**

US Dollars million

	2004	**2003**
The corporate income tax rates in countries where the Group has a taxable presence are as follows:		
Russian Federation	24%	24%
Belgium	34%	40%
Switzerland	12%	12%
United Kingdom	30%	30%
United States of America	39%	39%
China	17.5%	17.5%

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:

	2004	2003
Profit before taxation	**2,507**	**1,338**
Theoretical income tax at 24%	602	321
Impact of specific tax rates	(15)	7
Tax effect of goodwill impairment	27	-
Tax effect of permanent differences	127	125
Change in valuation allowance	(45)	40
Total income tax expense	**696**	**493**

18. BASIC AND FULLY DILUTED EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share is based on:

	2004	2003
Net profit for the year of	1,832	861
Headline earnings for the year of	1,878	885
Number of ordinary shares in issue for the year of	210,642,516	210,642,516
Basic and fully diluted earnings per share (US cents)		
- Attributable	869.7	408.7
- Headline	891.6	420.1

US Dollars million

	2004	2003
19. DIVIDENDS		
On 26 November 2004 the Company declared an interim dividend of RUR 41.4 (USD 1.46) per share in respect of the year ended 31 December 2004. The dividend was paid to shareholders on 30 December 2004. This amount is net of USD 5 million paid to Group companies.	308	-
On 13 November 2003 the Company declared an interim dividend of RUR 42.1 (USD 1.37) per share in respect of the year ended 31 December 2003. The dividend was paid to shareholders on 28 February 2004. This amount is net of USD 4 million paid to Group companies.	-	289
On 30 June 2003 the Company declared a dividend of RUR 21.7 (USD 0.71) per share in respect of the year ended 31 December 2002. The dividend was paid to shareholders during 2003. This amount is net of USD 2 million paid to Group companies.	-	149
Total	**308**	**438**

Dividend per share

	2004	2003
The calculation of dividend per share is based on dividends declared and ordinary shares in issue at end of the year of	210,642,516	210,642,516
Dividend per share (US cents)	146.0	207.9

Dividend cover

The calculation of dividend cover is based on:

	2004	2003
Attributable earnings for the year of	1,832	861
Headline earnings for the year of	1,878	885
Dividends declared of	308	438
Giving a dividend cover of	6.1	2.0

US Dollars million

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Cost				
Balance at 31 December 2002	**3,749**	**1,858**	**76**	**5,683**
Acquired on acquisition of subsidiaries (refer to note 40)	360	103	17	**480**
Disposed on disposal of subsidiaries (refer to note 41)	-	-	(2)	**(2)**
Transfers from capital construction-in-progress (refer to note 21)	132	265	2	**399**
Decommissioning asset raised (refer to note 33)	41	-	-	**41**
Disposals	(16)	(60)	(6)	**(82)**
Effect of translation to presentation currency for the year	306	148	8	**462**
Balance at 31 December 2003	**4,572**	**2,314**	**95**	**6,981**
Acquired on acquisition of subsidiaries (refer to note 40)	181	79	1	**261**
Disposed on disposal of subsidiaries (refer to note 41)	(21)	(1)	(8)	**(30)**
Transfers from capital construction-in-progress (refer to note 21)	243	279	58	**580**
Decommissioning asset raised (refer to note 33)	82	-	-	**82**
Disposals	(61)	(182)	(4)	**(247)**
Effect of translation to presentation currency for the year	262	169	10	**441**
Balance at 31 December 2004	**5,258**	**2,658**	**152**	**8,068**

US Dollars million

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Accumulated amortisation and depreciation				
Balance at 31 December 2002	**(214)**	**(198)**	**(5)**	**(417)**
Amortisation and depreciation charge for the year	(224)	(227)	(6)	**(457)**
Eliminated on disposals	1	10	2	**13**
Effect of translation to presentation currency for the year	(26)	(26)	-	**(52)**
Balance at 31 December 2003	**(463)**	**(441)**	**(9)**	**(913)**
Amortisation and depreciation charge for the year	(295)	(252)	(10)	**(557)**
Disposed on disposal of subsidiaries (refer to note 41)	2	-	-	**2**
Eliminated on disposals	8	105	2	**115**
Effect of translation to presentation currency for the year	(38)	(32)	(1)	**(71)**
Balance at 31 December 2004	**(786)**	**(620)**	**(18)**	**(1,424)**
Net book value				
31 December 2003	**4,109**	**1,873**	**86**	**6,068**
31 December 2004	**4,472**	**2,038**	**134**	**6,644**

Included in property, plant and equipment at 31 December 2004 are non-mining assets with a carrying value of USD 318 million (2003: USD 269 million).

21. CAPITAL CONSTRUCTION-IN-PROGRESS

	2004	2003
Balance at beginning of the year	**1,150**	**1,084**
Additions	635	446
Acquired on acquisition of subsidiaries (refer to note 40)	19	-
Transfers to property, plant and equipment (refer to note 20)	(580)	(399)
Disposals	(65)	(12)
Provision for impairment (refer to note 12)	(19)	(73)
Effect of translation to presentation currency for the year	68	104
Balance at end of the year	**1,208**	**1,150**

Assets under construction in the amount of USD 8 million (2003: USD 5 million) were financed through a grant from the Government of Norway (refer to note 43). Carrying value of these assets is zero.

Included in capital construction-in-progress at 31 December 2004 are non-mining assets under construction with a carrying value of USD 252 million (2003: USD 73 million).

US Dollars million

22. INVESTMENTS IN ASSOCIATES

	2004	2003
Balance at beginning of the year	**108**	**76**
Acquired during the year	56	-
Change in classification due to increase in shareholding	22	(4)
Share of post acquisition profits (refer to note 14)	4	29
Dividends received	(1)	-
Impairment (refer to note 14)	(36)	-
Effect of translation to presentation currency for the year	9	7
Balance at end of the year	**162**	**108**

Details of the Group's associates at 31 December 2004 are as follows:

Name of associate	Principal activity	Share-holding	2004	2003
OJSC "Krasnoyarskenergo"[1]	Electricity utilities	25.5%	72	58
OJSC "Kolenergo"[1]	Electricity utilities	24.8%	59	-
OJSC "Norilskgazprom"[1]	Gas extraction	29.4%	22	50
OJSC "Pervenets"[1]	Gold mining	26.0%	9	-
LLC "Kvartsevye tekhnologii"[1]	Quartz mining	38.3%	-	-
CJSC "Metallurgtrans"[1]	Consulting	21.9%	-	-
			162	**108**

[1]Incorporated in the Russian Federation.

During 2004 the Group increased its shareholding in OJSC "Kolenergo" from 10.0% to 24.8%. This increase resulted in the company being classified as an associate.

During 2003 the Group increased its shareholding in OJSC "Arkhangelsk Sea Port" from 35.1% to 53.1%. This increase resulted in that company starting from the end of 2003 being classified as a subsidiary and thus the investment was eliminated from investments in associates.

US Dollars million

23. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2004	2003
Non-current		
Equity securities available-for-sale	1,345	122
Promissory notes receivable	40	4
Long-term accounts receivable	5	11
Equity investments in related parties	-	11
Other	17	14
Total non-current	**1,407**	**162**
Current		
Promissory notes receivable	14	52
Auction rate securities	13	-
Bank deposits	-	80
Other	3	3
Total current	**30**	**135**

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

24. INVENTORIES

	2004	2003
Non-current		
Refined metals		
Joint products at net production cost	75	90
Total non-current metal inventories	**75**	**90**

Refined metal inventory includes approximately 500,000 (2003: 877,000) ounces of palladium subject to a sales contract concluded by Stillwater Mining Company in August 2004. This contract requires approximately 83,500 ounces of palladium to be delivered on an annual basis until January 2010. Non-current refined metal inventory represents the carrying cost of those palladium ounces to be delivered after 31 December 2005 (refer to note 30).

	2004	2003
Current		
Refined metals		
Joint products at net production cost	430	587
By-products at net realisable value	65	51
Work-in-process, at net production cost	285	319
Total current metal inventories	**780**	**957**
Stores and materials at cost	709	648
Less: Provision for obsolescence	(47)	(113)
Net stores and materials	**662**	**535**
Total current inventories	**1,442**	**1,492**

US Dollars million

	2004	2003
Certain refined metals are pledged as security:		
Joint products		
Long-term borrowings (refer to note 30)	22	157
Bank overdraft facilities (refer to note 38)	25	124
By-products		
Bank overdraft facilities (refer to note 38)	13	19
Total	**60**	**300**

25. TRADE AND OTHER RECEIVABLES

Trade accounts receivable	403	358
Advances to suppliers	59	60
Promissory notes receivable	2	25
Other receivables	104	97
	568	540
Less: Provision for doubtful debts	(113)	(114)
Total	**455**	**426**

26. OTHER NON-CURRENT AND CURRENT ASSETS

Non-current		
Value added tax recoverable	202	231
Other	24	8
	226	239
Less: Provision	(57)	(5)
Total non-current	**169**	**234**
Current		
Value added tax recoverable	459	348
Prepaid insurance	81	59
Prepaid income tax	92	2
Prepaid other taxes	19	10
Other	43	15
Total current	**694**	**434**

US Dollars million

		2004	2003

27. CASH AND CASH EQUIVALENTS

		2004	2003
Current accounts	- RUR	116	119
	- foreign currency	528	317
Bank deposits	- RUR	3	250
	- foreign currency	591	89
Cash on broker current account		4	125
Cash in hand		8	15
Other cash and cash equivalents		96	39
Total cash and cash equivalents		**1,346**	**954**
Less: Bank overdrafts (refer to note 38)		(21)	(173)
Net cash and cash equivalents		**1,325**	**781**

Other cash equivalents are mainly represented by highly liquid investments purchased with an original maturity date of three months or less.

28. SHARE CAPITAL

	2004	2003
Authorised		
260,171,000 ordinary shares at par value of RUR 1 each	12	10
Issued and fully paid		
213,905,884 ordinary shares at par value of RUR 1 each	10	9
Treasury shares		
3,263,368 ordinary shares (refer to note 29)	-	-
Treasure shares are recorded as a deduction from issued and fully paid share capital.		
Total	**10**	**9**

US Dollars million

29. MINORITY INTEREST

	2004	2003
Balance at beginning of the year	**344**	**101**
Minority interest in net loss of subsidiaries for the year	(21)	(16)
Minority interest in subsidiaries acquired during the year (refer to note 40)	48	236
Minority interest in subsidiaries disposed of during the year (refer to note 41)	-	(3)
Decrease in minority due to increase of investment in subsidiaries by the Group (refer to note 40)	(18)	-
Increase in minority interest due to decrease of Group's share in subsidiaries	2	11
Effect of translation to presentation currency for the year	11	15
Balance at end of the year	**366**	**344**

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

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

The minority interest of the shareholders of OJSC "RAO "Norilsk Nickel" in the Group's total minority interests as at 31 December 2004 is USD 29 million (2003: USD 30 million), and their share of the loss for the year is USD 1 million (2003: a minority profit of USD 4 million).

30. LONG-TERM BORROWINGS

	2004	2003
7.125% Guaranteed notes due 2009, net of direct expenses on issuance	498	-

On 30 September 2004 Norilsk Nickel Luxemburg S.A., a wholly owned special purpose subsidiary of the Group, issued USD 500 million 7.125% notes. The notes were issued at par value with interest payable semi-annually in arrears on 30 March and 30 September, and mature on 30 September 2009. The notes are unconditionally and irrevocably guaranteed by OJSC "Mining and Metallurgical Company Norilsk Nickel".

	2004	2003
Syndicated loan arranged by Citibank N.A., ING Bank N.V. and Societe Generale	299	-

A USD-denominated loan at LIBOR plus 1.85% per annum for the period from the date of receipt, 3 August 2004, until 14 September 2004 and at LIBOR plus 1.4% for the period from 15 September 2004 until date of repayment. The date of repayment is 28 December 2005. The loan is secured by export sales proceeds of the Group.

US Dollars million

	2004	2003
Syndicated loan arranged by Toronto Dominion	132	129
At 31 December 2004 Stillwater Mining Company, a subsidiary of the Group had USD 132 million outstanding at LIBOR + 3.25% per annum (2003: USD 129 million at 7.5% per annum) under a USD 250 million credit facility. Repayment commences in 2004, with the final instalment due on 30 July 2010. Substantially all the property and assets of Stillwater Mining Company are pledged as security for the credit facility. The loan agreement requires that 50% of the company's annual excess cash flow, any proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions, be offered to repay this loan. Also the loan agreement requires that 25% of the net proceeds on disposal of 500,000 (2003: 877,000) ounces of palladium, received by Stillwater Mining Company as part settlement of the acquisition of Stillwater Mining Company by the Group be offered to repay this loan. Effectively the loan is secured by 125,000 ounces of palladium with a carrying value of USD 22 million (refer to note 24).		
Exempt Facility Reversal Bonds Series 2000 issued through the State of Montana Investment Board	29	29
USD-denominated bonds with an effective interest rate of 8.57% issued on 6 July 2002 and maturing on 1 July 2020.		
Syndicated loan arranged by Citibank N.A., ING Bank N.V. and Societe Generale	-	150
A USD-denominated loan at LIBOR plus 3.25% per annum with the original maturity date on 28 February 2006. The loan was fully repaid on 10 March 2004.		
Other long-term borrowings	22	4
Total	**980**	**312**
Less: Current portion repayable within one year and shown under current liabilities	(323)	(143)
Net long-term borrowings	**657**	**169**

The long-term borrowings are repayable as follows:

	2004	2003
Due in one year	323	143
Due in the second year	5	85
Due thereafter	652	84
	980	**312**

US Dollars million

	2004	2003

31. DEFERRED TAX LIABILITIES

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

	2004	2003
Net liability at beginning of the year	**775**	**800**
Recognised in income statement for the year (refer note 17)	(122)	(99)
Change in deferred tax liability due to acquisition of subsidiaries (refer note 40)	44	14
Effect of translation to presentation currency for the year	43	60
Net liability at end of the year	**740**	**775**

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

	2004	2003
Property, plant and equipment	785	762
Accrued operating expenses	(49)	(48)
Provision for doubtful debts	(19)	(27)
Unrealised profit on intragroup transactions	(42)	(65)
Inventory valuation	72	45
Accrued revenue	1	27
Valuation of investments	(42)	(17)
Other	(15)	8
Provision for deferred tax assets	49	90
Total	**740**	**775**

The unutilised tax losses of the North American operations as at 31 December 2004, which are available for offset against future taxable income earned in the United States of America, amounted to USD 221 million, have not been recognised as a deferred tax asset.

The Group does not recognise a deferred tax liability for the taxable temporary difference associated with investments in subsidiaries of USD 1,406 million (2003: USD 878 million), because it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

US Dollars million

32. EMPLOYEE BENEFIT OBLIGATIONS

	2004	2003
Non-current		
Lifelong professional pension plan	35	31
Joint corporate pension plan	19	29
Mothers' rights plan	4	9
Six pensions plan	3	4
	61	73
Less: Current portion of non-current employee benefit obligations	(11)	(9)
Total non-current	**50**	**64**
Current		
Accrual for annual leave	165	171
Current portion of non-current employee benefits	11	9
Other	10	4
Total current	**186**	**184**

Defined benefit plans

Number of members	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights plan	Six pensions plan
At 31 December 2002	**1,047**	**23**	**-**	**934**
Additions	249	1,329	1,936	208
Retirements	(44)	-	(824)	(424)
At 31 December 2003	**1,252**	**1,352**	**1,112**	**718**
Additions	88	978	12	146
Retirements	(14)	(5)	(387)	(442)
At 31 December 2004	**1,326**	**2,325**	**737**	**422**

Movements in the liabilities	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights plan	Six pensions plan
Balance at 31 December 2002	**12**	**-**	**-**	**3**
Cash payments	(2)	-	(9)	(4)
Annual charge	2	-	1	-
Additional cost arising from new plan members	18	28	16	5
Effect of translation to presentation currency for the year	1	1	1	-
Balance at 31 December 2003	**31**	**29**	**9**	**4**
Cash payments	(4)	-	(6)	(4)
Annual charge	2	1	1	1
Additional cost arising from new plan members	3	6	-	2
Change in estimate	-	(19)	-	-
Effect of translation to presentation currency for the year	3	2	-	-
Balance at 31 December 2004	**35**	**19**	**4**	**3**

US Dollars million

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

	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights plan	Six pensions plan
2003				
Annual charge	2	-	1	-
Additional cost arising from new plan members	18	28	16	5
Total	**20**	**28**	**17**	**5**
2004				
Annual charge	2	1	1	1
Additional cost arising from new plan members	3	6	-	2
Change in estimate	-	(19)	-	-
Total	**5**	**(12)**	**1**	**3**

The Joint corporate pension plan was classified as a defined contribution plan in 2003. As a result of an independent actuarial valuation during 2004, the accounting classification was changed to defined benefit plan and accrued liabilities were revised mainly due to the effect of discounting. The reversal is presented as a change in estimate.

Key assumptions used:

	2004	2003
Discount rate	13.0%	7.3%
Pre-retirement increases to capital accounts	7.5%	0.0%
Future salary increases	6.2%	0.0%
Future pension increases	7.5%	0.0%
Average life expectancy of members from date of retirement	17 years	19 years

Defined contribution plans

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

Pension fund of the Russian Federation	177	150
Stillwater Mining Company savings plan	4	2
Total	**181**	**152**

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

33. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	2004	2003
Balance at beginning of the year	**60**	**-**
Obligations raised during the year (refer to note 20)	-	41
Change in estimate (refer to note 20)	82	-
Unwinding of discount on decommissioning obligations (refer to note 13)	4	-
Acquired on acquisition of subsidiary (refer to note 40)	-	19
Effect of translation to presentation currency for the year	3	-
Balance at end of the year	**149**	**60**

During 2004 the Group reassessed the estimate of decommissioning obligations for its operations in the Russian Federation due to changes in inflation rate, discount rates and the use of the results of an independent audit of ore reserves to determine the closure dates of mines. As a result, additional decommissioning obligations were accrued. The additional accrual was presented as change in estimate.

The Group's subsidiary, Stillwater Mining Company, is required to post surety bonds, letters of credit, cash or other acceptable financial instruments to guarantee performance of reclamation activities at Stillwater and East Boulder Mines. The surety amount at the East Boulder Mine was USD 11.5 million during 2004, comprised of USD 4 million of surety bonds and USD 7.5 million letter of credit. At 31 December 2004, the Stillwater Mine carried reclamation bonds totalling USD 8.9 million. The company expects that the Stillwater Mine bonding status will be reviewed by certain government agencies during 2005, and it is likely that the required bond amount will be increased.

Provision for land rehabilitation

	2004	2003
Balance at beginning of the year	**-**	**-**
Charge to income statement	6	-
Balance at end of the year	**6**	**-**

During 2004 the Group performed an estimate of land rehabilitation costs for its operations in the Russian Federation. The provision, discounted to net present value, relates exclusively to mining operations.

	2004	2003
Total environmental obligations	**155**	**60**

US Dollars million

34. SHORT-TERM BORROWINGS

	2004	2003
USD-denominated short-term borrowings at floating rates	150	108
USD-denominated short-term borrowings at fixed rates	42	-
RUR-denominated short-term borrowings	16	14
Total	**208**	**122**

The interest rates on these borrowings vary as follows:

	2004	2003
USD-denominated short-term borrowings at floating rates	LIBOR+ 1.5%	LIBOR + 1.85% to 9.5%
USD-denominated short-term borrowings at fixed rates	4% to 10%	-
RUR-denominated short-term borrowings	10% to 20%	12% to 18%

35. TRADE AND OTHER PAYABLES

	2004	2003
Trade accounts payable	151	155
Wages and salaries	79	67
Advances from customers	57	15
Promissory notes payable	13	65
Interest payable	12	3
Other creditors	61	63
Total	**373**	**368**

36. TAXES PAYABLE

	2004	2003
Value added tax payable	82	92
Provision for fines and penalties	44	74
Income tax	31	58
Property tax	21	23
Unified social tax	13	10
Pollution tax	11	5
Tax on mining	10	4
Personal income tax	8	5
Other	41	46
Total taxes payable	**261**	**317**
Less: Current taxes payable within one year and shown under current liabilities	(257)	(305)
Total non-current taxes payable	**4**	**12**

US Dollars million

37. DIVIDENDS PAYABLE

	2004	2003
Balance at beginning of the year	**304**	**2**
Dividends declared (refer to note 19)	308	438
Dividends paid during the year	(618)	(147)
Effect of translation to presentation currency for the year	16	11
Balance at end of the year	**10**	**304**

38. BANK OVERDRAFTS

	2004	2003
Bank overdrafts (refer to note 27)	**21**	**173**

Bank overdraft facilities are as follows:

	2004	2003
ING (Switzerland)	100	100
Credit Suisse (Switzerland)	75	50
BNP Paribas Suisse (Switzerland)	75	-
Banque Cantonale Vaudoise (Switzerland)	50	50
Rosbank (Russia)	36	-
Natexis (France)	10	-
West LB AG (United Kingdom)	-	90
Fortis Bank (United Kingdom)	-	50
Other	-	25
Total bank overdraft facilities	**346**	**365**

Bank overdrafts are secured by (refer to note 24):

	2004	2003
Joint products	25	124
By-products	13	19
Total	**38**	**143**

	2004	2003
Weighted average interest rate for bank overdrafts nominated in foreign currencies	LIBOR+ 1.10%	LIBOR + 1.25%
Weighted average interest rate for bank overdrafts nominated in RUR	8%	-
Under a revolving credit facility, the Group's subsidiary, Stillwater Mining Company, has outstanding letters of credit of USD 3 million bearing interest at	4%	4%

US Dollars million

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

	2004	2003
Profit before taxation	**2,507**	**1,338**
Adjustments for:		
Amortisation and depreciation	540	451
Interest expense	72	40
Impairment of goodwill on acquisition	115	-
Change in provision for impairment of capital construction-in-progress	19	73
Change in provision for doubtful debt	5	(21)
Change in provision for obsolete inventory	(71)	109
Change in provision for other non-current assets	72	5
Change in provision for tax penalties	(56)	(29)
Loss on disposal of property, plant and equipment	140	60
Change in fair value of investments and other financial assets	46	24
Loss/(income) from associates	32	(29)
Foreign exchange loss/(gain)	12	(15)
Unrealised loss on financial derivatives	-	25
Other	11	-
Operating profit before working capital changes	**3,444**	**2,031**
Decrease in inventories	208	306
Decrease/(increase) in trade and other receivables	9	(174)
(Decrease)/increase in trade and other payables	(54)	8
(Increase) in other non-current and current assets	(120)	(21)
(Decrease)/increase in employee benefit obligations	(27)	73
Increase/(decrease) in taxes payable	38	(24)
Cash flows from operations	**3,498**	**2,199**

40. ACQUISITION OF SUBSIDIARIES

	2004	2003
Net assets acquired		
Property, plant and equipment	280	480
Inventories – refined metals	4	180
Inventories – other	24	12
Trade and other receivables	12	9
Cash and cash equivalents	2	69
Other assets	50	27
Loans and borrowings	(68)	(163)
Environmental obligations (refer to note 33)	-	(19)
Trade and other payables	(54)	(50)
Deferred taxation (refer to note 31)	(44)	(14)
Net assets at date of acquisition	**206**	**531**
Decrease in minority interest due to increase of investments in subsidiaries by the Group (refer to note 29)	18	-
Less: Minority interest (refer to note 29)	(48)	(236)
Groups' share of net assets acquired	**176**	**295**
Add: Goodwill on acquisition that was fully impaired (refer to comment below)	115	-
Less: Pre-acquisition amount invested in subsidiary	-	(4)
Total consideration	**291**	**291**
Satisfied by transfer of refined metal	-	(157)
Satisfied by cash	(291)	(134)
Net cash outflow arising on acquisition:		
Cash consideration	(291)	(134)
Cash and cash equivalents acquired	2	69
Net cash outflow on acquisition of subsidiaries	**(289)**	**(65)**

Impairment of goodwill on acquisition

The Group reviewed the carrying value of goodwill arising on the acquisition of OJSC "Lenzoloto" and determined that it should be written-off in the current financial year.

OJSC "Lenzoloto"

On 6 April 2004, the Group acquired 50.5% of the issued share capital of OJSC "Lenzoloto" for a cash consideration of USD 179 million. During July 2004 the Group increased its investment in OJSC "Lenzoloto" to 56.96% for a cash consideration of USD 12 million, bringing the Group's total investment in OJSC "Lenzoloto" to USD 191 million.

OJSC "Lenzoloto" contributed USD 104 million of revenue and USD 3.5 million loss before taxation from the date of acquisition to 31 December 2004.

OJSC "Matrosov Mine"

On 6 April 2004, the Group acquired 38.0% of the issued share capital of OJSC "Matrosov mine" for a cash consideration of USD 35.6 million. During May and July 2004 the Group increased its investment in OJSC "Matrosov Mine" to 57.1% for a cash consideration of USD 18.1 million, bringing the Group's total investment in OJSC "Matrosov Mine" to USD 53.7 million.

OJSC "Matrosov Mine" contributed USD 4 million of revenue and USD 14.7 million loss before taxation from the date of acquisition to 31 December 2004.

CJSC "Tonoda"

On 14 December 2004, LLC "Lenskaya Zolotorudnaya Company", a subsidiary of the Group acquired 100% of the issued share capital of CJSC "Tonoda" for a cash consideration of USD 28.4 million. CJSC "Tonoda" holds a licence to mine the Chertovo Koryto deposit located in the Irkutsk Region of the Russian Federation.

CJSC "Tonoda" contributed USD nil million of revenue and USD nil million loss before taxation from the date of acquisition to 31 December 2004.

Stillwater Mining Company

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

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

	2004	**2003**
Other acquisitions		
During 2004 the following entities were acquired or the Group's holding increased for a total consideration of USD 18 million (2003: USD 2 million):		
CJSC "Kraus-M"	40.0%	-
LLC "Hockey Club CSKA"	-	51.0%
CJSC "PBK CSKA"	-	100.0%
LLC "Kolabyt"	-	96.7%
OJSC "Arkhangelsk Sea Commercial Port"	-	18.0%
These entities contributed profit before taxation from their dates of acquisition to 31 December of	-	0.3

US Dollars million

41. DISPOSAL OF SUBSIDIARIES

	2004	2003
Net assets disposed of		
Property, plant and equipment	28	2
Trade and other receivables	6	43
Cash and cash equivalents	2	2
Inventory	14	-
Other assets	6	3
Trade and other payables	(28)	(38)
Net assets at date of disposal	**28**	**12**
Less: Minority interest (refer to note 29)	-	(3)
Group's share of assets disposed of	**28**	**9**
Less: Loss on disposal	(1)	(2)
Proceeds from disposal of subsidiaries	**27**	**7**
Less: Cash and cash equivalents disposed of	(2)	(2)
Net cash inflow from disposal of subsidiaries	**25**	**5**

During 2004 the following entities were disposed of or the Group's holding decreased for total proceeds of USD 27 million (2003: USD 7 million):

	2004	2003
OJSC "Monchebank"	15.4%	47.2%
OJSC "Olenegorsky Mekhanichesky Zavod"	100.0%	-
OJSC "Tuimsky zavod Tsvetnykh Metallov"	99.9%	-
OJSC "PromEstate"	99.1%	-
These entities contributed (loss)/profit before taxation from 1 January to the date of disposal of	(1)	3

US Dollars million

42. RELATED PARTIES

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

	Sale of goods	Purchase of goods	Purchase of services	Sale of investments	Loans and borrowings	Investments and cash	Trade receivables	Trade payables
2004								
By the Company	19	65	26	-	-	740	6	15
By subsidiaries of the Group	397	72	7	10	9	114	4	3
Total	**416**	**137**	**33**	**10**	**9**	**854**	**10**	**18**
2003								
By the Company	5	63	61	-	1	616	39	14
By subsidiaries of the Group	299	-	14	-	-	191	7	2
Total	**304**	**63**	**75**	**-**	**1**	**807**	**46**	**16**

US Dollars million

43. COMMITMENTS

Capital commitments

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2005:

Maintenance of property, plant and equipment	361
Expansion of property, plant and equipment	366
Total budgeted capital expenditure for 2005	**727**

2005 budgeted capital expenditure allocated between:

Contracted	379
Not contracted	348
Total budgeted capital expenditure for 2005	**727**

Contracted obligations in respect of capital commitments for the period after 2005 amount to approximately USD 26 million.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the year ended 31 December 2004 was approximately USD 22 million (31 December 2003: USD 23 million).

The Group leases land through operating lease contracts, which expire in various years through 2051. Future minimum lease payments due under non-cancellable operating lease contracts at 31 December 2004 are as follows:

Due in one year	20
Due in the second year	19
Due thereafter	75
Total	**114**

Intergovernmental agreement with the Government of Norway

In 2001 an intergovernmental agreement between the Governments of the Russian Federation and Norway was signed with regard to the provision of technical assistance for the reconstruction of the metallurgical production facilities of Pechenganickel Combine, a branch of OJSC "Kolskaya Mining and Metallurgical Company".

US Dollars million

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

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

During 2004 and 2003 the Group received USD 3 and 5 million in grants from the Government of Norway (refer to note 21), respectively, and a loan from Nordic Investment Bank in the amount of USD 0.5 million. The received cash was invested in the reconstruction of the equipment in accordance with the terms of the Grant Facility Agreement.

Social commitments

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

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

44. CONTINGENCIES

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Presently the Group has developed a comprehensive property risk insurance program which will commence in the second half of 2004 that provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. This comprehensive property insurance program, will reduce the risk of adverse effect of damage or loss of certain assets upon the Group's activities and its financial position.

Litigation and taxation risks

Unresolved tax litigation and possible taxation risks at 31 December 2004 amount to approximately USD 178 million. Management believes that the probability of unfavourable outcome of litigation and taxation risks is moderate.

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

Taxation contingencies in the Russian Federation

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

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

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

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

Environmental matters

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

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

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations, restore and rehabilitate the environment. During 2004 the Group performed reassessment of environmental obligations for its operations in the Russian Federation. Estimation was based on the management's understanding of the current legal requirements in the Russian Federation and the term of the license agreements. Management believes that Group's environmental obligations in the Russian Federation mainly include:

- rehabilitation of land and other types of ongoing rehabilitation; and
- decommissioning of mining assets and bringing mine sites into a condition that ensures the safety of population, protection of environment, buildings and facilities.

The extent and future expected costs related to environmental obligations are inherently difficult to estimate. They depend on the scale of operations, timing and further development of Russian legislation. The Group estimates its environmental obligations using the current level of mines' expansion, existing technology, current prices and projected inflation levels.

Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of the Russian economy depends on the efficacy of the Government economic policies and the continued development of legal and political systems.

45. RISK MANAGEMENT ACTIVITIES

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

Risk management structure

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

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

Commodity price risk

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

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

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

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

Derivative contracts

The Group enters into certain commodity derivative contracts, namely sales call options and purchase put options for the purpose of fixing prices and price ranges for its products. These instruments are classified as instruments entered into with a trading intent.

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

	2005	2006	2007	2008	2009	2010
Platinum						
Volume subject to floor price ('000 oz)	127	129	115	117	116	114
Average floor price (USD/oz)	428	425	425	425	425	425
Volume subject to ceiling price ('000 oz)	28	26	23	23	23	23
Average ceiling price (USD/oz)	860	856	850	850	850	850
Palladium						
Volume subject to floor price ('000 oz)	531	542	550	476	444	437
Average floor price (USD/oz)	351	339	339	376	380	375
Volume subject to ceiling price ('000 oz)	171	168	88	112	111	109
Average ceiling price (USD/oz)	675	703	975	975	975	975

Currency risk

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

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

Liquidity risk

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

US Dollars million

At 31 December 2004 and 2003 the Group had facilities for the management of its day to day liquidity requirements available with the following banks:

	2004	2003
Short-term borrowing facilities:		
Barclays Capital, BNP Paribas (Suisse) S.A.	400	-
Citibank N.A., ING Bank N.V. and Societe Generale	300	200
CJSC “ING Bank Eurasia”	100	50
OJSC “Vneshtorgbank”	100	-
CJSC “Commerzbank”	60	15
CJSC “KB Citibank”	50	30
CJSC “Moscow International Bank”	40	-
OJSC “Promstroybank”	36	-
OJCS “Eurofinance Mosnarbank”	36	-
CJSC “Gazprombank”	35	-
LLC “HSBC Bank (RR)”	30	15
CJSC “West LB Vostok”	30	-
IBG Nikoil	30	-
CJSC “Raiffeisenbank Austria”	30	-
OJSC “MBRD”	20	-
CJSC “BNP Pariba”	20	-
CJSC “Societe Generale Vostok”	20	-
CJSC “Natexis Bank”	15	-
LLC “Deutsche Bank”	14	-
Bank overdraft facilities:		
Total bank overdraft facilities (refer to note 38)	346	365
Total facilities	**1,712**	**675**
Less: Short-term borrowings received related to the above facilities	(480)	(100)
Bank overdrafts received (refer to note 38)	(21)	(173)
Outstanding letters of credit	(111)	(24)
Net facilities available	**1,100**	**378**

Interest rate risk

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

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

Credit risk

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

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

	2004				2003			
	Number of customers	%	Turnover USD million	%	Number of customers	%	Turnover USD million	%
Largest customer	1	1	543	8	1	1	574	11
Next 9 largest customers	9	3	2,368	34	9	6	1,201	23
Total	**10**	**4**	**2,911**	**42**	**10**	**7**	**1,775**	**34**
Next 10 largest customers	10	4	914	13	10	6	454	9
Total	**20**	**8**	**3,825**	**55**	**20**	**13**	**2,229**	**43**
Remaining customers	243	92	3,208	45	133	87	2,967	57
Total	**263**	**100**	**7,033**	**100**	**153**	**100**	**5,196**	**100**

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

The Group has a concentration of cash and bank deposits with a related party commercial bank that represents 58% of such cash and bank deposits (refer to note 42).

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

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Investments in securities and other financial assets (refer to note 23)	1,437	1,437	297	297
Trade and other receivables (refer to note 25)	455	455	426	426
Other current assets (refer to note 26)	694	694	434	434
Cash and cash equivalents (refer to note 27)	1,346	1,346	954	954
Long-term borrowings (refer to note 30)	(980)	(971)	(312)	(312)
Short-term borrowings (refer to note 34)	(208)	(208)	(122)	(122)
Derivative financial instruments	(5)	(5)	(27)	(27)
Trade and other payables (refer to note 35)	(373)	(373)	(368)	(368)
Bank overdrafts (refer to note 38)	(21)	(21)	(173)	(173)

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

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

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

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

Derivative financial instruments are recorded at fair values estimated using ruling market prices as at the balance sheet date.

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

47. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Additional swap of OJSC "RAO "Norilsk Nickel" shares for OJSC "MMC "Norilsk Nickel" shares

In October 2004, the Board of Directors of OJSC "MMC "Norilsk Nickel" approved a third stage of swapping shares of OJSC "RAO "Norilsk Nickel" for shares in OJSC "MMC "Norilsk Nickel" for those shareholders who had not participated in the share swaps which took place during 2001 and 2002. This share swap commenced 1 December 2004 and expired on 31 May 2005.

As of 31 May 2005, 1,213,559 shares had been swapped.

Acquisition of own shares

On 2 December 2004 the Board of Directors of OJSC "MMC "Norilsk Nickel" approved a decision for the Company to acquire 12,500,000 of its own ordinary shares for RUR 1,680 per share. The Company completed the repurchase of shares from shareholders in the first quarter of 2005 having repurchased 12,478,704 shares for RUR 20,964,222,720.

Acquisition of shares in Russian gold mining companies

On 9 February 2005 an additional 74% (2004: 26%, refer to note 22) of the issued ordinary shares of OJSC "Pervenets" were acquired by the Group for USD 25.8 million.

In April 2005 an additional 30.4% (2004: 57.1%, refer to note 48) of the issued ordinary shares of OJSC "Matrosov Mine" were acquired by the Group for USD 67.9 million.

Creation of a united energy company

In the first quarter of 2005 the Group and RAO "UES of Russia" reached an agreement to create a new company called OJSC "Norilsk Taimyr Energy Company", by combining the Group's energy facilities (PD "Norilskenergo") with those of RAO "UES of Russia" (OJSC "Taymyrenergo"). PD "Norilskenergo" and OJSC "Taimyrenergo" property will be leased to the new company for a term of 10 years. The new company is expected to be created in the second quarter of 2005 with 49% of its shares held by RAO "UES of Russia" and 51% of its shares held by the Group.

On 25 March 2005 the Board of Directors of RAO "UES of Russia" approved creation of the united energy company. The plan still has to be approved by the Board of Directors of OJSC "MMC "Norilsk Nickel".

Proposed spin-off of the Group's gold mining assets

On 15 April 2005 the Board of Directors of OJSC "MMC "Norilsk Nickel" approved a plan to spin-off the Group's gold mining assets into a new company by way of a single transaction. The disposal group consists of the gold mining assets of CJSC "Polus" and its subsidiaries, and 20% interest in Gold Fields Limited, including all liabilities directly associated with those assets. The transaction was announced on 18 April 2005, and is a subject to the final approval by the Extraordinary General Meeting of Shareholders in September 2005. If the spin-off is approved by the shareholders, the transaction is expected to be completed at the end of March 2006.

In accordance with the restructuring plan the shareholders of OJSC "MMC "Norilsk Nickel" will receive ordinary shares in the newly created company in proportion to their existing shareholding in the Company.

It is unlikely that significant changes to the restructuring plan will be made or that it will be withdrawn.

Separate classification of the disposal group will be presented in the Group's consolidated financial statements for the year ending 31 December 2005. In the Group's consolidated financial statements for the year ended 31 December 2004 the segmental information applicable to the disposal group is presented in accordance with IAS 14 "Segment Reporting" in notes 3 and 4 under the heading "Severo-Eniseysk and Bodaybo".

48. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Shares held '000		% held		Net asset position		Net loan account	
Subsidiaries by country of incorporation	**Nature of business**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Russian Federation									
OJSC "RAO "Norilsk Nickel"	Market agent	185,787	185,787	98.3	98.3	131	77	118	69
OJSC "Taimyrgaz"	Gas extraction	1,983	1,983	94.4	94.4	87	90	(126)	(38)
CJSC "Polus"	Mining	-	-	100.0	100.0	877	375	364	114
OJSC "Matrosov Mine"[1]	Mining	44	-	57.1	-	(7)	-	(29)	-
OJSC "Lenzoloto" [1]	Mining	848	-	57.0	-	87	-	(45)	-
CJSC "Tonoda" [1]	Mining	9	-	100.0	-	(2)	-	(3)	-
LLC "LZRK"[1]	Management company	-	-	100.0	-	13	-	3	-
OJSC "Yenisey River Shipping Company"	River shipping operations	181	181	43.9	43.9	54	50	-	-
OJSC "Arkhangelsk Sea Commercial Port"	Sea shipping operations	532	532	53.1	53.1	12	8	-	-
OJSC "PromEstate"[2]	Property holding	-	6	-	99.1	-	21	-	-
CJSC "NORIMETIMPEX"	Market agent	5	5	100.0	100.0	4	4	-	-
OJSC "Kolskaya Mining and Metallurgical Company"	Mining	4,000	4,000	100.0	100.0	839	650	42	(77)
OJSC "Olenegorsky Mekhanichesky Zavod" [2]	Machine building	-	149	-	100.0	-	4	-	(4)
CJSC "Alykel"	Airport	-	-	100.0	100.0	(17)	(17)	(32)	(38)
LLC "Norilskiye Metally"	Market agent	-	-	100.0	100.0	1	-	-	(3)
OJSC "Institute Gypronickel"	Science	23	23	100.0	100.0	10	9	1	3
OJSC "Norilsky Kombinat"	Lessor of equipment	14,673	14,673	98.2	98.2	1,599	1,566	1,028	947
OJSC "Kombinat "Severonickel"	Lessor of equipment	9,860	9,860	98.3	98.3	40	51	10	39
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"	Lessor of equipment	1,236	1,236	98.3	98.3	27	41	10	21
JSC "Tuimsky zavod Tsvetnykh Metallov" [2]	Non-ferrous metal production	-	827	-	99.9	-	-	-	(1)
CJSC "Kraus-M"	Property holding	10	6	100.0	60.0	47	45	(31)	(26)
LLC "Norilsk telecom"	Telecommunications	-	-	100.0	100.0	51	-	(1)	(20)

[1] Acquired during 2004 (refer to note 40)
[2] Disposed of during 2004 (refer to note 41)

		Shares held '000		% held		Net asset position		Net loan account	
Subsidiaries by country of incorporation[1]	**Nature of business**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Belgium									
Norgem SA	Market agent	31	31	51.0	51.0	3	2	-	-
China									
Norilsk Nickel Asia[2]	Market agent	-	-	100.0	-	-	-	(1)	-
Great Britain									
Norimet Limited	Market agent	5,260	5,260	100.0	100.0	316	291	287	295
Norilsk Nickel Europe Limited	Market agent	1	1	100.0	100.0	1	-	(6)	-
Luxembourg									
Norilsk Nickel Finance[2]	Bond issuer	1	-	100.0	-	2	-	507	-
Switzerland									
Norilsk Nickel Holding SA	Investment holding	-	-	100.0	100.0	31	4	680	2
Metal Trade Overseas SA	Market agent	-	-	100.0	100.0	221	(1)	(20)	-
United States of America									
Stillwater Mining Company	Mining	49,813	49,813	55.1	55.5	536	509	-	-
Norilsk Nickel USA	Market agent	1	1	100.0	100.0	2	2	2	6

[1] All foreign subsidiaries of the Group, except for Stillwater Mining Company, represent foreign operations from accounting perspective. Stillwater Mining Company is considered to be a foreign entity.
[2] Formed by the Group in 2004

The following companies were not consolidated in the Group's consolidated annual financial statements for the year ended 31 December 2004:

	% held	
	2004	**2003**
DKHO "TKO Zapolyarye"	100.0	100.0
CJSC "Interrosproduct"	-	51.0
CJSC "IRSD"	-	100.0
OJSC "Yacht-club Admiral"	-	100.0

Control in these subsidiaries is intended to be temporary. In the preparation of the consolidated annual financial statements the investments in these entities have been written off.