Mining and Metallurgical Company Norilsk Nickel

Consolidated annual financial statements for the year ended 31 December 2005

INDEX

EXCHANGE RATES – RUSSIAN ROUBLE

	2005	2004
Year-end rates		
1 US dollar	28.7825	27.7487
1 Euro	34.1850	37.8104
Average rates for the year		
1 US dollar	28.2864	28.8150
1 Euro	35.3865	35.8185

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 consolidated financial position of the Group at 31 December 2005, the consolidated 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 system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated annual financial statements for the year ended 31 December 2005 were approved on 30 May 2006 by:

M. D. Prokhorov	**I. A. Komarov**
General Director	Deputy General Director

Moscow
30 May 2006

Deloitte.

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

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 2005 of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), set out on pages 3-55. 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.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2005, and the consolidated 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 CIS
Moscow
7 June 2006

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
US Dollars million

	Notes	2005	2004
Metal sales	6	**7,169**	**6,591**
Cost of metal sales	7	(2,994)	(2,938)
Gross profit on metal sales		**4,175**	**3,653**
Selling, general and administrative expenses	13	(841)	(821)
Other net operating expenses	14	(58)	(166)
Operating profit		**3,276**	**2,666**
Finance costs	15	(95)	(67)
Net income from investments	16	59	5
Other non-operating expenses	17	(124)	(97)
Profit before taxation		**3,116**	**2,507**
Taxation	18	(838)	(642)
Profit for the year from continuing operations		**2,278**	**1,865**
Profit/(loss) for the year from discontinued operation	4	74	(8)
Profit for the year		**2,352**	**1,857**
Attributable to:			
Shareholders of the parent company		2,355	1,878
Minority interest		(3)	(21)
		2,352	**1,857**

EARNINGS PER SHARE

	Notes	2005	2004
Weighted average number of ordinary shares in issue during the year	28	201,242,833	210,642,516
Basic and diluted earnings per share from continuing and discontinued operations (US cents)		1,170	892
Basic and diluted earnings per share from continuing operations (US cents)		1,133	893

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005
US Dollars million

	Notes	2005	2004
ASSETS			
Non-current assets		**9,177**	**9,665**
Property, plant and equipment	19	5,961	6,644
Capital construction-in-progress	20	1,184	1,208
Investments in associates	21	95	162
Investments in securities and other financial assets	22	690	1,407
Other non-current assets	23	138	244
Non-current assets of disposal group	4	1,109	-
Current assets		**5,553**	**3,967**
Inventories	24	1,301	1,442
Trade and other receivables	25	440	455
Other current assets	26	567	694
Investments in securities and other financial assets	22	134	30
Cash and cash equivalents	27	922	1,346
Current assets of disposal group	4	2,189	-
Total assets		**14,730**	**13,632**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves		**11,397**	**10,643**
Share capital	28	9	10
Share premium	29	-	782
Investments revaluation reserve		676	(56)
Accumulated profits		10,378	9,541
Equity attributable to shareholders of the parent company		**11,063**	**10,277**
Minority interest		**334**	**366**
Non-current liabilities		**1,739**	**1,602**
Long-term borrowings	30	635	657
Deferred tax liabilities	31	543	740
Employee benefit obligations	32	56	50
Environmental obligations	33	269	155
Non-current liabilities of disposal group	4	236	-
Current liabilities		**1,594**	**1,387**
Current portion of long-term borrowings	30	8	323
Current portion of employee benefit obligations	32	212	265
Short-term borrowings	34	349	229
Trade and other payables	35	300	299
Taxes payable	36	187	261
Dividends payable		301	10
Current liabilities of disposal group	4	237	-
Total shareholders' equity and liabilities		**14,730**	**13,632**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
US Dollars million

	Notes	2005	2004
Operating activities			
Cash flows from operations	37	3,974	3,498
Interest paid		(84)	(58)
Taxation paid		(896)	(936)
Net cash inflow from operating activities		**2,994**	**2,504**
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	38	(175)	(289)
Proceeds from disposal of subsidiaries, net of cash disposed of	39	1	25
Purchase of property, plant and equipment		(773)	(618)
Proceeds from sale of property, plant and equipment		38	57
Purchase of securities and other financial assets		(680)	(1,440)
Proceeds from sale of securities and other financial assets		134	237
Net cash outflow from investing activities		**(1,455)**	**(2,028)**
Financing activities			
Proceeds from short-term borrowings		1,877	1,998
Repayments of short-term borrowings		(1,792)	(2,034)
Proceeds from long-term borrowings		112	872
Repayments of long-term borrowings		(417)	(197)
Re-acquisition of shares		(1,457)	-
Dividends paid		(201)	(618)
Net cash (outflow)/inflow from financing activities		**(1,878)**	**21**
Effect of translation to presentation currency for the year		(36)	47
Net (decrease)/increase in cash and cash equivalents		**(375)**	**544**
Net cash and cash equivalents at beginning of the year		**1,325**	**781**
Cash and cash equivalents of disposal group	4	(28)	-
Net cash and cash equivalents at end of the year	27	**922**	**1,325**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

US Dollars million

	Notes	Share capital	Share premium	Investments revaluation reserve	Accumulated profits	Equity attributable to the shareholders of the parent company	Minority interest	Total
Balance at 31 December 2003 as previously reported		**9**	**737**	**-**	**7,457**	**8,203**	**344**	**8,547**
Effect of change in accounting policy	1	-	-	(50)	50	**-**	-	**-**
Balance at 31 December 2003 as restated		**9**	**737**	**(50)**	**7,507**	**8,203**	**344**	**8,547**
Profit for the year		-	-	-	1,878	**1,878**	(21)	**1,857**
Dividends	40	-	-	-	(308)	**(308)**	-	**(308)**
Decrease in fair value of available-for-sale investments		-	-	(46)	-	**(46)**	-	**(46)**
Release on disposal of available-for-sale investments		-	-	42	(42)	**-**	-	**-**
Minority interest in subsidiaries acquired	38	-	-	-	-	**-**	48	**48**
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	**-**	(16)	**(16)**
Translation of foreign operations		-	-	-	(18)	**(18)**	-	**(18)**
Effect of translation to presentation currency		1	45	(2)	524	**568**	11	**579**
Balance at 31 December 2004		**10**	**782**	**(56)**	**9,541**	**10,277**	**366**	**10,643**
Profit for the year		-	-	-	2,355	**2,355**	(3)	**2,352**
Dividends	40	-	-	-	(492)	**(492)**	-	**(492)**
Re-acquisition of issued shares	29	(1)	(799)	-	(657)	**(1,457)**	-	**(1,457)**
Re-issuance of ordinary shares from treasury shares	29	-	12	-	-	**12**	-	**12**
Increase in fair value of available-for-sale investments		-	-	744	-	**744**	-	**744**
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	**-**	(27)	**(27)**
Translation of foreign operations		-	-	-	12	**12**	-	**12**
Effect of translation to presentation currency		-	5	(12)	(381)	**(388)**	(2)	**(390)**
Balance at 31 December 2005		**9**	**-**	**676**	**10,378**	**11,063**	**334**	**11,397**

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" or "Norilsk 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 47.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation and in Columbus, Montana, USA. The registered office of the Company is located at 22, Voznesensky pereulok, Moscow, Russian Federation.

Shareholding structure of the Group as at 31 December 2005 and 2004 was as follows:

	2005		2004	
Shareholders	**Number of shares**	**% held**	**Number of shares**	**% held**
ZAO "ING Bank Evrazia" (nominal)	82,521,332	43.73%	53,463,389	25.38%
Dimosenco Holdings Co. Limited	24,123,671	12.78%	26,738,236	12.69%
Pharanco Holdings Co. Limited	24,123,671	12.78%	26,738,236	12.69%
AKB "Rosbank" (nominal)	12,871,010	6.82%	12,972,684	6.16%
Bektanco Holdings Co. Limited	5,616,003	2.98%	26,738,236	12.69%
Rinsoco Trading Co. Limited	5,616,003	2.98%	26,738,236	12.69%
Other	33,835,231	17.93%	37,253,499	17.70%
Total	**188,706,921**	**100.00%**	**210,642,516**	**100.00%**

The ultimate controlling shareholders of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov.

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 ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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, financial statements of individual entities of the Group 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).

Adoption of new and revised International Financial Reporting Standards

The following new or revised standards and interpretations issued by IASB and IFRIC became effective for the Group's consolidated annual financial statements for the year ended 31 December 2005:

- IAS 1 (revised) "Presentation of Financial Statements"
- IAS 2 (revised) "Inventories"
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors"
- IAS 10 (revised) "Events after the Balance Sheet Date"
- IAS 16 (revised) "Property, Plant and Equipment"
- IAS 17 (revised) "Leases"
- IAS 21 (revised) "Effect of Changes in Foreign Exchange Rates"
- IAS 24 (revised) "Related Party Disclosures"
- IAS 27 (revised) "Consolidated and Separate Financial Statements"
- IAS 28 (revised) "Investments in Associates"
- IAS 31 (revised) "Interests in Joint Ventures"
- IAS 32 (revised) "Financial Instruments: Disclosure and presentation"
- IAS 33 (revised) "Earnings per Share"
- IAS 36 (revised) "Impairment of Assets"
- IAS 38 (revised) "Intangible Assets"
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement"
- IAS 40 (revised) "Investment Property"
- IFRS 2 "Share-based Payments"
- IFRS 3 "Business Combinations"
- IFRS 4 "Insurance Contracts"
- IFRS 5 "Non-current Assets Held for Sale"
- IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities"
- IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments"

The Group has adopted all of the above new and revised standards and interpretations that are relevant to its operations. Except for the changes described below and certain additional disclosures provided by the Group, the adoption of the new or revised standards and interpretations has not resulted in significant changes to the Group's accounting policies.

Effect of adoption of IAS 27 (revised) "Consolidated and Separate Financial Statements"

This standard requires minority interests in equity of subsidiaries to be presented on the balance sheet within equity, but separate from shareholders' equity; and profit for the year allocated between minority interest and shareholders of the parent company. Accordingly, the Group's consolidated annual financial statements for the year ended 31 December 2004 have been restated to reflect the new presentation of minority interests. Before the adoption of IAS 27 (revised) minority interests were deducted in arriving at the Group's profit for the year.

Effect of adoption of IAS 39 (revised) "Financial Instruments: Recognition and Measurement"

IAS 39 (revised) eliminated the option to recognise in income statement gains and losses from re-measurement to fair value of available-for-sale investments. Such gains and losses are now recognised in equity until the related asset is sold or otherwise disposed of. In accordance with the requirements of the standard, the opening balance of equity attributable to shareholders of the parent company as of 1 January 2004 and all the other comparative amounts were adjusted as if this standard had always been in use.

As a result of this change in accounting policy profit for the year ended 31 December 2005 has been decreased by USD 744 million, profit for the year ended 31 December 2004 has been increased by USD 46 million and the opening balance of equity attributable to shareholders of the parent company as of 1 January 2004 has been increased by USD 50 million.

New accounting pronouncements

At the date of authorisation of the Group's consolidated annual financial statements for the year ended 31 December 2005, certain new standards and interpretations have been issued that are mandatory for adoption in the accounting periods beginning on or after 1 January 2006:

- IAS 1 Amendment "Capital Disclosures"
- IAS 19 Amendment "Employee Benefits"
- IAS 21 Amendment "The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation"
- IAS 39 and IFRS 4 Amendment "Financial Guarantee Contracts"
- IAS 39 Amendments "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" and "The Fair Value Option"
- IFRS 6 "Exploration for and Evaluation of Mineral Resources"
- IFRS 7 "Financial Instruments: Disclosures"
- IFRIC 4 "Determining whether an Arrangement contains a Lease"
- IFRIC 5 "Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- IFRIC 6 "Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"

The impact of adoption of these standards and interpretations in future periods is currently being assessed by management, however no material effect on the Group's accounting policies is anticipated.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant Group's accounting policies are set out below:

(a) Basis of consolidation

Subsidiaries

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

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 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 company.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent 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 for 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 to the extent that 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, contingent liabilities and attributable ore reserves at the date of acquisition is recognised as goodwill. Goodwill which represents mineral resources is amortised on a systematic basis to recognise the depletion of the resources over the life of mine.

Goodwill in respect of non-mining subsidiaries is disclosed as a goodwill 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 the income statement immediately.

(b) Functional and presentation currency

The functional currency of the Company, which reflects the economic substance of its operations, is the Russian Rouble ("RUR").

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

The translation from RUR (functional currency of the Company) into USD (presentation currency) is made as follows:

- all assets and liabilities, both monetary and non-monetary, and all items included in shareholders' equity, other than 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 currencies

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

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

It was determined that RUR is the functional currency of all foreign subsidiaries of the Group, except for Stillwater Mining Company. Stillwater Mining Company has a significant degree of autonomy and uses the functional currency of the economy in which it operates, US Dollar.

For the purpose of consolidated financial statements, the assets and liabilities of Stillwater Mining Company are translated at the exchange rates prevailing on the balance sheet dates. Income statement items are translated at the average exchange rates for the period. Exchange differences arising on translation are included in accumulated profits in the statement of changes in shareholders' equity.

(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 mining and exploration licenses and the present value of future decommissioning costs. 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.

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

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 expenditures incurred in:

- acquiring mineral rights and mining and exploration licenses;
- developing new mining operations;
- defining further mineralisation 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 over the lives of mines varying from 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, varying from 5 to 30 years.

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 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 finance costs; 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.

(f) Impairment of tangible and intangible assets, excluding goodwill

An impairment review of tangible and intangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of an asset (or cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

(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 cost of production 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 costs, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

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

Work-in-process

Work-in-process is valued at 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 fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit and loss; and
- available-for-sale.

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

Investments at fair value through profit and loss include investments held for trading and investments designated upon initial recognition as at fair value through profit and loss.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit and loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss are recognised in the income statement for the period. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in shareholders' equity, until such investments are derecognised, at which time cumulative gain or loss previously recognised in equity shall be recognised in the income statement.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the investment has not been derecognised.

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

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts, calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence the asset is impaired.

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 initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

(j) Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is 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 i 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 is determined on an individual basis taking 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).

(k) Taxation

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

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

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.

(l) Treasury shares

Treasury shares at par value are recorded as a deduction from share capital. Premiums or discounts on acquisition of treasury shares are included in share premium or other categories of equity attributable to the shareholders of the parent company.

(m) Government grants

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

(n) 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.

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.

(o) 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.

(p) 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.

(q) Interest on borrowings

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

Interest relating to operating activities is expensed in the income statement as and when incurred.

(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) Environmental obligations

Environmental obligations include decommissioning and land restoration 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 decommissioning 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.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Increases in provision are charged to the income statement as a cost of production. The unwinding of restoration costs are expensed over the life of mine.

Ongoing rehabilitation costs are expensed when incurred.

(u) Discontinued operations

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

The Group amends prior period disclosures in the income statement related to discontinued operations.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. The Group does not amend disclosure of amounts presented in the balance sheets of the prior periods.

(v) Reclassifications

Certain comparative information, presented in the consolidated annual financial statements for the year ended 31 December 2004, has been reclassified in order to achieve comparability with the presentation used in the consolidated annual financial statements for the year ended 31 December 2005.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of assets; assets impairment; environmental obligations; employee benefit obligations and tax matters.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised over the respective life of mine using the straight-line method based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

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

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

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight line basis over their useful economic lives. Management periodically reviews the appropriateness of assets useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

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

Environmental obligations

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

Employee benefits

The expected costs of providing pensions and post-retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the income statement.

Assumptions in respect of the expected costs are set after consultation with qualified actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the results of the Group's operations.

Income taxes

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

Contingencies

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

US Dollars million

4. DISCONTINUED OPERATION

On 30 September 2005 at an Extraordinary General Meeting of shareholders, the majority of shareholders of MMC Norilsk Nickel voted in favour of the spin-off of CJSC “Gold Mining Company Polus” and its subsidiaries (the “Polus Group”) into a new company by way of a single transaction. Spin-off transaction was completed in March 2006 (refer to note 46).

The results of operations of Polus Group are analysed as follows:

	2005	2004
Metal sales	473	442
Cost of metal sales	(269)	(241)
Selling, general and administrative expenses	(60)	(45)
Other net operating (expenses)/income	(23)	13
Impairment of goodwill on acquisition	-	(115)
Finance costs	(3)	(5)
Net income from investments	13	2
Other non-operating expenses	(6)	(5)
Profit before taxation	**125**	**46**
Taxation	(51)	(54)
Profit/(loss) for the year	**74**	**(8)**

The carrying amounts of the assets and liabilities of Polus Group as at 31 December 2005 were as follows:

Non-current assets	**1,109**
Property, plant and equipment and capital construction-in-progress	1,105
Investments in securities and other financial assets	4
Current assets	**2,189**
Inventories	124
Trade and other receivables	25
Investments in securities and other financial assets	1,916
Other current assets	124
Non-current liabilities	**236**
Deferred tax liabilities	168
Environmental obligations	61
Other non-current liabilities	7
Current liabilities	**237**
Trade and other payables	174
Taxes payable	24
Other current liabilities	39

During 2005 Polus Group contributed USD 52 million (2004: USD 122 million) to the Group’s net operating cash flows, paid USD 296 million (2004: USD 341 million) in respect of investing activities and paid USD 30 million (2004: USD 28 million) million in respect of financing activities.

US Dollars million

5. SEGMENTAL INFORMATION

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

2005	Corporate and other	Taimyr peninsula	Kola peninsula	Severo-Eniseysk and Bodaibo[1]	Subtotal Russian Federation	North America	Europe	Total
Metal sales	**-**	**6,063**	**642**	**-**	**6,705**	**434**	**30**	**7,169**
Third party transactions	-	988	130	-	**1,118**	434	5,617	**7,169**
Intra-segment transactions	-	5,075	512	-	**5,587**	-	(5,587)	**-**
Operating (loss)/profit	(231)	3,059	288	-	**3,116**	(32)	192	**3,276**
Interest income	27	1	5	-	**33**	5	5	**43**
Finance costs	23	18	3	-	**44**	12	39	**95**
(Loss)/profit before taxation	(249)	2,961	284	-	**2,996**	(29)	149	**3,116**
Significant non-cash items								
Amortisation and depreciation	9	429	70	-	**508**	5	16	**529**
Other non-cash expenses	(2)	117	(21)	-	**94**	-	1	**95**
Capital expenditures	**58**	**488**	**67**	**-**	**613**	**18**	**1**	**632**
Carrying amount of assets/liabilities								
Property, plant and equipment, including construction-in-progress	182	5,787	661	-	**6,630**	475	40	**7,145**
Investments in associates	95	-	-	-	**95**	-	-	**95**
Net operating assets	(151)	1,078	151	1,952	**3,030**	184	745	**3,959**
Total assets	1,525	7,417	890	3,298	**13,130**	739	861	**14,730**
Total liabilities	727	1,216	156	473	**2,572**	236	525	**3,333**
Average number of employees	**10,161**	**57,552**	**16,636**	**10,033**	**94,382**	**1,591**	**220**	**96,193**

[1] The operations attributable to this segment are presented as discontinued in the Group's consolidated income statement. Assets and liabilities related to discontinued operation are presented in the consolidated balance sheet as at 31 December 20005 as assets and liabilities of a disposal group. Refer also to note 4.

US Dollars million

2004	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-Eniseysk and Bodaybo[1]	Subtotal Russian Federation	North America	Europe	Total
Metal sales	**-**	**5,610**	**472**	**-**	**6,082**	**447**	**62**	**6,591**
Third party transactions	-	1,140	116	-	**1,256**	447	4,888	**6,591**
Intra-segment transactions	-	4,470	356	-	**4,826**	-	(4,826)	**-**
Operating (loss)/profit	(172)	2,471	184	-	**2,483**	25	158	**2,666**
Interest income	29	4	-	-	**33**	2	2	**37**
Finance costs	31	6	1	-	**38**	18	11	**67**
(Loss)/profit before taxation	(351)	2,518	182	-	**2,349**	9	149	**2,507**
Significant non-cash items								
Amortisation and depreciation	7	414	65	-	**486**	16	3	**505**
Other non-cash expenses	84	153	20	-	**257**	3	-	**260**
Capital expenditures	**32**	**430**	**57**	**-**	**519**	**21**	**49**	**589**
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	650	1,073	120	96	**1,939**	153	488	**2,580**
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] The operations attributable to this segment are presented as discontinued in the Group's consolidated income statement. Refer also to note 4.

US Dollars million

6. METAL SALES

2005	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation						
Taimyr Peninsula	**6,063**	3,143	1,527	654	672	67
Kola Peninsula	**642**	506	117	5	11	3
United States of America	**434**	-	-	253	181	-
Europe	**30**	25	-	2	-	3
	7,169	**3,674**	**1,644**	**914**	**864**	**73**
By destination						
Europe	**4,529**	2,555	1,228	282	414	50
Russian Federation	**649**	135	416	-	76	22
Asia	**925**	657	-	176	91	1
North America	**1,066**	327	-	456	283	-
	7,169	**3,674**	**1,644**	**914**	**864**	**73**
2004						
By origin						
Russian Federation						
Taimyr Peninsula	**5,610**	3,152	1,220	686	505	47
Kola Peninsula	**472**	412	45	1	10	4
United States of America	**447**	-	-	280	167	-
Europe	**62**	-	-	38	24	-
	6,591	**3,564**	**1,265**	**1,005**	**706**	**51**
By destination						
Europe	**4,100**	2,646	906	266	273	9
Russian Federation	**623**	215	356	1	10	41
Asia	**750**	429	-	210	110	1
North America	**1,118**	274	3	528	313	-
	6,591	**3,564**	**1,265**	**1,005**	**706**	**51**

US Dollars million

7. COST OF METAL SALES

	2005	2004
Cash operating costs	2,480	2,275
On-mine and concentrating costs (refer to note 8)	1,121	939
Smelting costs (refer to note 9)	623	564
Treatment and refining costs (refer to note 10)	366	325
Other costs (refer to note 11)	370	447
Amortisation and depreciation of operating assets (refer to note 12)	428	422
Decrease in metal inventories	86	241
Total	**2,994**	**2,938**

8. ON-MINE AND CONCENTRATING COSTS

	2005	2004
Labour	467	433
Consumables and spares	387	266
Repairs and maintenance	93	80
Insurance	46	55
Utilities	34	32
Tailing pile maintenance and relocation	24	17
Sundry on-mine and concentrating costs	70	56
Total (refer to note 7)	**1,121**	**939**

9. SMELTING COSTS

	2005	2004
Labour	178	171
Consumables and spares	169	111
Non-ferrous scrap metals purchased	85	98
Platinum group scrap metals purchased	82	77
Insurance	41	40
Utilities	32	30
Repairs and maintenance	21	29
Sundry smelting costs	15	8
Total (refer to note 7)	**623**	**564**

10. TREATMENT AND REFINING COSTS

	2005	2004
Labour	126	121
Consumables and spares	123	96
Platinum group metals toll refining cost	66	55
Utilities	17	17
Insurance	14	15
Repairs and maintenance	11	12
Sundry treatment and refining costs	9	9
Total (refer to note 7)	**366**	**325**

US Dollars million

11. OTHER COSTS

	2005	2004
Tax on mining and pollution levies	119	115
Transportation	117	97
Cost of refined metals purchased from third parties	87	211
Other	47	24
Total (refer to note 7)	**370**	**447**

12. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2005	2004
Mining and concentrating	269	268
Smelting	120	113
Treatment and refining	39	41
Total (refer to note 7)	**428**	**422**

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004
Export customs duties	301	291
Salaries	194	178
Taxes other than mining and income taxes	68	74
Advertising	58	49
Transportation expenses	36	34
Legal and audit services	29	23
Consulting services	27	34
Depreciation	17	10
External research and development	14	32
Insurance	12	9
Commission paid	10	14
Repairs and maintenance	9	11
Bank charges	9	12
Other	57	50
Total	**841**	**821**

14. OTHER NET OPERATING EXPENSES

	2005	2004
Loss on disposal of property, plant and equipment	28	137
Foreign exchange loss	25	11
Change in provision for impairment of other non-current assets	15	72
Change in provision for tax penalties	15	(41)
Change in provision for impairment of capital construction-in-progress	10	19
Net operating profit from non-mining entities	(16)	(34)
Change in provision for impairment of receivables	(10)	3
Other	(9)	(1)
Total	**58**	**166**

US Dollars million

	2005	2004

15. FINANCE COSTS

	2005	2004
Interest expense on borrowings	83	63
Unwinding of discount on decommissioning obligations (refer to note 33)	12	4
Total	**95**	**67**

16. NET INCOME FROM INVESTMENTS

	2005	2004
Interest income	43	35
Income/(loss) from associates (refer to note 21)	2	(32)
Dividends received	9	9
Other	5	(7)
Total	**59**	**5**

17. OTHER NON-OPERATING EXPENSES

	2005	2004
Maintenance of social sphere facilities	69	51
Donations	49	51
Other	6	(5)
Total	**124**	**97**

18. TAXATION

	2005	2004
Current taxation	911	766
Deferred taxation	(73)	(124)
Total	**838**	**642**

US Dollars million

	2005	2004
A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation of 24%, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:		
Profit before taxation	**3,116**	**2,507**
Theoretical income tax at 24%	748	602
Impact of specific tax rates	(20)	(15)
Tax effect of permanent differences	103	111
Change in valuation allowance	7	(56)
Income tax expense	**838**	**642**

The corporate income tax rates in other countries where the Group has a significant taxable presence vary from 8% to 39%.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Cost				
Balance at 31 December 2003	**4,572**	**2,314**	**95**	**6,981**
Acquired on acquisition of subsidiaries (refer to note 38)	181	79	1	**261**
Disposed on disposal of subsidiaries (refer to note 39)	(21)	(1)	(8)	**(30)**
Transfers from capital construction-in-progress (refer to note 20)	243	279	58	**580**
Decommissioning asset raised (refer to note 33)	82	-	-	**82**
Disposals	(61)	(119)	(4)	**(184)**
Effect of translation to presentation currency	262	171	10	**443**
Balance at 31 December 2004	**5,258**	**2,723**	**152**	**8,133**
Acquired on acquisition of subsidiaries (refer to note 38)	397	39	1	**437**
Disposed on disposal of subsidiaries (refer to note 39)	(5)	(9)	-	**(14)**
Transfers from capital construction-in-progress (refer to note 20)	170	403	20	**593**
Decommissioning asset raised (refer to note 33)	135	9	-	**144**
Disposals	(26)	(69)	(9)	**(104)**
Provision for impairment	(6)	-	-	**(6)**
Reclassified to non-current assets of disposal group	(794)	(296)	(9)	**(1,099)**
Effect of translation to presentation currency	(173)	(104)	(6)	**(283)**
Balance at 31 December 2005	**4,956**	**2,696**	**149**	**7,801**

US Dollars million

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Accumulated amortisation and depreciation				
Balance at 31 December 2003	**(463)**	**(441)**	**(9)**	**(913)**
Amortisation and depreciation charge	(295)	(252)	(10)	**(557)**
Disposed on disposal of subsidiaries (refer to note 39)	2	-	-	**2**
Eliminated on disposals	8	42	2	**52**
Effect of translation to presentation currency	(38)	(34)	(1)	**(73)**
Balance at 31 December 2004	**(786)**	**(685)**	**(18)**	**(1,489)**
Amortisation and depreciation charge	(316)	(260)	(11)	**(587)**
Disposed on disposal of subsidiaries (refer to note 39)	-	2	-	**2**
Eliminated on disposals	7	34	2	**43**
Eliminated on reclassification to non-current assets of disposal group	68	64	1	**133**
Effect of translation to presentation currency	30	28	-	**58**
Balance at 31 December 2005	**(997)**	**(817)**	**(26)**	**(1,840)**
Net book value				
31 December 2004	**4,472**	**2,038**	**134**	**6,644**
31 December 2005	**3,959**	**1,879**	**123**	**5,961**

Included in property, plant and equipment at 31 December 2005 are non-mining assets with a carrying value of USD 325 million (2004: USD 318 million).

20. CAPITAL CONSTRUCTION-IN-PROGRESS

	2005	2004
Balance at beginning of the year	**1,208**	**1,150**
Additions	780	635
Acquired on acquisition of subsidiaries (refer to note 38)	8	19
Disposed on disposal of subsidiaries	(1)	-
Transfers to property, plant and equipment (refer to note 19)	(593)	(580)
Disposals	(20)	(65)
Provision for impairment	(15)	(19)
Reclassified to non-current assets of disposal group	(139)	-
Effect of translation to presentation currency	(44)	68
Balance at end of the year	**1,184**	**1,208**

Assets under construction in the amount of USD 8 million were financed through a grant from the Government of Norway (refer to note 42). Carrying value of these assets is zero.

Included in capital construction-in-progress at 31 December 2005 are non-mining assets under construction with a carrying value of USD 297 million (2004: USD 252 million).

US Dollars million

21. INVESTMENTS IN ASSOCIATES

	2005	2004
Balance at beginning of the year	**162**	**108**
Acquired during the year	-	56
Change in classification due to increase in shareholding	(9)	22
Share of post-acquisition profits (refer to note 16)	2	4
Provision for impairment (refer to note 16)	-	(36)
Reclassified to investments held for sale (refer to note 22)	(56)	-
Effect of translation to presentation currency	(4)	8
Balance at end of the year	**95**	**162**

All Group's associates are incorporated in the Russian Federation. The Group's interest in principal associates at 31 December 2005 was as follows:

Name of associate	Principal activity	Share-holding	2005	2004
OJSC "Krasnoyarskenergo"	Electricity utilities	25.7%	23	72
OJSC "Krasnoyarskaya generatsiya"	Electricity utilities	25.5%	37	-
OJSC "Kolenergo"	Electricity utilities	24.8%	-	59
OJSC "Norilskgazprom"	Gas extraction	29.4%	28	22
Other			7	9
Balance at end of the year			**95**	**162**

In October 2005, the Group become a shareholder in OJSC "Krasnoyarskaya generatsiya" as a part of a reorganisation of OJSC "Krasnoyarskenergo".

On 9 December 2005 the Board of Directors of the Company approved a decision to sell its investment in OJSC "Kolenergo". Accordingly, at 31 December 2005 this investment was classified as held for sale and included in current investments in securities (refer to note 22).

Summarised financial information as at 31 December 2005 in respect of the Group's principal associates is set out below:

Name of associate	Market value of investment	Total assets	Total liabilities	Revenue	Profit/ (loss)
OJSC "Krasnoyarskenergo"	66	278	(38)	475	4
OJSC "Krasnoyarskaya generatsiya"	n/a	465	(74)	86	(4)
OJSC "Norilskgazprom"	n/a	145	(54)	97	14
Other	n/a	124	(36)	130	-
Total		**1,012**	**(202)**	**788**	**14**

US Dollars million

	2005	2004

22. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2005	2004
Non-current		
Equity securities	615	1,345
Loans advanced	45	9
Long-term accounts receivable	25	5
Promissory notes receivable	-	40
Other	5	8
Total non-current	**690**	**1,407**

Equity securities at 31 December 2004 included investment in Gold Fields Limited (South Africa) recorded at fair value of USD 1,229 million. In May 2005 this investment was sold to CJSC "Gold Mining Company Polus", a 100% subsidiary of the Group, for USD 944 million. As at 31 December 2005 investment in Gold Fields Limited at fair value of USD 1,736 million was included in current assets of disposal group.

	2005	2004
Current		
Current securities held to maturity	71	-
Current investments held for sale (refer to note 21)	56	-
Other	7	30
Total current	**134**	**30**

23. OTHER NON-CURRENT ASSETS

	2005	2004
Value added tax recoverable	137	202
Non-current metal inventories	9	75
Other	44	24
	190	**301**
Less: Provision for impairment of value added tax recoverable	(52)	(57)
Total	**138**	**244**

Non-current metal inventories represent the carrying cost of palladium to be delivered by Stillwater Mining Company, a subsidiary of the Group, after 31 December 2005 under the terms of a loan agreement (refer to note 30).

US Dollars million

	2005	2004

24. INVENTORIES

	2005	2004
Refined metals		
Joint products at net production cost	389	430
By-products at net realisable value	78	65
Work-in-process, at net production cost	254	285
Total metal inventories	**721**	**780**
Stores and materials at cost	639	709
Less: Provision for obsolescence	(59)	(47)
Net stores and materials	**580**	**662**
Total inventories	**1,301**	**1,442**

Certain refined metals were pledged as security:

	2005	2004
Bank overdraft facilities	69	113
Long-term borrowings	-	22
Total	**69**	**135**

25. TRADE AND OTHER RECEIVABLES

	2005	2004
Trade accounts receivable	339	367
Advances to suppliers	46	59
Other receivables	116	142
	501	**568**
Less: Provision for impairment of receivables	(61)	(113)
Total	**440**	**455**

Certain trade receivables from metal sales were pledged as security:

	2005	2004
Bank overdraft facilities	8	28

26. OTHER CURRENT ASSETS

	2005	2004
Value added tax recoverable	453	459
Prepaid customs duties	38	25
Prepaid insurance	27	81
Prepaid income tax	22	92
Other prepaid expenses	27	37
Total	**567**	**694**

US Dollars million

		2005	2004

27. CASH AND CASH EQUIVALENTS

		2005	2004
Current accounts	- RUR	137	108
	- foreign currencies	47	524
Bank deposits		639	594
Restricted cash		18	12
Other cash and cash equivalents		81	108
Total		**922**	**1,346**
Less: Bank overdrafts		-	(21)
Net cash and cash equivalents		**922**	**1,325**

28. SHARE CAPITAL

	2005	2004
Authorised		
260,171,000 ordinary shares at par value of RUR 1 each	**11**	**12**
Issued and fully paid		
213,905,884 ordinary shares at par value of RUR 1 each	10	10
Treasury shares		
31 December 2005: 25,198,963 ordinary shares	(1)	-
31 December 2004: 3,263,368 ordinary shares	-	-
Total	**9**	**10**
Number of ordinary shares in issue at 31 December	188,706,921	210,642,516
Weighted average number of ordinary shares in issue during the year	201,242,833	210,642,516

US Dollars million

29. SHARE PREMIUM

	2005	2004
Balance at beginning of the year	**782**	**737**
Re-acquisition of 10,799,433 ordinary shares	(36)	-
Re-acquisition of 12,478,704 ordinary shares	(763)	
Re-issuance of 1,342,542 ordinary shares from treasury shares	12	-
Effect of translation to presentation currency	5	45
Balance at end of the year	**-**	**782**

During November and December 2005 10,799,433 ordinary shares of the Company were re-acquired from shareholders who elected not to participate in the reorganisation of the Group in the form of spin-off of Polus Group (refer to note 4) at RUR 1,855 per share for a total consideration of USD 693 million. Amount paid by the Company for the re-acquisition of its own shares in excess of the par value of RUR 1 was recorded as a reduction of share premium until fully utilised; the remaining balance of USD 657 million was recorded as a deduction from accumulated profits.

On 2 December 2004 the Board of Directors of the Company approved a decision to re-acquire up to 12,500,000 ordinary shares from shareholders at RUR 1,680 per share. The transaction was completed in the first quarter of 2005, and resulted in re-acquisition of 12,478,704 shares for a total consideration of USD 763 million. Amount paid by the Company for the re-acquisition of its own shares in excess of the par value of RUR 1 was recorded as a reduction of share premium.

As part of a restructuring of the Group that took place in 2001-2002 the shareholders of OJSC “RAO “Norilsk Nickel”, a subsidiary of the Group, were entitled during certain periods to swap their shares for shares in OJSC “MMC “Norilsk Nickel”. During 2005 1,342,542 shares had been swapped.

US Dollars million

30. LONG-TERM BORROWINGS

	2005	2004
7.125% Guaranteed notes due 2009, net of direct expenses on issuance	499	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 an 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".		
Syndicated loan arranged by Citibank N.A., ING Bank N.V. and Societe Generale	-	299
A USD-denominated loan at LIBOR plus 1.4-1.85% per annum secured by export sales proceeds of the Group. The loan was fully repaid in 2005.		
Syndicated loan arranged by Toronto Dominion	109	132
A USD 250 million credit facility arranged by Stillwater Mining Company, a subsidiary of the Group, at LIBOR + 3.25% per annum. Repayments commenced in 2004, with the final installment due on 30 July 2010. Substantially all the property and assets of Stillwater Mining Company are pledged as security for this 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, and 25% of the net proceeds on disposal of 63,000 (2004: 500,000) ounces of palladium, received by the company as part settlement of the acquisition of Stillwater Mining Company by the Group, be offered to repay this loan.		
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.		
Other long-term borrowings	6	22
	643	**980**
Less: Current portion repayable within one year and shown under current liabilities	(8)	(323)
Total	**635**	**657**

US Dollars million

	2005	2004
The long-term borrowings are repayable as follows:		
Due in one year	8	323
Due in the second year	1	5
Due thereafter	634	652
	643	**980**

31. DEFERRED TAX LIABILITIES

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

	2005	2004
Net liability at beginning of the year	**740**	**775**
Recognised in income statement for the year	(82)	(122)
Change in deferred tax liability due to acquisition of subsidiaries (refer note 38)	89	44
Reclassified to non-current liabilities of disposal group	(169)	-
Effect of translation to presentation currency	(35)	43
Net liability at end of the year	**543**	**740**

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:

	2005	2004
Property, plant and equipment	593	785
Accrued operating expenses	(43)	(49)
Provision for impairment of receivables	(7)	(10)
Unrealised profit on intra-group transactions	(43)	(42)
Inventory valuation	36	63
Valuation of investments	(10)	(42)
Other	(38)	(14)
Provision for deferred tax assets	55	49
Total	**543**	**740**

The unutilised tax losses of the North American operations as at 31 December 2005, which are available for offset against future taxable income earned in the United States of America, amounted to USD 271 million, has 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 2,422 million (2004: USD 1,406 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

	2005	2004
Non-current		
Lifelong professional pension plan	37	35
Joint corporate pension plan	24	19
Mothers' rights plan	2	4
Six pensions plan	1	3
	64	61
Less: Current portion of employee benefit obligations	(8)	(11)
Total non-current	**56**	**50**
Current		
Accrual for annual leave	120	165
Wages and salaries	72	79
Current portion of employee benefit obligations	8	11
Other	12	10
Total current	**212**	**265**

Defined benefit plans

Number of members	**Lifelong professional pension plan**	**Joint corporate pension plan**	**Mothers' rights plan**	**Six pensions plan**
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**
Additions	43	311	9	36
Retirements	(20)	(6)	(386)	(277)
At 31 December 2005	**1,349**	**2,630**	**360**	**181**

Movements in the liabilities

Balance at 31 December 2003	**31**	**29**	**9**	**4**
Cash payments	(4)	-	(6)	(4)
Charge for the year	5	7	1	3
Change in estimate	-	(19)	-	-
Effect of translation to presentation currency	3	2	-	-
Balance at 31 December 2004	**35**	**19**	**4**	**3**
Cash payments	(5)	(1)	(4)	(2)
Charge for the year	8	6	2	1
Effect of translation to presentation currency	(1)	-	-	(1)
Balance at 31 December 2005	**37**	**24**	**2**	**1**

US Dollars million

Amounts in respect of defined benefit plans recognised in the balance sheet were as follows:

	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights plan	Six pensions plan
Fair value of plan assets	-	-	-	-
Defined benefit obligations	41	22	4	3
Funded status	41	22	4	3
Unrecognised actuarial losses	(6)	(3)	-	-
Balance accrued at 31 December 2004	**35**	**19**	**4**	**3**
Fair value of plan assets	-	-	-	-
Defined benefit obligations	66	35	2	1
Funded status	66	35	2	1
Unrecognised actuarial losses	(29)	(11)	-	-
Balance accrued at 31 December 2005	**37**	**24**	**2**	**1**

Key assumptions used in estimation of defined benefit obligations are the following:

	2005	**2004**
Discount rate	7.0%	13.0%
Pre-retirement increases to capital accounts	4.5%	7.5%
Future salary increases	6.7%	6.2%
Future pension increases	5.2%	7.5%
Average life expectancy of members from the date of retirement	17 years	17 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	156	162
Stillwater Mining Company savings plan	5	4
Total	**161**	**166**

US Dollars million

33. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	2005	2004
Balance at beginning of the year	**149**	**60**
New obligations raised (refer to note 19)	105	-
Change in estimate (refer to note 19)	39	82
Acquired on acquisition of subsidiary	18	-
Unwinding of discount on decommissioning obligations (refer to note 15)	12	4
Reclassified to non-current liabilities of disposal group	(53)	-
Effect of translation to presentation currency	(4)	3
Balance at end of the year	**266**	**149**

Management regularly reassesses decommissioning obligations for its operations in the Russian Federation due to changes in inflation and discount rates, and expected closure dates of mines based on the results of an independent audit of ore reserves. The results of reassessments are presented as a 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. As at 31 December 2005 and 2004 the surety amount at the East Boulder Mine was USD 11.5 million, and at the Stillwater Mine USD 8.9 million.

Provision for land restoration

	2005	2004
Balance at beginning of the year	**6**	**-**
Acquired on acquisition of subsidiary	3	-
Charge to income statement	3	6
Reclassified to non-current liabilities of disposal group	(8)	-
Effect of translation to presentation currency	(1)	-
Balance at end of the year	**3**	**6**
Total environmental obligations	**269**	**155**

US Dollars million

34. SHORT-TERM BORROWINGS

	2005	2004
USD-denominated short-term borrowings at floating rates	295	150
USD-denominated short-term borrowings at fixed rates	-	42
RUR-denominated short-term borrowings	54	16
Bank overdrafts	-	21
Total	**349**	**229**

The interest rates on these borrowings vary as follows:

	2005	2004
USD-denominated short-term borrowings at floating rates	LIBOR+0.7%	LIBOR+1.5%
USD-denominated short-term borrowings at fixed rates	-	4% to 10%
RUR-denominated short-term borrowings	5.5%	10% to 20%

35. TRADE AND OTHER PAYABLES

	2005	2004
Trade accounts payable	170	151
Advances from customers	56	57
Interest payable	11	12
Other payables	63	79
Total	**300**	**299**

36. TAXES PAYABLE

	2005	2004
Value added tax payable	60	82
Income tax	38	31
Provision for fines and penalties	31	44
Property tax	21	21
Unified social tax	10	13
Other	27	70
Total	**187**	**261**

US Dollars million

37. RECONCILIATION OF PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATIONS

	2005	2004
Profit for the year	**2,352**	**1,857**
Adjustments for:		
Income tax expense	889	696
Amortisation and depreciation	578	540
Interest expense	110	72
Impairment of goodwill on acquisition	-	115
Change in provision for impairment of capital construction-in-progress	21	19
Change in impairment provision	(9)	5
Change in provision for obsolete inventory	15	(71)
Change in provision for impairment of other non-current assets	(16)	72
Change in provision for tax penalties	17	(56)
Loss on disposal of property, plant and equipment	33	140
(Income)/loss from associates	(2)	32
Foreign exchange loss	26	12
Other	11	11
Operating profit before working capital changes	**4,025**	**3,444**
Decrease in inventories	22	208
(Increase)/decrease in trade and other receivables	(29)	9
Increase/(decrease) in trade and other payables	37	(54)
(Increase) in other non-current and current assets	(3)	(120)
(Decrease) in employee benefit obligations	(21)	(27)
(Decrease)/increase in taxes payable	(57)	38
Cash flows from operations	**3,974**	**3,498**

US Dollars million

38. ACQUISITION OF SUBSIDIARIES

	2005	2004
Net assets acquired		
Property, plant and equipment (refer to note 19)	437	261
Capital construction-in-progress (refer to note 20)	8	19
Inventories	15	28
Trade and other receivables	13	12
Other assets	12	52
Loans and borrowings	(37)	(68)
Trade and other payables	(53)	(54)
Deferred taxation (refer to note 31)	(89)	(44)
Net assets at date of acquisition	**306**	**206**
Decrease in minority interest due to increase of investments in subsidiaries by the Group	18	18
Less: Minority interest	(1)	(48)
Groups' share of net assets acquired	**323**	**176**
Add: Goodwill on acquisition	14	115
Less: Pre-acquisition amount invested in subsidiary	(9)	-
Total consideration	**328**	**291**
Satisfied by re-issuance of treasury shares	(12)	-
Satisfied by cash	(176)	(291)
Deferred cash consideration	(140)	-
Net cash outflow arising on acquisition:		
Cash consideration	(176)	(291)
Cash and cash equivalents acquired	1	2
Net cash outflow on acquisition of subsidiaries	**(175)**	**(289)**

Holdings in the following companies were acquired:

Russian gold mining companies

	2005	2004
OJSC "Aldanzoloto GRK"	99.2%	-
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya"	50.0%	-
OJSC "Yakutskaya Gornaya Kompaniya"	100.0%	-
OJSC "Pervenets"	74.0%	-
OJSC "Lenzoloto"	11.2%	57.0%
OJSC "Matrosov Mine"	30.3%	57.1%
OJSC "Tonoda"	-	100.0%

Other acquisitions

	2005	2004
LLC "Terminal"	100.0%	-
LLC "Gornaya Leasingovaya Kompaniya"	80.1%	-
CJSC "Kraus – M"	-	40.0%

US Dollars million

39. DISPOSAL OF SUBSIDIARIES

	2005	2004
Net assets disposed of		
Property, plant and equipment (refer to note 19)	12	28
Other assets	10	28
Trade and other payables	(21)	(28)
Net assets at date of disposal	**1**	**28**
Less: Minority interest	-	-
Group's share of assets disposed of	**1**	**28**
Less: Loss on disposal	-	(1)
Proceeds from disposal of subsidiaries	**1**	**27**
Less: Cash and cash equivalents disposed of	-	(2)
Net cash inflow from disposal of subsidiaries	**1**	**25**

The following entities were disposed of or the Group's holding decreased:

	2005	2004
OJSC "Nedra Bodaybo"	51.0%	-
LLC "Norilskiye Metally"	100.0%	-
OJSC "Monchebank"	-	15.4%
OJSC "Olenegorsky Mekhanichesky Zavod"	-	100.0%
OJSC "Tuimsky Zavod Tsvetnykh Metallov"	-	99.9%
OJSC "PromEstate"	-	99.1%

40. DIVIDENDS

	2005	2004
On 30 December 2005 the Company declared an interim dividend of RUR 43 (USD 1.49) per share in respect of the year ended 31 December 2005. The dividend was paid to shareholders on 28 February 2006. This amount is net of USD 3 million paid to Group subsidiaries.	298	-
On 30 June 2005 the Company declared a final dividend for the year ended 31 December 2004 of RUR 28 (USD 0.98) per share. The dividend was paid to shareholders on 31 August 2005. This amount is net of USD 3 million paid to Group subsidiaries.	194	-
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 subsidiaries.	-	308
Total	**492**	**308**

US Dollars million

41. RELATED PARTIES

Related parties are considered to include shareholders, associates, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties.

Transactions with related parties

	Sale of goods	Purchase of goods	Purchase of services	Purchase of investments
2005				
By the Company	52	54	63	47
By subsidiaries of the Group	12	62	37	-
Total	**64**	**116**	**100**	**47**
2004				
By the Company	19	65	26	8
By subsidiaries of the Group	-	68	7	38
Total	**19**	**133**	**33**	**46**

Outstanding balances with related parties

	Loans and borrowings	Investments and cash	Trade receivables	Trade Payables
31 December 2005				
By the Company	-	242	2	20
By subsidiaries of the Group	31	214	6	14
Total	**31**	**456**	**8**	**34**
31 December 2004				
By the Company	-	732	6	15
By subsidiaries of the Group	9	111	4	3
Total	**9**	**843**	**10**	**18**

The amounts outstanding were unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised for bad or doubtful debts in respect of the amounts owed by related parties.

US Dollars million

Compensation of key management personnel

The remuneration of key management personnel of the Company for the year ended 31 December 2005 amounted to USD 14 million (2004: USD 11 million).

42. COMMITMENTS

Capital commitments

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2006:

Maintenance of property, plant and equipment	614
Expansion of property, plant and equipment	205
Total	**819**

2006 budgeted capital expenditure allocated between:

Contracted	416
Not contracted	403
Total	**819**

Contracted obligations in respect of capital commitments for the period after 2006 amount to approximately USD 14 million.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group leases land through operating lease agreements, which expire in various years through 2051. Future minimum lease payments due under non-cancelable operating lease agreements at 31 December 2005 are as follows:

Due in one year	3
Due in the second year	3
Due thereafter	16
Total	**22**

Intergovernmental agreement with Norway

In 2001 an intergovernmental agreement between the Government of the Russian Federation and the Norway was signed on the provision of technical assistance in the reconstruction project for the metallurgical production facilities of the 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**

As at 31 December 2005 the Group received USD 8 million in grant from the Government of Norway (refer to note 20) 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 expensed in the period in which they are incurred.

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

43. CONTINGENCIES

Litigation

Unresolved tax litigation at 31 December 2005 amounted to approximately USD 142 million (2004: USD 129 million). Management has assessed as possible the unfavourable outcome to the tax litigation.

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 litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

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

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.

Management has assessed possible tax risks at 31 December 2005 to be approximately USD 117 million (2004: USD 49 million).

Environmental matters

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

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

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

Russian Federation risk

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

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

44. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, operational, credit and liquidity 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 certain portion of its metal sales revenues the Group manages its exposure to commodity price risk by entering into fixed price sales contracts and cap and floor arrangements for the sale of refined metal to physical off-takers.

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.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is currently not significant because majority of the Group's borrowings are at a fixed rate.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In 2005 the Group developed a comprehensive insurance program that reduces the following risks related to production activities of the Group:

- risk of business interruption;
- risk of possible damage to the key production equipment directly involved in the technological process, buildings and structures as a result of fire or natural disaster, as well as risk of breakages and accidents with the key equipment;
- risk of loss or damage to domestic and export deliveries of semi-finished and finished goods and imported stores and materials.

In accordance with the statutory requirements the Group insures third party liability under claims resulting from accidents at the Group's production facilities.

Credit risk

Credit risk is the risk that customer 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 customers.

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:

	2005				2004			
	Number of customers	%	Turnover USD million	%	Number of customers	%	Turnover USD million	%
Largest customer	1	-	594	8	1	1	543	8
Next 9 largest customers	9	3	2,323	33	9	3	2,081	32
Total	**10**	**3**	**2,917**	**41**	**10**	**4**	**2,624**	**40**
Next 10 largest customers	10	3	1,067	15	10	4	831	13
Total	**20**	**6**	**3,984**	**56**	**20**	**8**	**3,455**	**53**
Remaining customers	314	94	3,185	44	243	92	3,136	47
Total	**334**	**100**	**7,169**	**100**	**263**	**100**	**6,591**	**100**

Trade receivables comprise international companies, and credit is only extended to such customers after rigid credit approval procedures. These procedures include regular analysis of financial position of the customers and setting appropriate credit limits.

The Group has a concentration of cash and bank deposits with a related party commercial bank that at 31 December 2005 represents 46% of such cash and bank deposits (2004: 58%).

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

Liquidity risk

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

US Dollars million

At 31 December 2005 and 2004 the Group had financing facilities for the management of its day to day liquidity requirements available with the following banks:

	2005	2004
Committed credit lines		
OJSC "Sberbank"	486	-
Societe Generale; Calyon; ING Bank N.V, London Branch; Mizuho Corporate Bank, Ltd.; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi, Ltd.; West LB AG; ZAO Citibank	400	-
Barclays Capital; BNP Paribas (Suisse) S.A.	295	400
Citibank N.A.; ING Bank N.V.; Societe Generale	-	300
Total committed credit lines	**1,181**	**700**
Uncommitted credit lines		
CJSC "Gazprombank"	120	35
CJSC "ING Bank Eurasia"	100	100
OJSC "Vneshtorgbank"	100	100
CJSC "West LB Vostok"	50	30
CJSC "BNP Pariba"	50	20
CJSC "Natexis Bank"	50	15
CJSC "Societe Generale Vostok"	35	20
CJSC "KB Citibank"	25	50
CJSC "Commerzbank"	20	60
Other	194	236
Total uncommitted credit lines	**744**	**666**
Bank overdraft facilities		
ING (Switzerland)	100	100
Credit Suisse (Switzerland)	75	75
BNP Paribas Suisse (Switzerland)	75	75
Banque Cantonale Vaudoise (Switzerland)	50	50
Other	-	46
Total bank overdraft facilities	**300**	**346**
Total borrowing facilities	**2,225**	**1,712**
Less: Loans received related to the above facilities	(312)	(480)
Less: Outstanding letters of credit	(61)	(111)
Less: Bank overdrafts received	-	(21)
Net facilities available	**1,852**	**1,100**
Weighted average interest rate for bank overdrafts denominated in foreign currencies	LIBOR+0.91%	LIBOR+1.10%
Weighted average interest rate for bank overdrafts denominated in RUR	-	8%

US Dollars million

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Investments in securities and other financial assets (refer to note 22)	824	824	1,437	1,437
Trade and other receivables (refer to note 25)	440	440	455	455
Other current and non-current assets (refer to notes 23 and 26)	705	705	938	938
Cash and cash equivalents (refer to note 27)	922	922	1,346	1,346
Long-term borrowings (refer to note 30)	(643)	(638)	(980)	(971)
Short-term borrowings (refer to note 34)	(349)	(349)	(229)	(229)
Trade and other payables (refer to note 35)	(300)	(300)	(299)	(299)

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 and other receivables, other current assets, cash and cash equivalents and trade 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 are market related. Consequently the carrying values of these financial instruments approximate their fair values.

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.

46. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Spin-off of Polus Group

In accordance with the decision to spin-off CJSC "Gold Mining Company Polus" approved by the shareholders (refer to note 4), on 17 March 2006 a new company OJSC "Polyus Gold" was incorporated in the Russian Federation. Shareholders contributed into the new company 100% of CJSC "Gold Mining Company Polus" shares and cash in the amount of USD 360 million.

Sale of investment in Gold Fields Limited

In March 2006 CJSC "Gold Mining Company Polus", a subsidiary of the Group, sold its whole stake of 98,467,758 ordinary shares in Gold Fields Limited at a price of USD 20.50 per share. Net proceeds from the sale amounted to USD 1,927 million.

Reduction in share capital

On 17 February 2006 an Extraordinary General Meeting of shareholders passed a resolution to reduce the share capital of MMC "Norilsk Nickel" by 23,278,137 shares. The reduction in share capital is to be achieved by the cancellation of shares re-acquired by the Company during 2004-2005 (refer to note 29).

Acquisition of shares in Plug Power

On 11 April 2006 MMC "Norilsk Nickel" and Interros Holding Company arranged for the acquisition of a 35% stake in Plug Power, a US leading designer of environmentally clean and reliable energy products.

Smart Hydrogen, a 50-50% joint venture of MMC "Norilsk Nickel" and Interros, established specifically for international hydrogen energy projects, is acting as the buyer of the assets.
The transaction amounting to USD 241 million is expected to be completed in June 2006.

Joint venture with Rio Tinto

MMC "Norilsk Nickel" and Rio Tinto signed an agreement to incorporate a joint venture in the Russian Federation to conduct exploration and development of mineral resources in the Siberian and Far-Eastern regions of the Russian Federation. The new company will be owned 51% by Norilsk Nickel and 49% by Rio Tinto.

47. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Shares held '000		% held	
Subsidiaries by country of incorporation	**Nature of business**	**2005**	**2004**	**2005**	**2004**
Russian Federation					
OJSC "RAO "Norilsk Nickel"	Market agent	187,079	185,787	98.9	98.3
OJSC "Taimyrgaz"	Gas extraction	7,547	2,000	98.4	94.4
CJSC "Polus"	Mining	-	-	100.0	100.0
OJSC "Matrosov Mine"	Mining	233	44	88.4	57.1
OJSC "Lenzoloto"	Mining	1,015	848	68.2	57.0
CJSC "Tonoda"	Mining	9	9	100.0	100.0
LLC "LZRK" [3]	Management company	-	-	100.0	-
OJSC "Pervenets" [1]	Mining	-	-	100.0	14.8
OJSC "Yenisey River Shipping Company"	River shipping operations	181	181	43.9	43.9
OJSC "Arkhangelsk Sea Commercial Port"	Sea shipping operations	532	532	53.1	53.1
CJSC "NORIMETIMPEX"	Market agent	5	5	100.0	100.0
OJSC "Kolskaya Mining and Metallurgical Company"	Mining	4,000	4,000	100.0	100.0
CJSC "Alykel"	Airport	-	-	100.0	100.0
LLC "Norilskiye Metally" [2]	Market agent	-	-	-	100.0
OJSC "Institut Gypronickel"	Science	23	23	100.0	100.0
OJSC "Norilsky Kombinat"	Lessor of equipment	14,673	14,673	98.8	98.2
OJSC "Kombinat "Severonickel"	Lessor of equipment	9,860	9,860	98.9	98.3
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"	Lessor of equipment	1,236	1,236	98.9	98.3
LLC "Gornaya Leasingovaya Kompaniya"[1]	Lessor of equipment	-	-	100.0	19.9
CJSC "Kraus-M"	Property holding	10	10	100.0	100.0
LLC "Norilsk telecom"	Telecommunications	-	-	100.0	100.0
CJSC "Vitimenergo"	Electricity production	356	356	100	50.5
OJSC "Aldanzoloto GRK" [1]	Minning	88,021,708	-	99.2	-
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya" [1]	Minning	250	-	50	-
OJSC "Yakutskaya Gornaya Kompaniya" [1]	Minning	735	-	100	-

[1] Acquired in 2005 (refer to note 38)
[2] Disposed of in 2005 (refer to note 39)
[3] Founded in 2005

		Shares held '000		% held	
Subsidiaries by country of incorporation	**Nature of business**	**2005**	**2004**	**2005**	**2004**
China					
Norilsk Nickel Asia	Market agent	-	-	100.0	100.0
Great Britain					
Norimet Limited	Market agent	5,760	5,760	100.0	100.0
Norilsk Nickel Europe Limited	Market agent	-	-	100.0	100.0
Luxembourg					
Norilsk Nickel Finance	Bond issuer	1	1	100.0	100.0
Switzerland					
Norilsk Nickel Holding SA	Investment holding	-	-	100.0	100.0
Metal Trade Overseas SA	Market agent	-	-	100.0	100.0
United States of America					
Stillwater Mining Company	Mining	49,813	49,813	54.9	55.1
Norilsk Nickel USA	Market agent	1	1	100.0	100.0