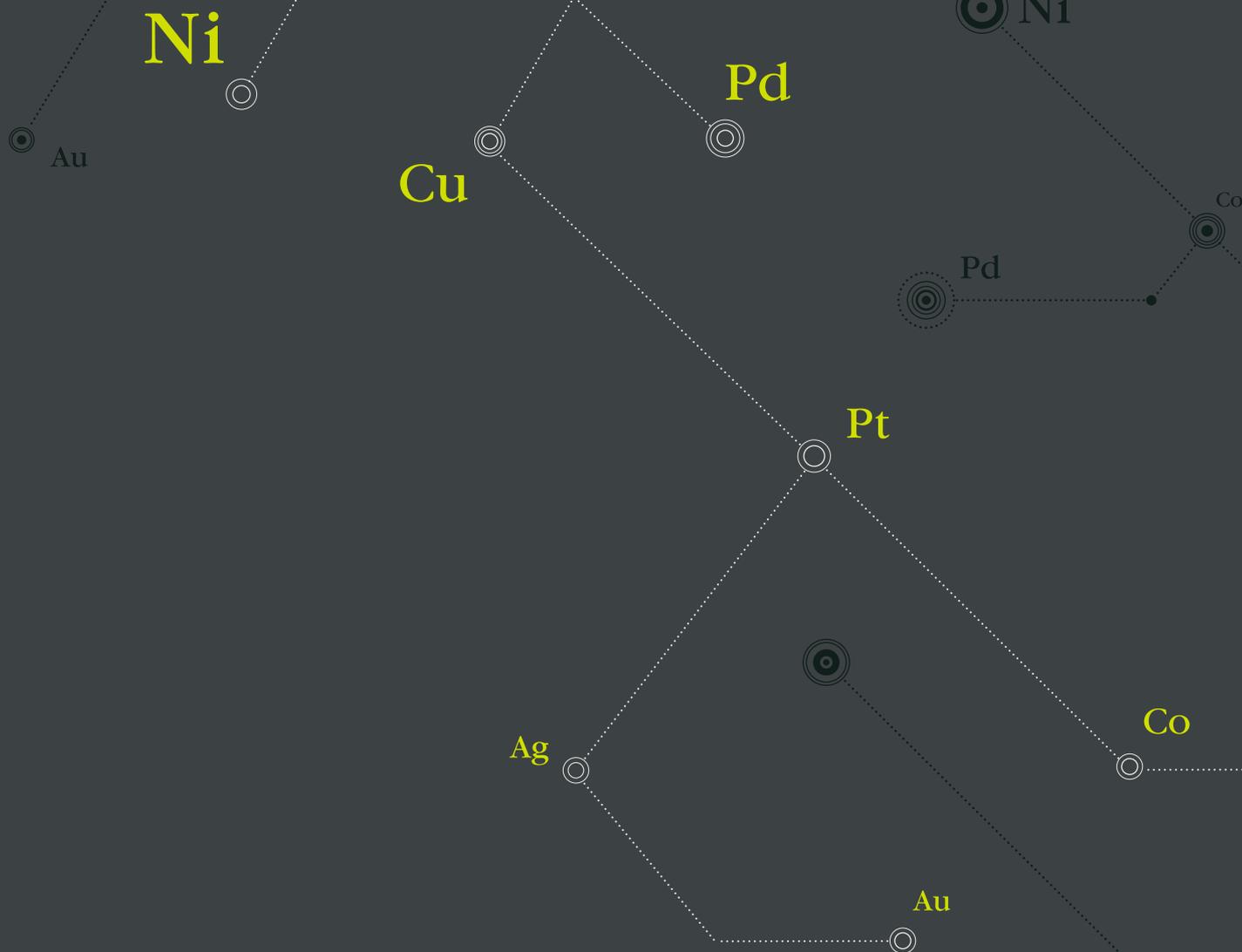


2005

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CORPORATE MISSION AND STRATEGIC OBJECTIVES

OVERVIEW OF OJSC MMC NORILSK NICKEL INCLUDING ITS GOLD MINING ASSETS

1

Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel ("MMC Norilsk Nickel" or the "Company") and its subsidiaries (the "Norilsk Nickel Group" or the "Group") is the leading producer of nickel and palladium, one of the largest producers of platinum and one of the top ten producers of copper in the world. In addition to this, the Group produces a variety of by-products, such as cobalt, rhodium, silver, gold, tellurium, selenium, iridium and ruthenium.

The Norilsk Nickel Group is involved in prospecting, exploration, extraction, refining and metallurgical processing of minerals and production, marketing and sale of base and precious metals.

The main structural units of the Group are:

- the Polar Branch ("Taimyr Peninsula"), which is located above the Polar Circle, on the 69th parallel, its entities are connected with the other regions of the Russian Federation via the Yenisei river and the Northern Sea Route, as well as by air;
- OJSC Kola Mining and Metallurgical Company ("Kola Peninsula"), which is located in the Kola Peninsula and is the largest industrial producer in the Murmansk region; and
- Stillwater Mining Company ("Stillwater"), which is located in Montana, in the United States of America, and is the only producer of platinum group metals ("PGM") in the US. The Group acquired a 55.4% interest in 2003.

Starting in 2003, the Group has actively acquired gold mining assets, which resulted in the creation of the largest Russian gold mining company, being one of the top 15 gold producers globally. To maximize shareholder value, the Group decided to spin off the gold mining assets in 2005. As part of the Norilsk Nickel reorganization, through the spin-off of the gold mining assets, a new company Open Joint Stock Company Polyus Gold, was incorporated on 17 March 2006, with its shares being distributed between the existing shareholders of MMC Norilsk Nickel in a ratio pro rata to their interests in the MMC Norilsk Nickel as at 1 January 2006. During the spin-off, Polyus Gold received 100% of the shares in Close Joint Stock Company Polus ("Polus"), which consolidates all the gold mining assets of the Group, and a cash consideration of USD 360 million (RUR 10 billion).

Polyus Gold is the leading Russian gold producer ranking among the largest global gold mining companies in the world, by its mineral resource base and production volumes. The mining asset portfolio of Polyus Gold includes hard rock and alluvial gold deposits in the Krasnoyarsk, Irkutsk, Magadan and Amur regions and the Republic of Sakha (Yakutia) where the company prospects and mines gold.

Due to the fact that the spin-off of the gold mining assets of the Group actually took place in 2006, this Annual Report presents separately the performance for:

- MMC Norilsk Nickel not including the gold mining assets (Polus); and
- the gold mining assets of MMC Norilsk Nickel (Polus).

2

••• Mission

MMC Norilsk Nickel aims to strengthen its leadership in the global mining and metals industry and the role of a responsible producer and supplier of base and precious metals through:

- effective use of unique mineral resources and management of operating costs;
- growth in exploration and development of world-class mineral deposits;
- support of sustainable development in the regions in which the Group operates.

••• Strategic objectives

Effective use of unique mineral resources and management of operating costs:

- effective use of the mineral resources and optimized capacity utilization of the Group's mining and processing entities;
- modernization of production facilities in ore beneficiation and metallurgy in order to ensure the most effective processing of mined ore and better metals recovery;
- sustaining the stable level of costs, based on strong skills of continuous improvement in operations, development and implementation of effective technical solutions;
- strengthening independence in terms of secure supply of low-cost services and resources, including energy supply, transportation and logistics services;
- further improvements in corporate governance through restructuring of assets and optimization of management processes.

Growth in exploration and development of world-class mineral deposits:

- active participation in prospecting, geological investigation and exploration of new promising world-class mineral deposits both in Russia and abroad;
- creation of strategic alliances, leveraging best practices in exploration, mining and production of base and precious metals;
- search for growth opportunities for the existing business through strategic acquisitions and establishing partnerships in prospective sectors of the mining industry.

Support of stable development in the regions in which the Group operates:

- personnel development, creating a proper environment for growth of highly skilled professionals, ensuring safe labor environment, competitive staff remuneration and social benefits in accordance with the scope and quality of their work;
- compliance with both Russian and international environmental standards, implementation of new technologies allowing to comply with the limitations imposed on pollutant emissions, implementation of socially advantageous environmental protection projects on a regional, national and international level;
- implementation of projects in social and economic development of communities in cooperation with the regional and municipal authorities.

OPERATING AND IFRS FINANCIAL HIGHLIGHTS OF THE GROUP

3

The Group's operating highlights as of 31 December

('000 tonnes or as noted)

	2005			2004			2003		
	Group	Group without gold mining assets	Gold mining assets ⁽¹⁾	Group	Group without gold mining assets	Gold mining assets ⁽¹⁾	Group	Group without gold mining assets	Gold mining assets ⁽¹⁾
Production volume									
Norilsk Nickel									
Nickel ⁽²⁾	243	243	–	243	243	–	239	239	–
Copper ⁽²⁾	452	452	–	447	447	–	451	451	–
Palladium ('000 ounces) ^(3,4)	3,133	3,133	–	–	–	–	–	–	–
Platinum ('000 ounces) ^(3,4)	751	751	–	–	–	–	–	–	–
Gold ('000 ounces) ⁽³⁾	1,189	151	1,038	1,220	135	1,085	968	136	832
Stillwater									
Palladium ('000 ounces) ⁽⁵⁾	428	428	–	439	439	–	226	226	–
Platinum ('000 ounces) ⁽⁵⁾	126	126	–	130	130	–	67	67	–
Sales volume									
Norilsk Nickel									
Nickel ⁽⁶⁾	244	244	–	250	250	–	308 ⁽⁷⁾	308 ⁽⁷⁾	–
Copper	450	450	–	451	451	–	467	467	–
Palladium ('000 ounces) ⁽⁴⁾	3,231	3,231	–	–	–	–	–	–	–
Platinum ('000 ounces) ⁽⁴⁾	758	758	–	–	–	–	–	–	–
Gold ('000 ounces)	1,200	162	1,049	1,221	135	1,086	941	147	794
Stillwater									
Palladium ('000 ounces) ⁽⁵⁾	933 ⁽⁸⁾	933 ⁽⁸⁾	–	850 ⁽⁸⁾	850 ⁽⁸⁾	–	223	223	–
Platinum ('000 ounces) ⁽⁵⁾	216	216	–	202	202	–	64	64	–

Notes:

(1) More detailed information on production and sales volumes of gold is available in Section 9 of the Annual Report.
 (2) Includes production by the entities of Norilsk Nickel Group from purchased materials, particularly of nickel: in 2005 – 0 tonnes, in 2004 – 2,000 tonnes, and in 2003 – 1,000 tonnes; of copper: in 2005 – 26,000 tonnes, in 2004 – 35,000 tonnes, and in 2003 – 49,000 tonnes.

(3) Hereinafter in the Annual Report the unit of measurement for precious metals, including platinum, palladium and gold is a troy ounce.

(4) Production or, as noted, sales of platinum group metals produced by Norilsk Nickel Group within the Russian Federation. Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes to the legislation and other regulatory acts on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose both current information on PGM and information on past periods beginning from 18 February 2004. Information on the periods before that date remains secret.

(5) These figures represent the production or sales volumes, as indicated, of Stillwater Mining Company from the date of acquisition by MMC Norilsk Nickel of 50.5% of ownership in Stillwater Mining Company on 23 June 2003 until 31 December 2003. After the additional acquisition of 4.9% of ownership in the third quarter of 2003 the share of MMC Norilsk Nickel increased to 55.4% of the company's share capital. The production volumes of Stillwater for the year ended 31 December 2003 were 450,000 ounces of palladium and 134,000 ounces of platinum, the sales volumes were 464,000 ounces of palladium and 149,000 ounces of platinum.

(6) The indicated sales volumes omit the sales of metals purchased from third parties.

(7) This includes 60,000 tonnes of nickel sold from inventories pledged as security for a syndicated loan from banks.

(8) Including sale of palladium transferred by MMC Norilsk Nickel to Stillwater Mining Company as consideration for shares purchased in 2003 (total 877,000 ounces of palladium were transferred): in 2005 – 439,000 ounces, in 2004 – 375,000 ounces.

Consolidated IFRS financial highlights of the Group as at 31 December⁽¹⁾

(US dollars million or as noted)

	2005		2004		2003	
	Group without gold mining assets	Gold mining assets ⁽²⁾	Group without gold mining assets	Gold mining assets ⁽²⁾	Group without gold mining assets	Gold mining assets ⁽²⁾
Metal sales revenue	7,169	473	6,591	442	4,897	299
Gross profit on metal sales	4,175	207	3,653	207	2,136	192
Net profit attributable to ordinary shareholders	2,352	115	1,857	10	741	120
Cash and cash equivalents	922	28	1,346	13	950	4
Investments in securities and other financial assets	690	4	1,407	3	162	–
Capital construction-in-progress	1,184	107	1,208	62	1,119	31
Buildings, structures and utilities	5,961	965	6,644	516	5,801	216
Total assets	14,730	3,573	13,632	1,138	10,793	409
Short-term borrowings	357	26	552	36	438	–
Long-term borrowings	635	5	657	9	169	–
Share capital and reserves	11,397	3,106	10,643	943	8,172	339
Total liabilities	3,333	467	2,989	195	2,621	69

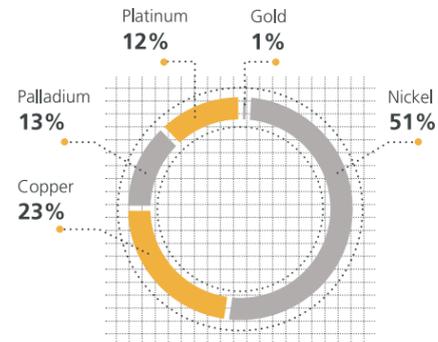
Notes:

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

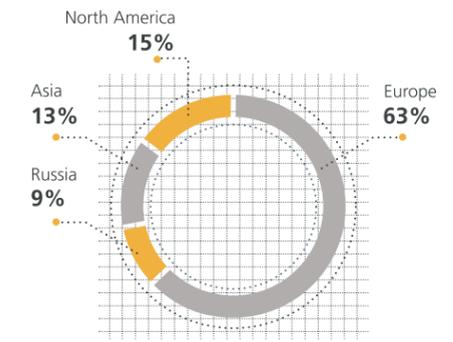
Financial statements of the Group without the gold mining assets (CJSC Polus) and gold mining assets (CJSC Polus) are to provide to the shareholders of the Norilsk Nickel Group illustrative financial highlights for the spin-off of the gold mining assets (CJSC Polus) from the Norilsk Nickel Group. Loans and promissory notes issued by the entities in the Group and intra-group transactions affecting the income statement were excluded when preparing these consolidated financial statements of the Group. However, these balances and transactions will be recognized in the preparation of the stand-alone financial statements of the specific companies.

(2) More detailed information on the financial results of gold mining assets is available in Section 9 of the Annual Report.

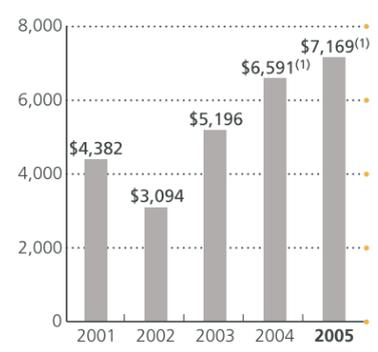
The Group's IFRS revenue distribution by metal in 2005⁽¹⁾



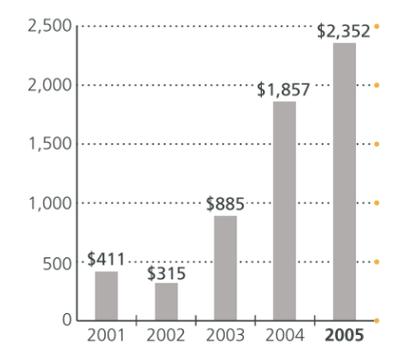
The Group's IFRS revenue distribution by geographical markets in 2005⁽¹⁾



The Group's IFRS revenue dynamics
(US dollars million)

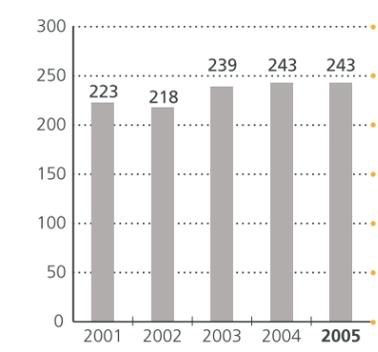


The Group's IFRS profit for the year
(US dollars million)

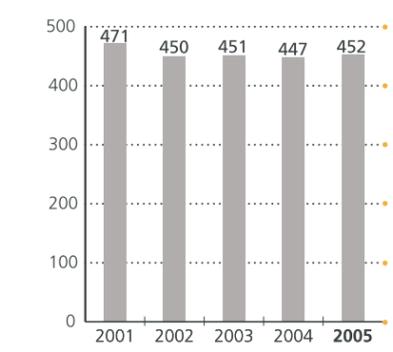


Note:
(1) Due to the spin-off of gold mining assets in 2006, the Group's revenues in 2005 and 2004 are indicated net of revenues of CJSC Polus for the respective years. Revenues of CJSC Polus in 2005 totaled USD 473 million and in 2004 – USD 442 million.

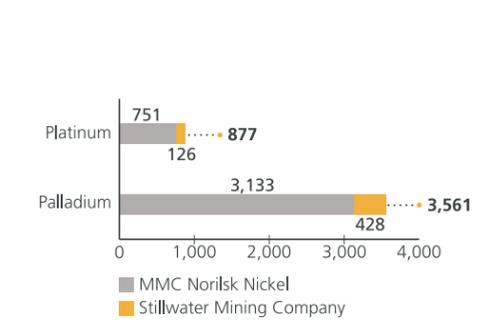
Volume of nickel production
('000 tonnes)



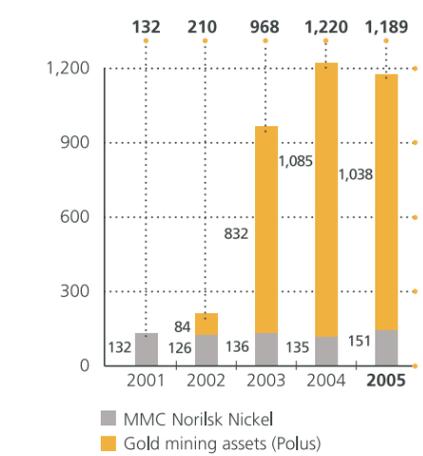
Volume of copper production
('000 tonnes)



Volume of PGM production in 2005
('000 ounces)⁽¹⁾



Volume of gold production
('000 ounces)⁽²⁾



Notes:
(1) Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes to the legislation and other regulatory acts on state secrecy made during 2005, the Norilsk Nickel Group is now allowed to disclose both current information on PGM and information on past periods beginning from 18 February 2004. Information on the periods before that date remains secret.
(2) The data for 2002 include the production of 84,000 ounces by CJSC Polus from the date of the company's acquisition on 1 November 2002 to 31 December 2002. The production volume of Polus for the year ended 31 December 2002 was 807,000 ounces of gold. The data for 2004 include the production by Matrosov Mine and Lenzoloto of 8,000 and 257,000 ounces, respectively, from the acquisition date of these companies on 6 April 2004 to 31 December 2004. The production volume of Matrosov Mine in 2004 was 14,000 ounces, of Lenzoloto – 258,000 ounces.

LETTER FROM THE GENERAL DIRECTOR – CHAIRMAN OF THE MANAGEMENT BOARD

4



Dear Shareholders,

We are pleased to inform you that in 2005 MMC Norilsk Nickel again demonstrated impressive growth. The market capitalization of the Group grew to USD 20 billion. The results of the past years represent clear evidence of the positive development dynamics of the Group.

The increase in the Group's market capitalization resulted from the sustained strong demand for metals produced by the Group and the successful achievement of strategic objectives set by management.

In 2005, we actively developed our existing production base, reduced costs, and improved reliability of energy supplies and transportation links. We continued to mitigate the environmental impact of our operations. In 2005, the Group achieved a new, higher level of transparency and disclosure of its operations.

••• Results for the year – financial growth

During 2005, the situation in the base and precious metals markets remained favorable. The decisive factors that influenced the world prices for the main products of MMC Norilsk Nickel last year were:

- continued growth in China;
- situation in the metal markets of major developed economies;
- increased impact on the metal markets of the operations conducted by international investment trusts.

As a result of a combination of the above-mentioned factors the average annual metal prices for almost all the Group's products continued to grow. The average annual metal prices increased during 2005 from 2004 as follows: copper by 29% (USD 3,684 per tonne), nickel by 6% (USD 14,733 per tonne), and platinum by 6% (USD 897 per ounce). In 2005, nickel and copper prices hit a many years high, and platinum prices hit historic record.

During 2005, revenues from metal sales, which totaled USD 7,169 million, represented a 9% increase from 2004.

Favorable situation in the metal markets, extension of the sales geography and focus on end-customers enabled the Group to have a revenue increase for all metals of USD 578 million, of which USD 489 million (85%) was for base metals, and USD 89 million (15%) for PGMs and gold.

The main reason for revenue growth in 2005 was the increase of the average annual sales prices for all metals sold by the Group, except for palladium.

Revenue from nickel sales increased by 3% from USD 3,564 million in 2004 to USD 3,674 million in 2005. In 2005, the decrease in the physical volume of nickel sales (not including sales of refined metals purchased from third parties) by 2% (6,000 tonnes) to 244,000 tonnes as compared to 2004 was offset by an increase in the average annual nickel export price by 3% – from USD 14,121 per tonne in 2004 to USD 14,560 in 2005.

During 2005, the physical volume of copper sales amounted to 450,000 tonnes, which nearly corresponds to the level of sales in 2004. Due to a significant growth in average annual copper export price of 30% – from USD 2,820 per tonne in 2004 to USD 3,652 per tonne in 2005, the revenue from copper sales grew by 30% and reached USD 1,644 million in 2005 as compared to USD 1,265 million in 2004.

Palladium sales decreased by 9% from USD 1,005 million in 2004 to USD 914 million in 2005. The main contributing factor for the palladium sales decrease is the decline in the average annual palladium export price from 2004. Palladium sales

without Stillwater Mining Company decreased by 9% from USD 725 million in 2004 to USD 661 million in 2005. In physical terms, sales of palladium produced by the Group in Russia amounted to 3,231,000 ounces in 2005. In 2005 Stillwater Mining Company sold 933,000 ounces of palladium, including 439,000 ounces of palladium received from the Group in 2003.

Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes in the legislation on state secrecy made during 2005, the Norilsk Nickel Group is now allowed to disclose both current information on PGM, and information on past periods beginning from 18 February 2004. Information on the periods before that date remains secret.

Platinum sales increased by 22% from USD 706 million in 2004 to USD 864 million in 2005. Sales of platinum produced by the Group in Russia increased by 27% from USD 539 million in 2004 to USD 683 million in 2005. The increase is explained mainly by the increase in the average annual platinum export price. In physical terms, platinum sales amounted to 758,000 ounces in 2005. During 2005 platinum sales by Stillwater Mining Company amounted to 216,000 ounces.

During 2005, the cost of sales grew by 2% from USD 2,938 million in 2004 to USD 2,994 million in 2005. In 2005, cash operating costs increased by 9% and amounted to USD 2,480 million as opposed to USD 2,275 million in 2004. Key reasons for the growth of cash operating costs in 2005 included:

- increase of cash operating costs by USD 44 million due to appreciation of the Russian ruble ("RUR") against the US dollar ("USD"), which amounted to 2% based on the average annual exchange rate;
- increase of the actual cash operating costs by USD 139 million; and
- the increase of cash operating costs was offset by the amount of increase in revenue generated from the sale of by-products of USD 22 million.

Whereas revenues only grew by 9% in 2005 as compared to 2004, profit for the year increased by 27% from USD 1,857 million in 2004 to USD 2,352 million in 2005.

••• Disclosures

After several years of joint focused work with the Russian Government, relevant changes were made to the law On State Secret in March 2005 enabling MMC Norilsk Nickel to disclose the reserves, production, sales and consumption of PGMs.

Due to these amendments, the Group was able to disclose for the first time the quarterly results of palladium and platinum production in 2005. In February 2006, for the first time in its history, MMC Norilsk Nickel disclosed information on PGM grades of the mineral resources and ore reserves developed by the Group prepared in accordance with the JORC Code by an independent international consultant. The data on the metal grades of the ore reserves in the deposits present evidence of a good competitive position and the long-term sufficiency of the Group's resource base.

••• Management system reform

In 2005, the Group continued to create a management structure meeting today's requirements of a large international company. The Group completed the first stage of the reform, having created industry streams and professional service functions that will be providing centralized services common to all industry streams.

The management structure reform will help to streamline the asset structure, assign specific managers to industry streams with authority and personal responsibility for the particular results, and improve the Group's overall management flexibility. The management hierarchy will be downsized and the industry personnel will be refocused on profitability and cost reduction. In accordance with the plan, the reform is to be completed by 2010.

••• Assignment of investment credit rating

To improve our positions in the financial markets, reduce the cost of borrowings and enhance the financial policy flexibility, the Group was the first among Russian companies to obtain an investment grade credit rating – a long-term BBB– credit rating in foreign currency – from the international rating agency Fitch Ratings Limited in December 2005. In August 2005, Standard & Poor's raised the long-term credit rating of the Group from BB to BB+. MMC Norilsk Nickel holds the leading position amongst Russian non-government public companies by the total value of its credit ratings.

••• Improving security of energy supplies

Operating under extreme conditions in the Taimyr Peninsula above the Arctic circle, we are continuously committed to ensure our own stable and reliable energy supplies and secure transportation links.

From the fourth quarter of 2005 all the electric power is supplied to the Taimyr Peninsula by OJSC Norilsk-Taimyr Energy Company ("OJSC NTEC") incorporated by MMC Norilsk Nickel (51% ownership) jointly with RAO UES of Russia (49% ownership).

The main objective of establishing OJSC NTEC is to secure reliable energy supplies to the Norilsk industrial district and to optimize electric power costs.

As part of the Group's secure power supplies policy, in 2005 the Group took the decision and increased its share in RAO UES of Russia to 3.52% of the share capital of the energy giant.

Today MMC Norilsk Nickel is one of the major players in the Russian electric power industry. In addition to the share in RAO UES of Russia, the Group owns 25.7% in OJSC Krasnoyarskenergo, 24.87% in OJSC Kolenergo, and 51% in OJSC NTEC.

Following the reorganization of Kolenergo and Krasnoyarskenergo through the spin-off of a number of specialized companies, the Group received shares in each of the spun-off companies proportionate to its original participation in Kolenergo and Krasnoyarskenergo, respectively.

••• Improving security of transportation

As part of the concept for the creation of an optimized transportation system for the Group ensuring reliability of transportation of cargoes via the North Sea Route by the proprietary ice breakers, in December 2005 the first ice reinforcement container ship built by the Finnish shipbuilder Aker Finnyards was put afloat in Helsinki during a festive ceremony receiving the name Norilsk Nickel.

This ship equipped with a diesel electric power plant is intended to sail for most of the year without icebreaker assistance and is able to guarantee the transportation of the Group's cargo via the North Sea Route for many years. The Group received the ship in April 2006. In accordance with its transportation strategy, the Group's intention is to have up to five similar ships built up by the middle of 2008.

••• Environmental matters

We are committed to mitigate the environmental impact of our operations.

MMC Norilsk Nickel has developed and is implementing a program of atmospheric emission reduction. In the Taimyr Peninsula it is planned to:

- close down the sintering and smelting shops of the Nickel Plant;
- enhance sulfur reclamation facilities;
- reconstruct the technological lines of the Nadezhda Metallurgical Plant with capital repairs of the gas purification systems and construction of plants for sulfur reclamation from gas emissions;
- increase efficiency of dust and gas purification systems; and
- take other measures.

In accordance with the program, two projects have already been successfully completed in 2004–2005 at the Copper Plant and the Nadezhda Metallurgical Plant. The key results of the program planned to be completed by 2015 will be the significant optimization of production processes and reduction of pollutant emission.

In November 2005, at the Russian national conference New Government Environmental Policy in the Real Sector of the Economy MMC Norilsk Nickel was awarded an honorary diploma as the Leader in environment protection activities. For the extensive contribution to the development and implementation of environment protection projects the Taimyr Peninsula was awarded a Diploma by the Federal Service for Environmental, Technological and Atomic Supervision.

In December 2005, MMC Norilsk Nickel received certificates in compliance for its developed and implemented Integrated System of quality and environmental management with the requirements of ISO 9001:2000 and ISO 14001:2004 in the area "Production and project management, sales and supplies of products". Thus, the Group has obtained recognition of compliance with international standards for its operations in these areas. In the future, the Group plans to obtain recognition for its integrated quality and environmental management system by the American National Accreditation Board (ANAB) in the USA, extend the areas of certification and implement other international standards (ISO 17025, OHSAS 18001, SA 8000, AA 1000 and others).

••• Payment of dividends

Given the favorable situation in the global metal markets and the good interim results achieved in 2005 the Board of Directors continued the practice of paying interim dividends. Based on a recommendation by the Board of Directors the Extraordinary General Meeting of Shareholders on 30 December 2005 approved the distribution of an interim dividend for 9 months ended 30 September 2005 of RUR 43 (USD 1.49) per ordinary share for a total of RUR 8.7 billion (approximately USD 304 million). The interim dividend was paid in February 2006.

The Board of Directors has also proposed to the Annual General Meeting of Shareholders scheduled for 29 June 2006 to approve dividends for 2005 in the amount of RUR 18.9 billion (approximately USD 682 million) or RUR 96.49 (USD 3.47) per ordinary share based on the Group's financial results in 2005.

Thus, taking into account the dividends previously paid for the 9 months of 2005, the additional dividends for 2005 will amount to RUR 10.2 billion (approximately USD 378 million) or RUR 53.49 (USD 1.98) per ordinary share of the Company.

••• Additional share swap

As a result of the Company's restructuring in 2001–2002 over 3.2 million ordinary shares of RAO Norilsk Nickel owned mainly by retired employees of the Norilsk Combine were not exchanged for shares of MMC Norilsk Nickel. Acknowledging the merits of these shareholders and their contribution to the development of the Company the Board of Directors approved, in July 2005, an additional, fourth swap of RAO Norilsk Nickel shares for MMC Norilsk Nickel shares for all shareholders which did not exchange their shares during the previous three swap offers during 2001 – 2004.

201,452 shares were exchanged by 30 May 2006 as a result of a 12 month share swap program launched on 1 August 2005. Treasury shares of MMC Norilsk Nickel held by the Group's balance sheet were used in the swap.

••• Buy-back of shares and a decrease in the issued share capital

Following a redemption of shares purchased by the Group in the period from December 2004 to February 2005 and bought back from shareholders in November 2005 to December 2005 due to the reorganization of MMC Norilsk Nickel in the form of spin-off of Polus, the Extraordinary General Meeting of Shareholders of 17 February 2006 decided to decrease the share capital by 23,278,137 shares to 190,627,747 ordinary shares with a par value of RUR 1 each. The average purchase/buy-back price was RUR 1,761 per share.

••• Social policies

In 2005, the Group continued its sustainable social development, which included growth of employees' salaries in accordance with productivity increases, professional development, as well as optimization of the number and structure of personnel.

MMC Norilsk Nickel won the Russian national competition "Russian Organization of High Social Efficiency" in the Personnel Development nomination in March 2005, and in the "Personnel Development" nomination in February 2006. These awards reflect the recognition by the government and the community of the success of the Group and its employees.

In 2005, the Group started the publication of its Social Report in accordance with international standards with a view to inform the shareholders and other interested parties of the Group's contribution to the development of the community at different levels and improvement of the personnel and social policy management efficiencies in close conjunction with the business development strategy. The issuing of the Social Reports is an important element of strengthening the reputation of MMC Norilsk Nickel aspiring to become the global leader in the mining industry.

In December 2005, MMC Norilsk Nickel signed the Social Charter of the Russian Business, which confirms the Group's intention to continue pursuing pro-active policies in the economic, social and environmental areas in the interests of the overall society.

On behalf of the management, I would like to thank all staff for their conscientious work and all the shareholders and investors for the confidence they demonstrate. I am absolutely sure that the joint and harmonious work of all staff and loyal shareholder support will enable us to continue strengthening our positions among the leaders of the global mining industry in 2006. I am also convinced that the successful implementation of our strategic plans will ensure effective operation of the Group and further growth of its shareholder value.

Mikhail D. Prokhorov
General Director
Chairman of the Management Board

Moscow
30 May 2006

LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

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Dear Shareholders,

The year 2005 will undoubtedly be an important milestone in the history of MMC Norilsk Nickel. This year we actually completed the consolidation of the Group's gold mining assets in Polus and the main stages of the spin-off of these assets from the Group. The Group's market capitalization grew to USD 20 billion, which is the highest in the history of the Group's existence. This, apart from high metal prices, also reflects the correctness and timeliness of the decisions to create, develop and spin-off the gold mining business into a separate company. We are glad that we were able to meet the expectations of our shareholders in selecting and realizing the right business development model.

In 2005, the Group also demonstrated good financial performance and achieved considerable success in increasing the transparency of operations and improving corporate governance.

••• Spin-off of the gold mining business

Throughout the last year the Company's Board of Directors worked closely with management to spin-off the gold mining assets. The Company made every effort to make the process as transparent and understandable as possible both for our shareholders and the investment community. We created a special section on the Group's web site, which contained all the information on the reorganization. In addition, an Information Memorandum about the reorganization was issued for the shareholders and investors. This document pioneered the Russian public company reorganization market and set the new standard of the level and quality of disclosure for companies in Russia.

In August 2005, the Group's Board of Directors recommended that the shareholders approve the spin-off of the gold mining assets, including Polus and its subsidiaries and the 20% investment in Gold Fields, into a new company, OJSC Polyus Gold.

In September 2005, at an Extraordinary General Meeting of Shareholders, the Shareholders decided to reorganize MMC Norilsk Nickel through a spin-off into a new company Polyus Gold and to transfer the respective gold mining assets of the Group to this company plus a cash consideration of USD 360 million (RUR 10 billion).

A number of shareholders that did not participate in the Extraordinary General Meeting which dealt with the reorganization, or who voted against the reorganization, demanded a buyout of their shares in accordance with the effective legislation. A total of 10,799,433 shares were bought out in connection with the reorganization.

Capitalizing on the favorable market situation, in early March 2006, Jenington International Inc., a subsidiary of Polus, sold its 20% ownership in Gold Fields Limited (South Africa), a gold producer developing gold deposits in South Africa and Australia. The shares were sold at USD 20.50 per share (in 2004 the acquisition price was at USD 11.79 per share). Proceeds from the sale of these shares are planned to be used for various corporate projects, including the development of the extensive resource base of Polyus Gold inside the Russian Federation.

The Organizational General Meeting of Polyus Gold shareholders took place on 3 March 2006. The shareholders of the new company elected the Board of Directors, the General Director, approved the Charter of Polyus Gold and passed a number of other important resolutions.

The creation of OJSC Polyus Gold was recorded in the Unified State Register of Legal Entities on 17 March 2006. The shares were distributed between the shareholders of MMC Norilsk Nickel pro rata to their interests in the Company as at 1 January 2006. Thus, as a result of the spin-off a new major global gold mining company was created with significant potential for further growth.

On 27 April 2006, the Russian Federal Service on Financial Markets registered the issue of shares by Polyus Gold. In May 2006, Polyus Gold shares started to be traded on the Russian Trading System (RTS) and the Moscow International Currency Exchange (MICEX).

••• Strategic development

During the year under review, the main direction of the Group's strategic development was in the exploration for nickel, copper and gold in all the territories of the Russian Federation. Geological exploration was conducted with the following objectives:

- replenishment of base metal reserves;
- prospecting for new deposits in order to diversify and increase the resource potential of the Group, which ultimately should lead to the increase of the Group's shareholder value.

As part of this strategy, throughout 2005 the Group looked for an international strategic partner in geologic exploration and the development of major deposits. A strategic partnership interests MMC Norilsk Nickel both from the standpoint of:

- sharing the financial and operating risks of developing major deposits; and
- adopting international experience in working with new technologies and mineral resources.

As a result of this search in January 2006 an agreement on cooperation was signed with Rio Tinto, one of the largest global mining companies and a joint venture (JV) was created. Rio Tinto was chosen to be a partner because of its extensive experience in world class deposit development.

The JV will focus on the geologic exploration and subsequent development of deposits in two Russian federal districts: the Siberian and the Far-Eastern districts. In accordance with the agreement, MMC Norilsk Nickel has a 51% share and Rio Tinto a 49% share in the JV. The experience of the Group in Russia and the international experience of Rio Tinto will form the foundation upon which an unparalleled base for the geologic exploration and development of Russian mineral deposits will be built.

••• Corporate governance improvement

The Group also seeks to achieve maximum transparency of its operations and ensure equal and timely access to information disclosed for its shareholders and investors.

In accordance with global corporate governance practices and the recommendations of the FCSM Code of Corporate Governance, independent directors are elected to the Board of Directors of MMC Norilsk Nickel since 2002. The criteria for the determination of independence of Directors are included in the Company's Charter. In 2005, members of the Board included four independent directors (the Company uses the most conservative independence criteria for its directors).

In 2005, the Audit Committee of the Board of Directors, created at the end of 2004, started its work aimed at assisting the Board of Directors in supervising the financial and operating activities through the preliminary consideration of issues and the preparation of respective recommendations to the Board of Directors. In particular, the competence of the Committee includes:

- Group's interaction with the external auditors;
- consideration and analysis of its consolidated financial statements;
- assessment of the efficiency of internal control;
- assistance for the effective operation of internal controls.

In accordance with international corporate governance practices, the Audit Committee may include only independent and non-executive members of the Board of Directors, and only an independent director may be elected as its chair. During the reporting period the Committee was chaired by the independent director Guy de Selliers. Apart from him, the committee included independent director Kirill Ugolnikov and non-executive director Andrey Bugrov.

On behalf of the Board of Directors of MMC Norilsk Nickel and myself, I would like to thank the Group's employees for the results they have achieved and for their faithful attitude to their work.

I would also like to thank the Group's shareholders for their understanding and support for our initiatives aimed at strengthening MMC Norilsk Nickel's positions both in Russia and abroad.

Andrey A. Klishas
Chairman of the Board of Directors

Moscow
30 May 2006

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2005 RESULTS AND MAIN TASKS FOR 2006–2007

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Results of 2005

Main tasks for 2006–2007

... Effective use of unique mineral resources and management of operating costs

- Implementation of a targeted operating cost reduction program led to a material decrease of costs in 2005, especially with regards to the cost of consumables and maintenance. Polar Division entities started to implement a continuous improvement program aimed at operational efficiency improvement at the level of production sections using the internal resources of the entities.
- Cost of metal sales increased by 2% in 2005; below the inflation rate in the Russian Federation.
- Reconstruction of the Komsomolsky mine started, which is aimed to increase mine output to 4 million tonnes of ore per year.
- The flash smelters modernization program at the Nadezhda Metallurgical Plant started, which will help to increase their overall production capacity and decrease overall cost of nickel concentrate smelting.
- Implementation of the Group's production strategy aimed at streamlining the configuration and modernizing the production facilities. Plans for 2006–2007 include:
 - continue construction of the Skalisty mine, preparing for the mining of new sources of rich ore;
 - improve utilization of production facilities in the Taimyrsky and Komsomolsky mines after the completion of the mines' hoisting facilities reconstruction;
 - start the modernization of the Talnakh enrichment factory to improve concentrates quality;
 - expand smelting facilities at the Nadezhda Metallurgical plant in the Polar Division, to enable closure of sintering and smelting facilities at the Nickel Plant;
 - finish construction of the Severny-Gluboky mine, and modernize the smelting facilities in the Kola Peninsula.
- Further rollout of the operating cost reduction program in order to ensure sustainable competitive advantage for the Group. Implementation of energy saving and non-operating cost reduction programs.
- Continued research and testing in the area of ore enrichment and concentrate quality improvement. Based on results, an optimum ore concentration scheme will be developed with the goal of significant improvement in concentrate quality and reduction of the cost of nickel and copper concentrate smelting.
- Improvement in maintenance planning and performance in order to reduce overall repairs and maintenance costs.
- Restructuring of repair and construction complexes operating on the basis of contractual relations with other industry units; optimization of the fixed and current assets of the repair and construction complexes.
- Improvement of the entities' supply and procurement planning, delivery control and use of resources.

Results of 2005**Main tasks for 2006–2007****Energy complex**

- OJSC Norilsk-Taimyr Energy Company (NTEC) started operations from October 2005. NTEC was created as an operating company for energy assets of Norilsk Nickel and OJSC Taimyreneergo. Norilsk Nickel's share in NTEC is 51%.
- Ensuring stability of the energy supply system, optimization and modernization of obsolete production facilities.
- Continued construction of facilities at the Pelyatka gas condensate field in the Taimyr Peninsula that will cover the long-term natural gas needs of the Norilsk Industrial District.
- Geologic survey and design work to construct gas and condensate pipelines along Pelyatka deposit-Dudinka route, and gas condensate and NGL processing plant.

Transportation and logistics stream

- The first ice reinforcement container ship with a carrying capacity of 14.5 thousand tonnes, and able to pass through heavy ice without icebreaker assistance was built at the Group's order.
- The Murmansk transportation branch was created, including the port and shipping units, to organize the construction and subsequent operation of the cargo terminal in the Murmansk port and to operate the Group's own fleet.
- The decision was taken to construct a cargo terminal in Murmansk with a capacity of up to two million tonnes of cargo per year. It is expected to cover virtually all the Group's transshipment needs. The operating scheme for the new port was developed.
- Obtain all necessary permits for the first ice reinforcement cargo carrier and put it in operation.
- Making a decision on construction of additional ice reinforcement cargo carriers in accordance with the Group's transportation strategy.
- Technical upgrade of the Dudinka sea port and construction of the new terminal in the Murmansk port in order to form an optimum sea logistics system for the Group.
- Technical modernization of the fleet and completion of the organizational structure redesign of the Yenisei River Shipping Company.
- Implementation of transportation cost cutting programs through optimization of transportation flows, effective cargo handling in ports and optimum tonnage allocation between ships.

Results of 2005**Main tasks for 2006–2007****••• Growth in exploration and development of world class mineral deposits**

- Geologic exploration aimed at the replenishment of the resource base of the Taimyr and Kola Peninsulas, as well as the exploration of perspective sites for new copper and nickel ore deposits.
- Creation of a joint venture with Rio Tinto for geologic research and development of prospective deposits.
- During 2006–2007 the Group will conduct geologic exploration and prepare for the development of the ore deposits in the South-Eastern Siberia and the Far East.
- Feasibility studies and selection of prospective geologic exploration and production properties in Russia and abroad.

••• Support of stable development in the regions in which the Group operates

- Modernization of equipment for utilization of sulfur emissions and production of elementary sulfur in the Copper Plant at the Polar Division started.
- Implementation of environmental and quality management system in the Group.
- Implementation of measures to increase safety conditions led to considerable improvement in safety at work statistics.
- Implementation of local community assistance programs.
- Publication of the first Social Report. The Group plans to continue the practice of publishing annual social reports gradually covering all Group entities and aspects of the social policy.
- Implementation of the program of sulfur emissions reduction in the metallurgic production and gradually reducing atmospheric emission of sulfur in Norilsk.
- Implementation of metallurgical production modernization program in the Kola Peninsula (upgrade of smelting facilities, closure of sintering facilities) to achieve reduction of sulfur emission in the Kola Peninsula.
- Implementation of social investment projects.
- Creation of a vertically integrated industrial safety management structure.

RISK FACTORS

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Outlined below are the main risk factors that may affect the Group's operations. Risks outlined below may have a significant effect on operations, sales, profits, assets, liquidity and the capital resources of the Group. All estimates and projections presented in this Annual Report should be considered in the context of these risks. In addition, certain risks which at present are regarded as insignificant may eventually become material.

••• Market risks

Prices for the metals produced by the Group, as well as global demand, depend largely on the growth rate of the global economy. There are a number of factors affecting metal prices which are beyond the control of the Group, including:

- economic and political situation in the world and in specific regions;
- global and regional supply and demand expectations;
- purchase or sale of surface stock by central banks and other large holders;
- use of new technologies;
- issued regulations and actions of the Russian and foreign governments to regulate the market, including the establishment of export quotas;
- foreign exchange rates;
- inflation and interest rates.

A possible significant decrease in global prices for metals produced by the Group may lead to decreased profitability or loss-making production and/or exploration work performed by the Group, and may have a material negative effect on the Group's activities, the results of operations and its financial position.

••• Production

The main operations of MMC Norilsk Nickel are conducted in the remote areas of the Far North, some of which are characterized by severe climates which impose the need to address complex technical issues in conducting both geologic exploration and mining work. To work in the difficult geological environment in these areas with severe climate of the Far North, the Group uses state-of-the-art mining and transport equipment and technologies. However, Norilsk Nickel may be unable to overcome difficulties related to weather and climate with commercially viable costs, which may have a material negative effect on the production of the Group. Major accidents involving energy supply systems, mines, enrichment or metallurgical plants may have a negative impact on the financial results of MMC Norilsk Nickel.

••• Mineral resources and ore reserves

As any mining company, MMC Norilsk Nickel is dependent on its mineral resources and ore reserves. It should be noted that any estimate of the mineral resources and ore reserves of any mining company is inherently uncertain and depends on statistical conclusions based on limited drilling work and other analysis, which may eventually prove to be inaccurate. The estimates and classification of mineral resources and ore reserves are also affected by such factors as changes in metal prices, increased cost of production or lowered metal cut-off grade. The estimation of mineral resources and ore reserves involves professional judgment which is based on the expertise, experience and industry practices and is subject to considerable uncertainty.

Management of MMC Norilsk Nickel believes that the estimation of mineral resources and ore reserves by the Company is correct. Besides, if the quantity and quality of the explored ore reserves is unconfirmed, the decrease in production efficiency due to the appreciation and more labor intensity of mining work is probable.



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••• Health and safety

Operations of MMC Norilsk Nickel, as well as other mining companies, are subject to hazards and risks inherent in the exploration, development and extraction of mineral resources, which may inflict damage to individuals, property and the environment.

The risk factors connected with open pit mining conducted by the Group include:

- inundation;
- quarry bank and wall sloughing;
- accidents connected with the operation of mining and transportation equipment in the quarry;
- accidents connected with the preparation and conducting of large-scale blasting work in the quarry;
- suspension of production due to natural conditions; and
- risks related to the reclamation of mineralized waste water such as the pollution of subterranean waters and water flows.

Underground mining work is usually more expensive than open pit mining, more dangerous and requires the use of ventilation systems. Other hazardous factors in underground mining include:

- underground fires and explosions (including those caused by inflammable gas);
- releases of gas and toxic agents;
- geothermal events;
- sinkholes and ground depression;
- other accidents resulting from drilling and blasting work, and from transportation and removal of mined rock from the mine.

MMC Norilsk Nickel may face any of the above risks. An accident resulting from any of these hazardous factors may lead to the suspension of production, increased cost of production, injuries to people and damage to property, and lead to liabilities for the Group.

••• Environment

MMC Norilsk Nickel is subject to comprehensive environmental control and regulation in Russia. The Group's operations are connected with the:

- use of agents harmful for the environment;
- emission of waste and pollutants into the environment;
- disturbance of lands;
- potential damage to flora and fauna; and
- other factors hazardous for the environment.

Currently, environmental legislation in Russia and other countries are changing and MMC Norilsk Nickel regularly reviews its obligations to reduce pollutant emissions into the environment.

New laws and regulations, the imposition of more stringent requirements in licenses, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licenses, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease operations, or pay fees, fines, or make other payments for discharges or other breaches of environmental standards. All this may have a material negative effect on the Group's financial position.

••• National currency exchange rate and currency control

A large portion of the Group's sales is in US dollars. At the same time, a large portion of its expenses is in Russian rubles. Therefore, the changes in the national currency (Russian ruble) exchange rate against the US dollar have an effect on the Group's financial results.

Despite considerable liberalization of the Russian legislation on foreign currency regulation and foreign currency control, effective Russian legislation authorizes the Russian Government and the Central Bank of Russia ("CBR") to regulate and introduce limitations in the area of foreign currency control, including foreign securities transactions and borrowings of Russian companies in foreign currency.

Foreign currency regulations of the Government and the CBR also impose certain limitations on investments by Russian companies outside Russia. Currently, the ruble is not convertible outside the Russian Federation and the CIS, and the ability of companies operating in Russia to convert rubles into other currencies may be contingent on the existence of a special account and/or subject to the requirement of obligatory reservation, although such limitations may be lifted as early as 2007. Due to the limited development of the foreign currency market in Russia, the Group may face difficulties in converting rubles into other currencies.

The limited ability of MMC Norilsk Nickel to convert currencies or transfer funds may lead to the inability to conclude necessary commercial transactions (or lead to the increased cost of such transactions), which may have a material negative effect on the Group's operations.

••• Labor regulations

The Group's operations are regulated by a number of legislative acts on labor and social issues. Changes in legislation in these areas, specifically impacting tax and insurance payments related to social insurance and pensions, may have adverse effects on production costs and, consequently, the Group's financial results.

••• Mergers and acquisitions

The Group develops through, among other methods, the acquisition of companies in Russia and abroad. These activities carry significant risks that relate to the ability of the Group's management to efficiently integrate the acquired company, as well as the expected economy of costs and the synergies of the acquisition.

••• Russian country risks

Lately, positive trends have been observed in the Russian economy, such as:

- growth of the gross domestic product;
- relatively stable currency;
- high demand in the domestic market;
- growth of real wages; and
- slowed inflation.

However, these trends may reverse. The economic and political instability in Russia may have a negative effect on the operations of MMC Norilsk Nickel.

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MMC NORILSK NICKEL NOT INCLUDING GOLD MINING ASSETS (POLUS)

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Review of market developments

8.1

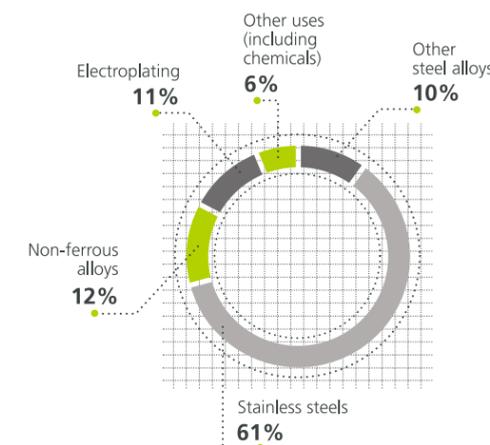
Nickel

The Group's principal product is an extremely versatile metal with an extensive range of applications. Although sometimes used on its own, nickel is more commonly used in a combination with other metals in the form of an alloy.

The biggest use of nickel is as an ingredient in stainless steel. This accounts for around two-thirds of its total use. More corrosion resistant and shinier (therefore easier to clean) than normal steels, stainless steels are widely used in various industries and production of consumer goods.

Other important uses of nickel are in special alloys, electroplating and chemicals. Superalloys incorporating nickel in a combination with chromium, aluminium, titanium and cobalt are, for example, used in aeroengines because of their ability to tolerate high temperatures without deforming.

Nickel first use



Source: Nickel Institute, 2005

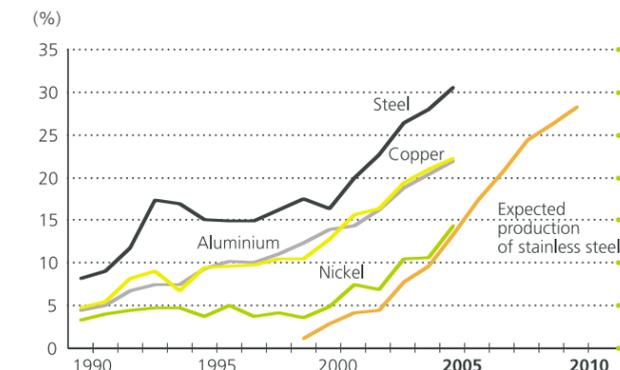
The use of nickel has generally been concentrated in the more advanced industrial economies of Europe, North America and Japan.

These economies remain an extremely important market for nickel. Europe is the world's largest nickel market, accounting for around a third of the global use of the metal. It is also Norilsk Nickel's largest market.

However, with the industrialization of Asia and the rise in income levels which has accompanied this, countries such as China, India and South Korea have been rapidly increasing their production and their use of stainless steel.

Growth in China has been especially impressive. Having produced only 0.2 million tonnes in 1999, China's production of stainless steel in 2005 rose to 3.3 million tonnes, representing a growth rate of 60% a year. Over the same period, its use of nickel rose from under 40,000 tonnes to almost 190,000 tonnes, giving it 14% of world's nickel demand. By way of comparison, China's share of the world market for copper and aluminium is 22%.

China's share of world metal markets



Source: IISI, WBMS, CRU, 2005

There is also significant potential for the non-stainless applications of nickel. For example, strong growth in the market for hybrid electric vehicles (HEVs) which typically employ nickel metal hydride batteries for their electrical power.

The strong growth in demand for nickel in recent years has stretched the capacity of producers to supply the market and prices have risen to – and have remained at – what are historically high levels.

Nickel price, 1980–2005

(US dollars per tonne)

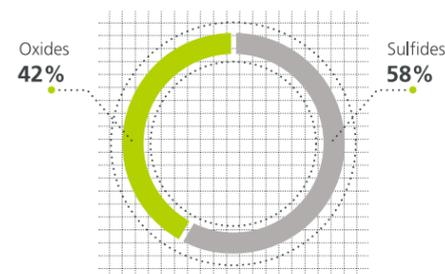


Source: London Metal Exchange

About one half of the supply of nickel comes from secondary sources (i.e. scrap). Nickel is an eminently recyclable metal, and nickel-containing stainless steel scrap is typically used in stainless steel production. Thus, it ensures a solid demand in development of nickel deposits and primary metal production.

In the past, the greater part of the world's nickel production came from ore deposits in which nickel was found in combination with sulfur (the source of nickel sulfides), as it is at Norilsk. However, lateritic deposits containing oxidized nickel account for the largest proportion of the world nickel reserves. To date, most of the known large sulfide deposits in the world have been developed, and an increasing part of future production is likely to have to come from ore deposits in which nickel is found in combination with oxygen.

Nickel production resources



Source: CRU, 2005

Although nickel oxides are plentiful in nature and mining them is relatively straightforward, processing tends to be more complex and more energy-intensive than with sulfides and, typically, oxides require larger amounts of capital to bring them to production.

This shift in the emphasis of nickel production from sulfides to oxides appears to be raising the cost of entry into the nickel business, suggesting the need for attractive prices in the future to ensure that the production necessary to balance the market is forthcoming. Norilsk Nickel's good fortune is that it possesses what is believed to be the world's largest deposit of nickel sulfides, providing a basis for low-cost production for many years to come.

Review of nickel market developments in 2005

In 2005, the average annual London Metal Exchange (LME) price of nickel increased by 6.4% when compared with 2004, and amounted to USD 14,733 per tonne, which is another record.

Demand

World-wide nickel consumption did not change significantly, amounting to 1.3 million tonnes in 2005. The reduction in European consumption was offset by growth in other regions, mainly in China. Reduction of nickel consumption in stainless steel production industry in the third quarter was significantly offset by the growth of demand in other sectors. Despite the lag between actual consumption and the forecast data, significant investment demand for the metal was observed throughout the year.

Supply

Technical problems and strikes led to significant losses in primary nickel production, which, coupled with moderate demand from stainless steel producers, generally balanced the global nickel market by the end of the year.

The Group expects that the high load rate of the existing production facilities and careful policies pursued by producers in increasing output, together with stable industrial demand, will contribute to the sustained high level of global prices.

Average annual nickel price

(US dollars per tonne)

	2005	2004	2003
Nickel	14,733	13,852	9,640

Source: London Metal Exchange

Nickel prices on the London Metal Exchange in 2005

(US dollars per tonne)



Source: London Metal Exchange

Palladium and platinum

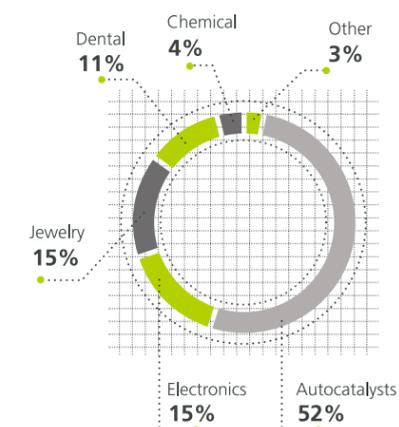
The Group is one of the world's leading producers of platinum group metals (PGMs). PGMs are six metals with similar characteristics which normally occur together in nature. The most commercially important of these are platinum and palladium. The Group's production is predominantly palladium.

Palladium has historically been viewed rather poorly when compared to platinum, and traded at a significantly lower price. Because its production comes mostly as a by-product of the recovery of other metals (notably nickel and platinum), its supply has often run ahead of the market's capacity to absorb it, leading to the accumulation of significant stockpiles.

However, things are changing, and palladium is increasingly finding a role in its own right. Global demand has been growing at over 5% a year and the stockpiles are being worked off. A major factor behind this strengthening in demand is palladium's usefulness in helping to meet ever more stringent environmental standards.

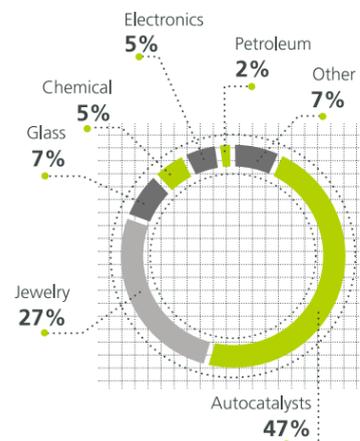
The control of vehicle emissions requires that cars and trucks be fitted with catalytic converters or "autocatalysts" as they are often called. The principal emissions that need to be controlled are carbon monoxide, nitrous oxides and unburned hydrocarbons. Today's catalytic converters invariably employ platinum and/or palladium; indeed this is the single largest use of both metals. Rhodium, another PGM produced by Norilsk Nickel, is also used in some types of catalysis.

Palladium end uses



Source: GFMS, 2005

Platinum end uses



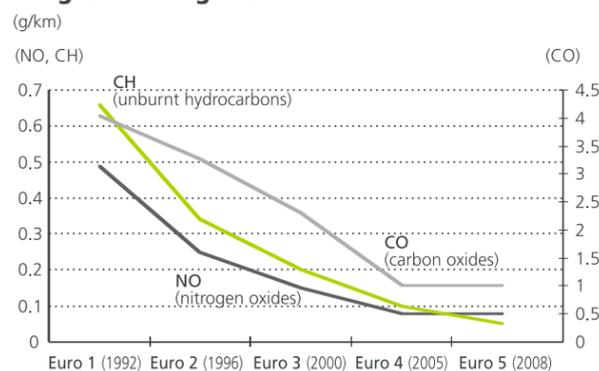
Source: GFMS, 2005

The major users of PGM are autocatalysts which clean up unburnt hydrocarbons.

PGMs have similar characteristics and under certain conditions are interchangeable. The precise combination of PGMs used in autocatalysts depends on the level of emissions control required, the type of engine system employed, production technology, and the relative price of each. However, because palladium does not work as well as platinum at low temperatures, it has not been used in diesel engines in the past, although recent technological breakthroughs could result in palladium making inroads here in the future.

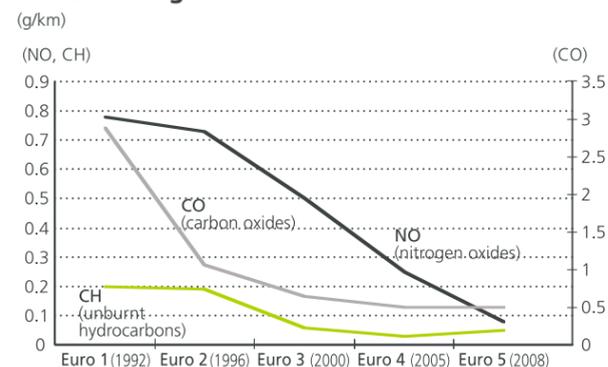
The chart below shows the emissions permitted in cars being produced in the European Union under successive rounds of environmental legislation.

Car emission standards in Europe for gasoline engines



Source: Brook Hunt, 2005

Car emission standards in Europe for diesel engines

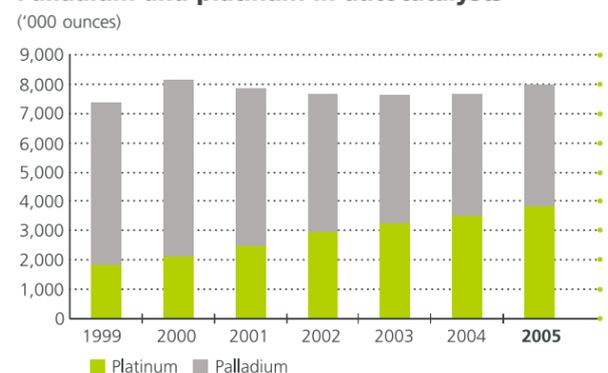


Source: Brook Hunt, 2005

As emissions standards in the more advanced industrial countries have tightened, so the demand for PGMs has grown. This can confidently be projected to continue into the future.

In emerging economy countries, growing car populations and the adoption of higher vehicle emissions standards seem assured. During 2005, over 60 million cars with catalysts containing PGMs were produced globally.

Palladium and platinum in autocatalysts



Source: GFMS, 2005

The role of PGMs in the future will grow as hydrogen energy will be taking shape as part of the world economy. Platinum catalysts are used in some of today's technologies which are developed to produce electrical energy from hydrogen fuel. Palladium has properties which make it highly effective in hydrogen production purification and storage.

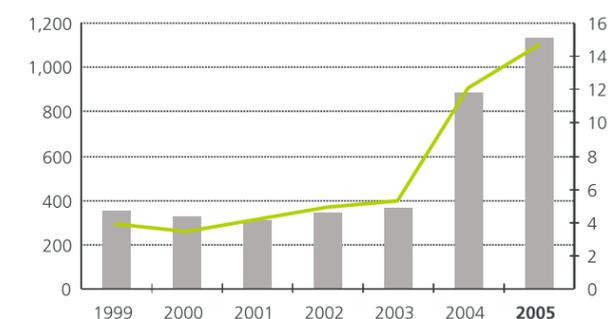
A combination of strong demand and its relative scarcity in nature has meant that the mining industry has struggled in recent years to supply the platinum market. As a consequence, platinum prices have risen to historically high levels. The pressures on primary producers of platinum – most of whom are located in South Africa – have been compounded by declining ore grades, more difficult mining conditions, rising labor costs and strong currency.

Should this situation persist, as it very likely will, there will be growing pressures amongst PGM users to substitute platinum for other metals, including palladium.

The relatively high price of platinum has led to palladium jewelry segment taking shape. Palladium, which has in the past been mostly used as an alloy in jewelry – for example, in white gold – meets all the necessary requirements, having characteristics similar to platinum. As a result, the demand for high purity palladium jewelry has quite literally exploded over the past three years, and jewelry now accounts for 15% of palladium use. At present, the use of palladium in jewelry is high only in China; however, in the future this metal may well become increasingly popular in other regions.

Palladium use in jewelry

('000 ounces, % of total use)



Source: GFMS, 2005

Review of palladium market developments in 2005

During 2005, palladium prices kept at a level close to their historic minimum. However, in the beginning of the fourth quarter the rumors of a suspension of supply from the Russian State Fund caused an upsurge in prices (the maximum was on 9 December and amounted to USD 295 per ounce). However, the average annual price for palladium on the London Platinum and Palladium Market ("LPPM") decreased by 12.7% from 2004 and was USD 201 per ounce.

Demand

The main factor negatively affecting palladium prices in 2005 was again the supply of surplus palladium stock for the market, accompanied by low demand from consumers.

The demand for primary palladium from auto catalyst producers fell by 5.5% to 3.01 million ounces. The recovery of palladium demand was somewhat halted due to the increase in the share of diesel engine production that predominantly use platinum in catalysts, leading to less consumption of palladium, due to growth of oil prices.

The demand from the electronics industry continued to grow and amounted to 970 thousand ounces (a 5.4% increase). The biggest increase in palladium demand was observed in the jewelry industry, continuing the trend which began in 2004. This was explained by the mass production of palladium jewelry in China (overall demand from the industry grew by 55.4%), just as in last year. The demand from other industries, such as the chemical industry and dentistry, remained stable.

Supply

In 2005, metal production by main producers continued to grow, however growth rates were slower than in the previous year. A more stable national currency rate which led to production cost increases and a number of accidents at leading mining companies were the cause of the actual indicators lagging behind forecasts in South Africa. Against the background of the limited supply of warehouse palladium stock to the market, its supply reduced from 7.91 million ounces in 2004 to 7.54 million ounces. At the same time, the share of scrap metal in the market increased. Due to the reduction of supply and the growth of demand in some industries, the excess surface stock of metal decreased from more than 1 million to 650 thousand ounces.

Average annual palladium price

(US dollars per ounce)

	2005	2004	2003
Palladium	201	230	200

Source: London Platinum and Palladium Market

Palladium prices on London Platinum and Palladium Market in 2005

(US dollars per ounce)



Source: London Platinum and Palladium Market

Review of platinum market developments in 2005

In 2005, the platinum market had a stable high metal price which gradually grew throughout the year. The maximum price of USD 1,012 per ounce was reached on 12 December 2005, after which the price never went below USD 950 per ounce. The average price on the LPPM grew by 6% from 2004 to USD 897 per ounce. The main reason for price growth in the fourth quarter was the speculative activities of investment funds supported by fundamental factors.

Demand

In 2005, the demand for platinum increased by 1.8% to 6.71 million ounces, due to the increased metal consumption in the automotive, electronic, petrochemical and glass industry, while demand from the jewelry industry declined.

The European automotive industry continued to be the leader in the demand growth for platinum in 2005, posting a 15.5% growth rate to 1,940 thousand ounces. Platinum consumption by the automotive industry in the US declined by 4% to 820 thousand ounces; in Japan it declined to 580 thousand ounces (a decline of 4.1%). Overall platinum demand in the automotive industry grew by 7.2% to 3.06 million ounces, mainly due to:

- increase in sales of diesel cars;
- stricter emissions standards; and
- expanded use of platinum in catalysts.

There was also a surge in consumption by the electronic industry – by 18.3% from 300 thousand to 355 thousand ounces due to a noticeable increase in the production of computer hard drives and portable electronic devices. The glass industry continued its growth which began last year, and material investments in the industry provided a basis for forecasting further increases of platinum consumption. In 2005, platinum consumption increased by 8.6% – from 290 thousand to 315 thousand ounces. The same situation occurred with the oil processing industry – plants worked at almost maximum capacity which led to the need of a mass replacement of catalysts last year.

High platinum prices led to a further 6.5% decline in demand in the jewelry industry, to 2.02 million ounces. Platinum purchases made by the Chinese jewelry industry have been decreasing for the third year in a row; in 2005 they decreased by 10% to 910 thousand ounces.

Supply

In 2005, platinum supply grew by 2% to 6.59 million ounces, which was somewhat less than forecasted due to the reduction of production rates in South Africa. In addition, platinum production in North America also decreased due to the changed ore composition. At the same time, demand grew by 1.8%, so the deficit in the metal market was not significantly reduced, and amounted to approximately 120 thousand ounces (as compared to 130 thousand ounces in 2004). It is forecasted that the market will practically be balanced by the end of next year.

Average annual platinum price

(US dollars per ounce)

	2005	2004	2003
Platinum	897	846	692

Source: London Platinum and Palladium Market

Platinum prices on London Platinum and Palladium Market in 2005

(US dollars per ounce)



Source: London Platinum and Palladium Market

Copper

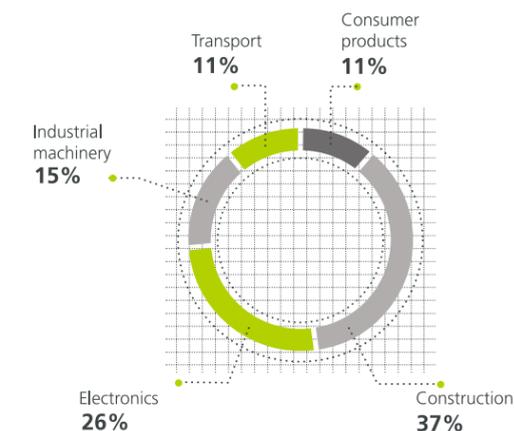
The deposit which is the basis of Norilsk Nickel's nickel and palladium production also contains copper. The extraction of copper makes Norilsk Nickel Russia's largest producer of copper and a significant player in the global market.

Copper is amongst the oldest metals used by mankind. In its pure state, it is easy to work copper, and it makes attractive ornaments. When combined with tin and zinc in bronzes and brasses, it becomes harder and can be used in the manufacturing of weapons and tools.

While copper continues to find uses as a result of its physical characteristics – for example, in water pipes, domestic fittings and coins – the growth in copper's use in more recent times has been driven by another one of its characteristics, its high electrical conductivity.

Today, the use of copper in electrical applications accounts for around three-quarters of its total use. Uses range from the production of heavy industrial cables, through regulation building wire, to the fine wires used in windings for motors and transformers.

Copper end uses



Source: Brook Hunt, 2005

Each year brings with it new electrical and electronic products, meaning that the amount of wiring required in homes and offices keeps going up. Similarly, as cars acquire ever more devices and accessories, more and more copper is needed in their wiring harnesses. Since 1990, global demand for copper has increased at almost 3.5% a year.

Concerns that miniaturization and the growing use of fiber optic cables would do serious damage to the use of copper have proven unfounded. While it is true there has been some displacement of copper demand, in making electronic goods more powerful and accessible, the net effect of these developments has generally been to increase the demand for electrical power and for power and information delivery systems.

Concerns that environmental pressures might lead to a slowing in the growth of electrical generation and use are also less of a threat to copper than they might at first appear. Copper's electrical resistance can be reduced by the use of thicker wires, so pressures for improved energy efficiency are likely to result in the use of more copper rather than less.

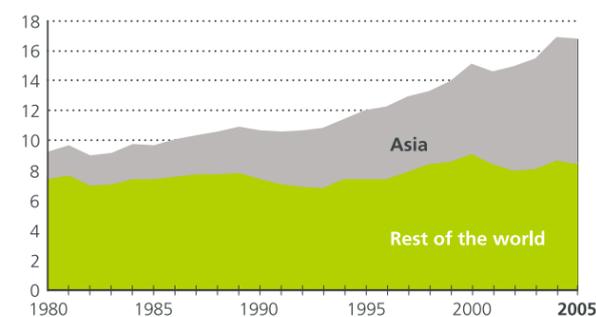
A key source of growth in copper demand in recent years – and a critical factor for future demand – is the rapid electrification of emerging economy countries. Rising incomes and growing home ownership naturally generate a strong interest in the acquisition of electrical appliances.

Indeed, in the early stages of industrialization the growth in electrical demand will typically outstrip GDP growth. There are also strong pressures in emerging markets to extend power availability into rural areas to reduce the inequalities between the town and the country and to moderate the rate of migration of country dwellers to the cities.

Given the high concentration of the world's population in Asia and the continent's growing share of global manufacturing activity, it is not perhaps surprising to find that this region's share of world copper demand has grown dramatically in recent years to the point where it now accounts for half of all copper use.

World copper consumption

(million tonnes)



Source: WBMS, 2005

Despite these developments, many parts of the emerging world continue to suffer power shortages, while in the lowest income countries (as defined by the World Bank) more than 60% of the population remains without access to electricity, suggesting that further growth potential remains.

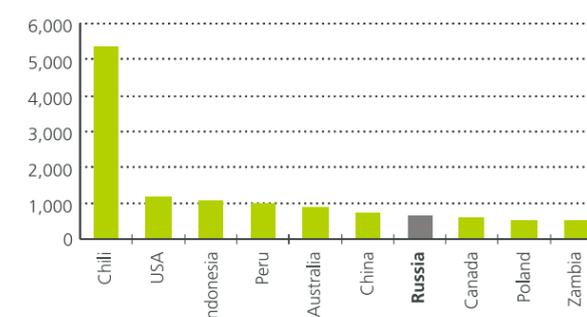
The strength of copper demand in this decade has taken the market by surprise somewhat, as a result of which prices have risen steeply. Adding to the challenges of the market, there has been a quite unusual series of production disruptions at copper mines around the world, as well as a failure of new copper smelters to get up to capacity on schedule.

Supply from new mines is coming, but this takes time. The last major price boom, in the mid 1990s, coincided with the opening up of a significant range of new opportunities, particularly in Latin America, and a number of major new mines were established.

This time around, most of the growth has to come from the expansion of existing mines and from the start-up of smaller and medium-sized mines. Large undeveloped ore deposits are known to exist, but these tend to pose significant challenges. In some cases, difficulties arise from their location in regions of high political risk or which lack suitable infrastructure, and in others because the ore is deep underground, posing major technical challenges and demanding very substantial amounts of capital to develop.

World's top 10 copper producing countries

('000 tonnes of mine production 2005)



Source: Brook Hunt, 2005

Like most metals, copper can be used many times. Currently, some 35% of the world's demand for copper is supplied from scrap. Although this shows that much of the copper supply is theoretically available from recycling, it still leaves 65% to be supplied from primary (mined) sources. Moreover, the share of metal being recycled declined in recent years, seemingly as a result of a shift in the pattern of copper uses towards those which tie up copper products for long periods, such as building wire. For a long time into the future, the majority of the world's copper needs will have to be met from mining.

Review of copper market developments in 2005

In 2005, the average annual LME price of copper increased by 28.5% compared with 2004 and amounted to USD 3,684 per tonne. The copper market's deficit shrunk to 120 thousand tonnes (0.7% of global consumption) by year end; however, the commodity exchange stock remained at a low level (3–3.5 days of global consumption). The growth of prices was driven by an increasing volume of fund investments, especially active in the second half of the year.

Demand

Global copper consumption decreased by 1.4% from 2004 and amounted to 16.4 million tonnes in 2005. Material reduction in demand in the European Union countries, USA and Japan was partially offset by the continued growth of consumption in China.

Supply

Global refined copper production increased by 3% to 16.3 million tonnes in 2005. The reduction of copper production in Chile, USA, Peru and Kazakhstan was offset by growth in Indonesia, Australia and China.

In Russia, refined copper production increased by 1.6% to 934 thousand tonnes in 2005. The growth was mainly due to an increased share of scrap metal processing. The Group's processing plants accounted for 48.3% of copper production in Russia.

The Group expects that copper demand in 2006 will depend on the growth rates of the world economy and China maintaining its active demand. Production growth will exceed consumption growth due to the launch of new facilities, which will result in an excess of supply over demand on the copper market in the second half of 2006.

Average annual copper price

(US dollars per tonne)

Year	Average annual copper price (US dollars per tonne)
2005	3,684
2004	2,868
2003	1,780

Source: London Metal Exchange

Copper prices on the London Metal Exchange in 2005

(US dollars per tonne)



Source: London Metal Exchange



... Description of key operating assets

8.2

The main divisions of the Group are:

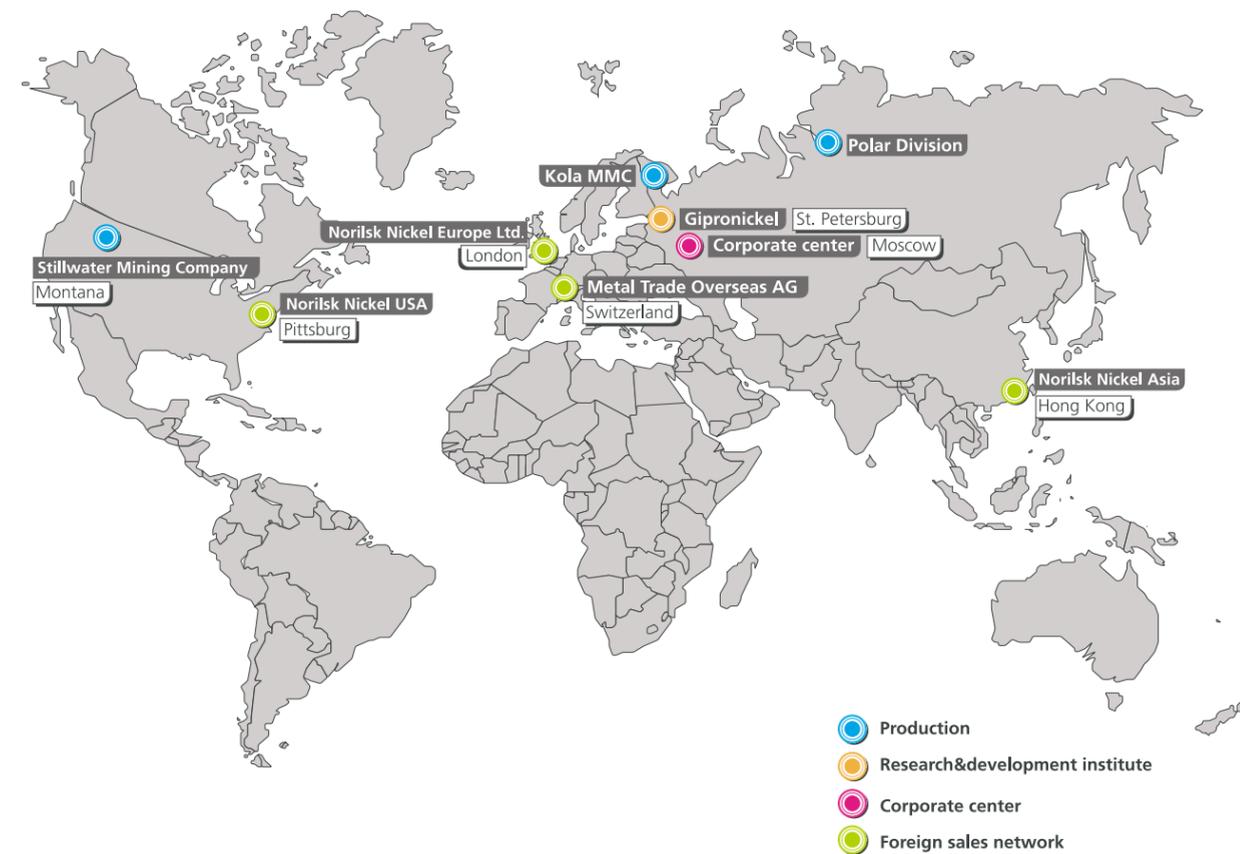
- Polar Division¹, located on the Taimyr Peninsula;
- Kola MMC¹, located on the Kola Peninsula; and
- Stillwater Mining Company, located in Montana, USA.

The Group has its headquarters in Moscow. The Group's research&development institute, Gypronickel, is located in St. Petersburg.

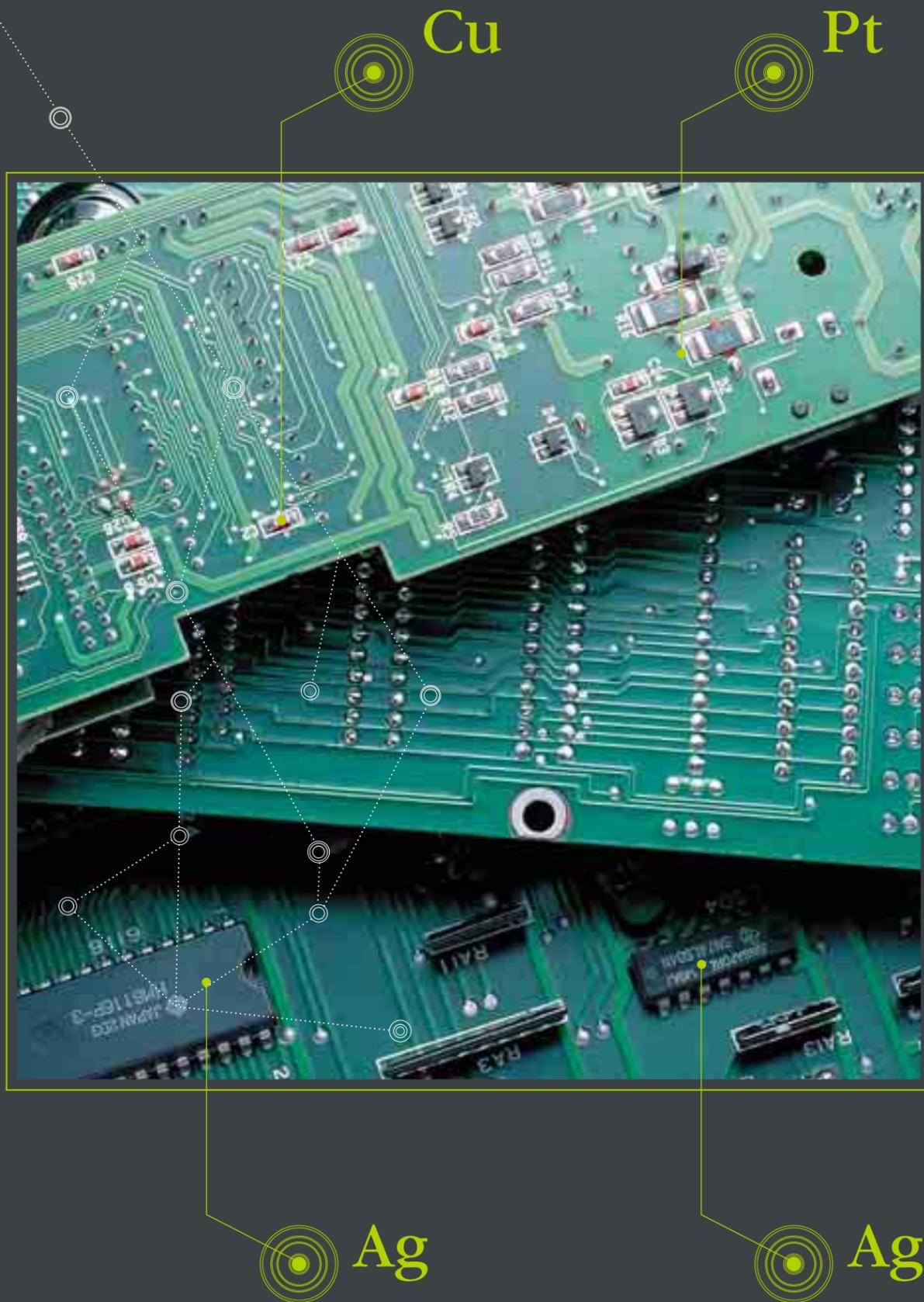
In 2005, Norilsk Nickel started the implementation of industry-based management practices. The first implementation stage has been completed, leading to the creation of industry streams and centralized professional service functions. As a result, the production entities and assets of various Norilsk Nickel divisions have been grouped into industry streams.

A more detailed description of the streams is provided in the Management Structure Reform section.

Key operating assets and organizational centers



¹ Throughout this Annual Report, we will refer to mining and processing activities on:
 – Polar Division, also known as "Taimyr Peninsula"; and
 – Kola MMC as "Kola Peninsula".



•• Management structure reform

8.3

Before the start of the reforms the Group operated as a unified multi-industry organization with diverse assets and divisions. The diversity of operations and assets predetermined the complexity of the management system. The management system used before 2005 fully achieved its tasks, having ensured stability and profitability of operations and preservation of the personnel, management, resource and production potential.

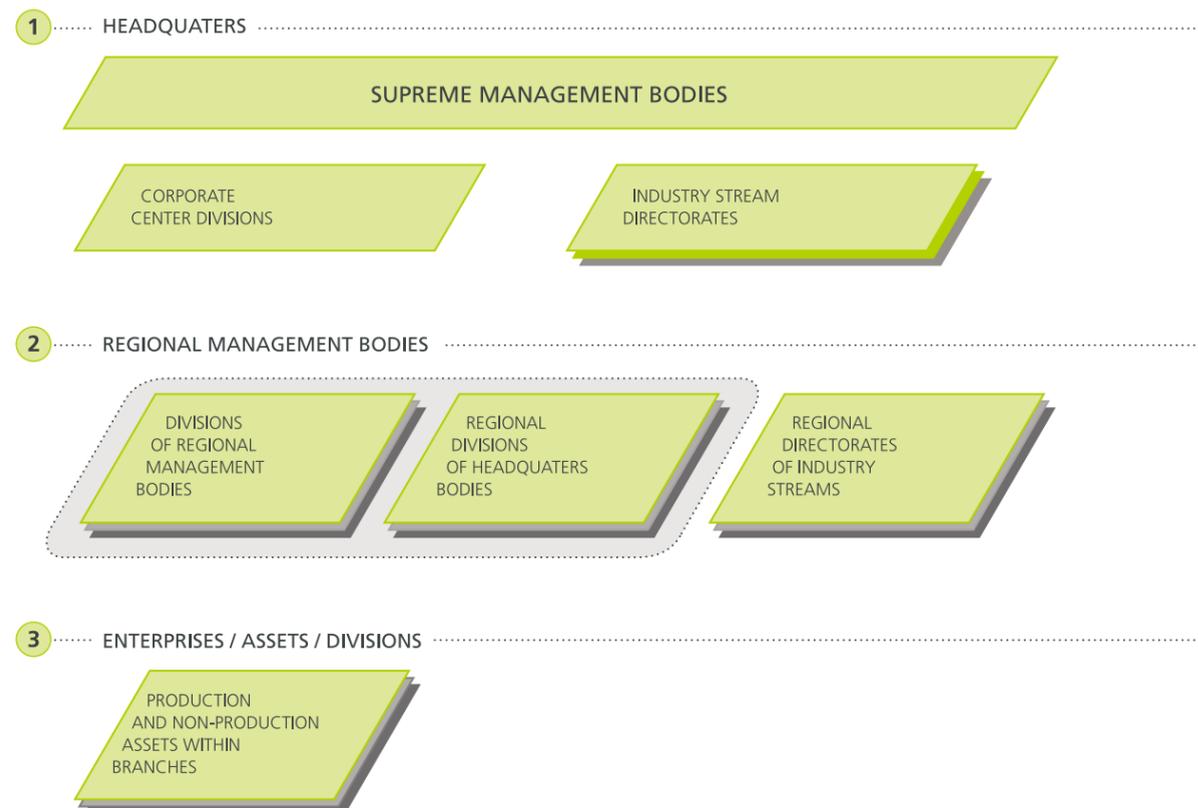
Embarking on the reform, the Group's management pursued the following objectives:

- increase the effectiveness of the Group, and as a result, achieve shareholder value growth and improve the Group's image in the international markets;
- establish the Group's management structure appropriate for the multi-industry geographically distributed organization;
- optimize the management structures on the basis of industry-based segregation of the areas of responsibility, achieve the transparency and economic reasonableness of the management structures;
- delegate responsibility to the regions, assign respective authorities to the managers of industry streams and division managers in the regions;
- reduce management staff and non-productive costs.

The reform is expected to be performed in three stages. The first stage was completed in 2005 which resulted in structural re-grouping of the Group's entities. Industry streams and professional service functions have been formed operating within a single legal entity. The new industry structure includes:

- mining and metallurgical stream, bringing together the core production assets. Includes entities and divisions involved in mining and enrichment, as well as metallurgical plants;
- transport and logistics stream, bringing together entities and divisions involved in freight and passenger transportation. Includes river and seaports, river and sea transport, air and road transport companies, cargo terminals;
- energy stream, bringing together two production areas – power and heat generation, transmission and distribution; and natural gas production, treatment and transportation;
- geology stream, comprising assets and divisions involved in prospecting and exploration for new deposits and additional exploration of deposits already being mined;
- sales stream, involved in attracting and serving customers;
- procurement stream – purchasing, transportation, storage and distribution of inventories, equipment, spare parts, tooling and instrumentation used in the operations of other industry streams;
- support stream – a group of support and non-core enterprises. Includes design, telecommunications, medical and other assets;
- maintenance stream – divisions and entities ensuring trouble-free operation of process equipment and engineering infrastructure;
- construction stream – divisions and entities involved in capital construction, including special construction (mines) and civil engineering;
- security stream – divisions ensuring security of the Group's facilities.

Transitional structure



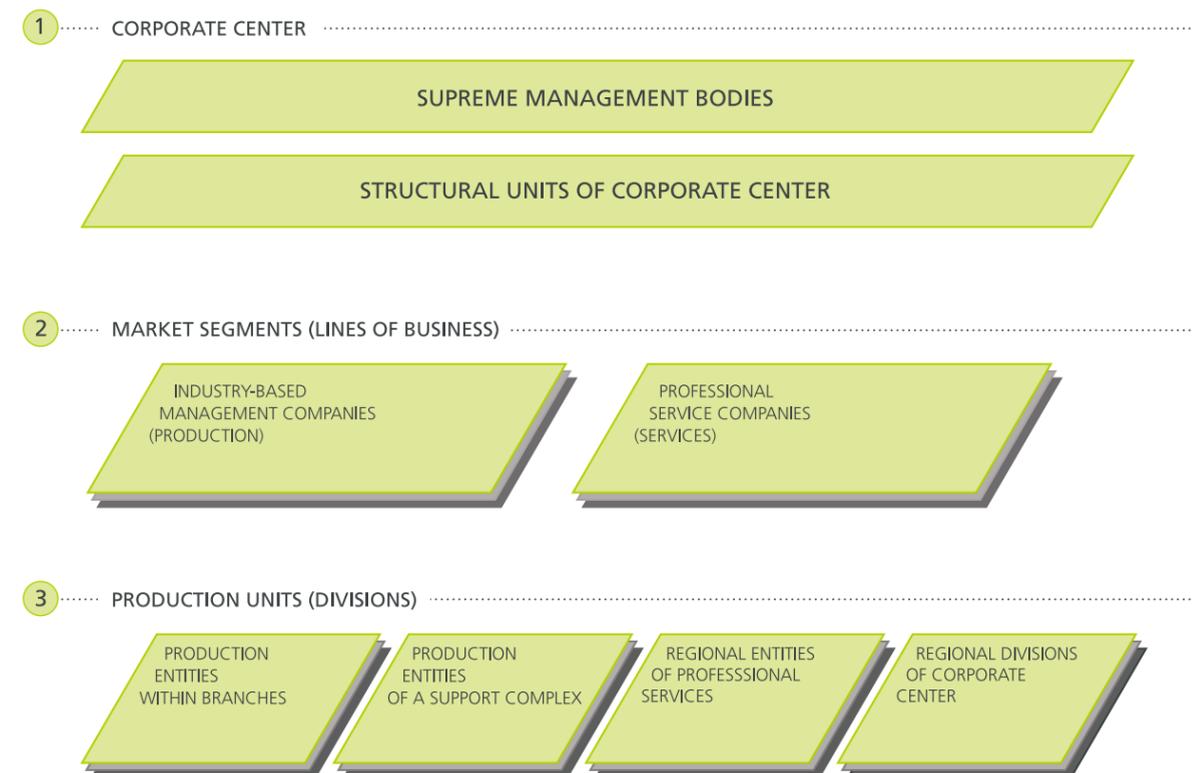
By having addressed the tasks of the first stage, the Group streamlined the asset structure and redistributed the authorities and responsibility in accordance with the specific performance results. Moreover, the Group has completed the formation of the Corporate Center for MMC Norilsk Nickel, which is responsible for the development and control over the operation of the Group's industry streams.

Thus, the first results of the reform demonstrated that the transition to the industry-based management significantly reduces the burden on senior management and the Corporate Center in terms of the need to address day-to-day tasks. This enabled senior management and the Corporate Center to focus more on the global, strategic and long-term tasks.

Since 2006, the Group starts the second stage of the management system reform. On the basis of the directorates created at the previous stage – industry stream prototypes – industry branches will be created having significant authorities as independent business entities. The Corporate center will be in charge of management and control of the branches, doing this through the new system of industry performance indicators and inter-industry balancing system based on the corporate inter-industry balance sheet.

At the third stage of the reform (2007–2010) the industry streams will receive maximum mid-term planning and operating independence with the full operating cycle and responsibility for the economic and production performance. As full-fledged management structures are formed, new independent legal entities will be created on the basis of the property of the streams, which will effect the unbundling of the business.

Target structure



The reform will result in enhanced management efficiency due to the use of the experience accumulated by unit managers, possibility to evaluate and decide on the best options of capital investment in diverse assets evaluated along a unified system of Key Performance Indicators (KPIs).

Ni

IR



Se

Rh

••• Mineral resources and ore reserves

8.4

The data on mineral resources and ore reserves as at 31 December 2004 is based on the results of the independent audit performed by Micon International Company Limited. The audit was conducted in accordance with the principles of the Joint Ore Reserves Committee ("JORC") Code of the Australasian Institute of Mining and Metallurgy.

In addition to the audit of the base metal mineral resources and ore reserves of the Talnakh ore field (Taimyr Peninsula) and the Zhdanovsky deposit (Kola Peninsula), in 2005, an audit of the base metal mineral resources and ore reserves of the Norilsk-1 deposit (Taimyr Peninsula) and the platinum group metals ("PGM") of the Talnakh ore field and Norilsk-1 deposit was completed. The inclusion of PGM in the audit became possible due to the changes in Russian legislation. Data on PGM mineral resources and ore reserves include information on the resources and reserves of platinum, palladium, rhodium, ruthenium, osmium and iridium.

Information on the PGM grade of the deposits mined by the Group was disclosed for the first time in the history of the Group in February 2006. The Group worked long and hard to make the publication of the information on PGM resources and reserves possible. This is an important stage in the activities of MMC Norilsk Nickel aimed at ensuring the transparency expected by investors, customers and the general mining and metallurgical community, which will help to assess the competitive position and the longevity of the Group's mineral resource base more objectively.

Proved and probable ore reserves in the Taimyr Peninsula and the Kola Peninsula deposits contain 6 million tonnes of nickel and 9 million tonnes of copper.

Measured and indicated mineral resources in the Taimyr Peninsula and the Kola Peninsula deposits contain additionally 8 million tonnes of nickel and 16 million tonnes of copper.

Proved and probable ore reserves in the Taimyr Peninsula deposits contain 62 million ounces of palladium and 16 million ounces of platinum. The aggregate platinum and palladium grade of the Taimyr deposits developed by the underground method varies from 5.5 gram per tonne (g/t) to 11.1 g/t.

Measured and indicated mineral resources in the Taimyr Peninsula deposits contain additionally 141 million ounces of palladium and 40 million ounces of platinum.

During their audit, Micon International Company Limited examined all the aspects of mineral resource measurement for these deposits. The review involved all the geologic research and ore geology activities, including the methods used to collect geologic information and determine mineral resources and reserves through drilling and sampling, and to estimate and classify the resources and reserves. Meetings were held with persons responsible for each mine and for each unit relating to the issue reviewed. Operating mines were inspected as well as auxiliary geological facilities and analytical laboratories. Micon examined:

- the drilling techniques used and the related equipment;
- the core sample logs and methods of sample collection;
- samples chemical analysis methods;
- the quality of the control methods used to check the integrity of the drill holes; and
- the sampling database.

Micon performed a detailed examination of the reserve valuation protocols and methods of metal content and volume estimation, and checked some of those estimates. No material deviations between the results obtained by Micon and the results and the accounting data of MMC Norilsk Nickel were identified.

Micon International Company Limited also conducted an audit of deposits, the results of which were published in 2004 and 2005.

**Mineral resources and ore reserves of the Talnakh ore field,
Norilsk-1 and Zhdanovsky deposits as of 31 December 2004⁽¹⁾**

Region/Category Deposit Mine	Ore type	Ore Volume ⁽²⁾ (‘000 t)	Metal Content ⁽²⁾					
			Ni (%)	Cu (%)	Pd (g/t)	Pt (g/t)	Au (g/t)	6 PGM ⁽³⁾ (g/t)
Taimyr Peninsula								
Proved and probable ore reserves ⁽⁴⁾								
Talnakh ore field								
Oktyabrsky	Rich	41,091	2.54	5.10	8.54	1.91	0.43	10.68
	Cuprous	56,489	1.07	4.83	9.30	2.25	0.71	11.73
	Total	97,580	1.69	4.94	8.98	2.11	0.59	11.29
Taimyrsky	Rich	79,690	2.47	2.74	4.57	0.90	0.13	5.90
	Cuprous	396	0.62	1.69	3.89	1.06	0.30	5.36
	Total	80,086	2.46	2.74	4.56	0.90	0.13	5.89
Komsomolsky	Rich	2,000	3.11	2.88	7.26	1.39	0.18	9.37
	Cuprous	20,619	0.61	2.08	6.75	1.98	0.47	9.09
	Total	22,619	0.83	2.15	6.80	1.93	0.45	9.12
Mayak	Disseminated	407	0.73	1.45	3.31	1.25	0.33	4.80
Skalistsy	Rich	37,570	3.03	2.72	5.52	1.07	0.14	7.28
Subtotal	Rich	160,351	2.63	3.34	5.84	1.20	0.21	7.48
Subtotal	Cuprous	77,504	0.95	4.08	8.60	2.17	0.64	11.00
Subtotal	Disseminated	407	0.73	1.45	3.31	1.25	0.33	4.80
Total – combined ore types		238,262	2.08	3.58	6.74	1.52	0.35	8.63
Norilsk-1 deposit								
Medvezhy Ruchey	Disseminated	17,330	0.32	0.43	4.38	1.80	0.19	6.44
Zapolyarny	Disseminated	62,753	0.30	0.43	4.04	1.66	0.18	6.00
Total – combined ore types		80,083	0.31	0.43	4.11	1.69	0.18	6.08
Total proved and probable ore reserves⁽⁴⁾		318,345	1.63	2.79	6.08	1.56	0.31	7.98
Measured and indicated mineral resources								
	Rich	21,391	4.22	6.00	13.52	2.72	0.49	16.65
	Cuprous	314	0.35	3.09	3.58	1.57	0.00	5.71
	Disseminated	1,397,087	0.52	1.03	2.93	0.85	0.19	3.96
Total measured and indicated mineral resources		1,418,792	0.57	1.11	3.07	0.88	0.19	4.13
Kola Peninsula								
Zhdanovskoye deposit ⁽⁵⁾								
Total proved and probable ore reserves⁽⁴⁾		160,337	0.67	0.31	-	-	-	1,068

Metal Volume ⁽²⁾					
Ni (‘000 t)	Cu (‘000 t)	Pd (‘000 oz)	Pt (‘000 oz)	Au (‘000 oz)	6 PGM ⁽³⁾ (‘000 oz)
1,045	2,094	11,283	2,524	563	14,111
605	2,727	16,898	4,092	1,287	21,307
1,650	4,821	28,181	6,616	1,850	35,418
1,972	2,185	11,703	2,299	322	15,101
2	7	50	13	4	68
1,974	2,192	11,753	2,312	326	15,169
62	58	467	90	12	605
126	429	4,476	1,311	313	6,026
188	487	4,943	1,401	325	6,631
3	6	43	16	4	61
1,137	1,023	6,673	1,288	172	8,808
4,216	5,360	30,126	6,201	1,069	38,625
733	3,163	21,424	5,416	1,604	27,401
3	6	43	16	4	61
4,952	8,529	51,593	11,633	2,677	66,087
56	75	2,439	1,001	105	3,579
191	269	8,151	3,359	362	12,125
247	344	10,590	4,360	467	15,704
5,199	8,873	62,183	15,993	3,144	81,791
903	1,282	9,302	1,874	389	11,467
1	10	36	16	7	58
7,235	14,458	131,460	38,302	8,515	177,713
8,139	15,750	140,798	40,192	8,911	189,238
494	-	-	-	-	-

Notes:

(1) Only the Talnakh ore field and Norilsk-1 deposit in the Taimyr Peninsula and the Zhdanovskoye deposit in the Kola Peninsula were classified according to the Australasian Code for Reporting of Mineral Resources and Ore Reserves ("JORC Code") developed by the Australasian Joint Ore Reserves Committee ("JORC") formed by the Australian Mining Industry Council, The Australasian Institute of Mining and Metallurgy, and The Australian Institute of Geoscientists. The classification of the reserves in accordance with JORC principles has been prepared by Stanley C Bartlett, PGeo, Managing Director of Micon International Co Limited.

Ore reserves classifications are based on data in the current mining plan for 2–3 years and the main mining concept up until the end of the mine's life, which is determined on the basis of the volume of economically mineable ore reserves classified as A, B and C1 under Russian classification at the end of the calendar year. The audit did not include the mineral resources and ore reserves of the Zapolyarnoye, Semiletka and Kaula-Kotselvaara deposits in the Kola Peninsula. The audit did not include PGM reserves of the Zhdanovsky deposit in the Kola Peninsula.

(2) Totals may differ from the sum of the components due to rounding. Certain values may in some instances vary insignificantly from the values published before.

(3) 6 PGM include platinum, palladium, rhodium, ruthenium, osmium and iridium. Palladium and platinum have been separately disclosed but are still included in the 6 PGM total.

(4) Proved and probable ore reserves are not included in mineral resources.

(5) Include ore reserves and mineral resources of the Severny-Glubokiy underground mine and Tsentralny open-pit mine.

Resource and reserve definitions in accordance with the JORC Code

To interpret the classification of the mineral resource and ore reserve classification meaningfully, it is a prerequisite that the following mineral resources and ore reserves definitions are fully understood:

- A **"Mineral Resource"** is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form and quantity that there are reasonable prospects for its eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided, in order of increasing geological confidence into Inferred, Indicated and Measured categories.
- An **"Inferred Mineral Resource"** is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a **low level of confidence**. It is inferred from geological evidence and has an assumed, but not verified, geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and reliability.
- An **"Indicated Mineral Resource"** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **reasonable level of confidence**. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
- A **"Measured Mineral Resource"** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **high level of confidence**. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.
- An **"Ore Reserve"** is the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are subdivided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

- A **"Probable Ore Reserve"** is the **economically mineable part of an Indicated**, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. **These assessments demonstrate at the time of reporting that extraction could reasonably be justified.**
- A **"Proved Ore Reserve"** is the **economically mineable part of a Measured Mineral Resource**. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. **These assessments demonstrate at the time of reporting that extraction could reasonably be justified.**

Mineral resources and ore reserves of Stillwater Mining Company

Mineral resources and ore reserves of Stillwater Mining Company are disclosed as at 31 December 2005 in accordance with Industry Guide No.7 approved by the Securities and Exchange Commission (SEC).

Mineral resources and ore reserves of Stillwater Mining Company are located in the J-M Reef deposit in the Beartooth Mountain Range in the center and the south of Montana.

As at 31 December 2005, proved and probable reserves of Stillwater Mining Company amounted to approximately 42 million tonnes with a metal grade of 0.57 ounces per tonne. Palladium and platinum reserves amounted to 24.1 million ounces, with the ratio of palladium to platinum of 3.5:1.

Mineral resources and ore reserves of the J-M Reef deposit as of 31 December 2005

('000 tonnes, '000 ounces or as noted)

	Volume ('000 tonnes)	Average grade (oz /tonne)	Quantity ('000 ounces)
Stillwater mine			
Proved reserves	2,458	0.68	1,664
Probable reserves	15,638	0.63	9,812
Total proved and probable reserves	18,096	0.63	11,476
East Boulder mine			
Proved reserves	1,665	0.47	788
Probable reserves	22,190	0.53	11,818
Total proved and probable reserves	23,855	0.53	12,606
Total reserves of Stillwater Mining Company			
Proved reserves	4,123	0.59	2,452
Probable reserves	37,828	0.57	21,630
Total proved and probable reserves	41,951	0.57	24,082

Definitions of mineral resources and ore reserves in accordance with Industry Guide No. 7 approved by the Securities and Exchange Commission (SEC)

- **"Reserves"** are defined as that part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.
- **"Proven reserves"** are defined as reserves for which
 - (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, grade and/or quality are computed from the results of detailed sampling; and
 - (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.
- **"Probable reserves"** are defined as reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

More detailed information on mineral resources and ore reserves of Stillwater Mining Company is disclosed in the 2005 Annual Report of Stillwater Mining Company.

Ni Co



Ni

Cu

Review of operating performance

8.5

Mining and metallurgical stream

The mining and metallurgical stream includes mining assets, enrichment capacities and metallurgical plants of the Taimyr Peninsula and Kola Peninsula. The Group's mining and metallurgical capacities in the USA are comprised of the assets of Stillwater Mining Company.

Mining assets of the Group

Deposit and mine	Type of mine	Types of ore extracted ⁽¹⁾
Taimyr Peninsula		
Oktyabrsky deposit Oktyabrsky mine Taimyrsky mine	Underground Underground	Nickel and copper sulfides Rich, cuprous and disseminated Rich
Talnakh deposit Talnakh Mining Department Komsomolsky mine ⁽²⁾ Mayak mine Skalistsy mine	Underground Underground Underground	Nickel and copper sulfides Cuprous and disseminated Disseminated Rich
Norilsk-1 deposit Medvezhy Ruchey mine Zapolyarny mine	Open pit Underground	Nickel and copper sulfides Disseminated Disseminated
Kola Peninsula		
Zhdanovskoe deposit Tsentralny mine Severny Gluboky mine ⁽³⁾	Open pit Underground	Nickel and copper sulfides Disseminated Disseminated
Zapolyarnoe deposit Severny mine	Underground	Nickel and copper sulfides Disseminated
Kotselvaara and Semiletka deposits Kaula-Kotselvaara mine	Underground	Nickel and copper sulfides Disseminated
Stillwater Mining Company (USA)		
J-M Reef deposit Stillwater mine East Boulder mine	Underground Underground	Platinum group metals sulfide Platinum group metals sulfide

Notes:

(1) Rich ores have a higher content of base and precious metals. Cuprous ores have a higher copper to nickel ratio. Disseminated ores have a lower content of all metals.

(2) Komsomolsky mine mines the Talnakh deposit and the western portion of Oktyabrsky deposit.

(3) During 2005, Severny-Gluboky mine was merged with Severny mine.

Taimyr Peninsula

The Taimyr Peninsula incorporates seven mines producing copper-nickel sulfide ores from the Oktyabrsky, Talnakh and Norilsk-1 deposits. Various grades of ore contain nickel, copper, cobalt, platinum, palladium, gold and other valuable constituents.

Enrichment assets include the Talhakh and Norilsk Enrichment Plants. The Talnakh Enrichment Plant processes rich ores from the Talnakh and Oktyabrsky deposits to produce nickel, copper and pyrrhotite concentrates. The Norilsk Enrichment Plant processes the entire volume of disseminated ores and cuprous ores from the Oktyabrsky and Talnakh deposits and stored pyrrhotite concentrate to produce nickel and copper concentrates.

The metallurgical capacities of the Taimyr Peninsula include the Nadezhda Metallurgical Plant, the Nickel and the Copper Plants.

The Nadezhda Metallurgical Plant processes all the nickel and pyrrhotite concentrates produced by the Talnakh Enrichment Plant, some of the nickel concentrates from the Norilsk Enrichment Plant (about 15%) and all the copper concen-

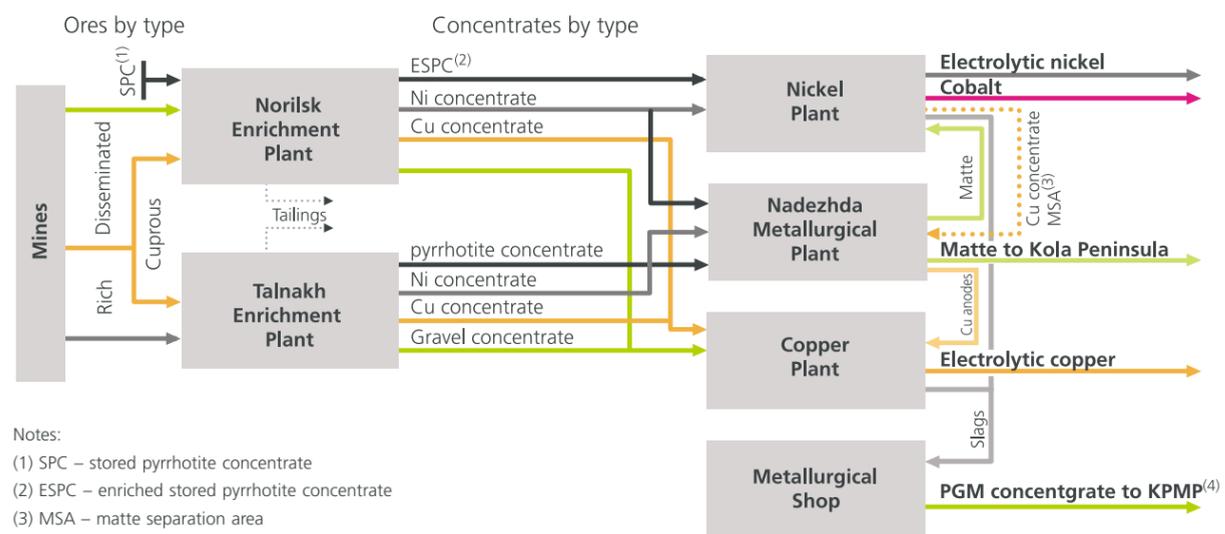
trate from the matte separation area of the Nickel Plant roasting shop to produce high-grade matte, copper anodes and elemental sulfur.

The Nickel Plant processes the majority of the nickel concentrate generated by the Norilsk Enrichment Plant (about 85%), all enriched stored pyrrhotite concentrate and some high-grade matte from the Nadezhda Metallurgical Plant to produce nickel cathodes and cobalt.

The Copper Plant processes copper concentrates produced by the Talnakh Enrichment and Norilsk Plants and copper anodes from the Nadezhda Metallurgical Plant to produce copper cathodes, elemental sulfur and sulfuric acid. The Metallurgical shop, which is a division of the Copper Plant, recycles slag from the copper and nickel electrolysis shops and slags from copper production in the Kola Peninsula to produce precious metal concentrates, metallic silver, selenium and tellurium.

The Group has outsourced the refining of the precious metals concentrates from the Taimyr Peninsula to an independent precious metals refinery – Krasnoyarsk Precious Metals Plant under a toll refining agreement.

Technical map of production at Taimyr Peninsula



- Notes:
 (1) SPC – stored pyrrhotite concentrate
 (2) ESPC – enriched stored pyrrhotite concentrate
 (3) MSA – matte separation area
 (4) KPMP – Krasnoyarsk Precious Metals Plant

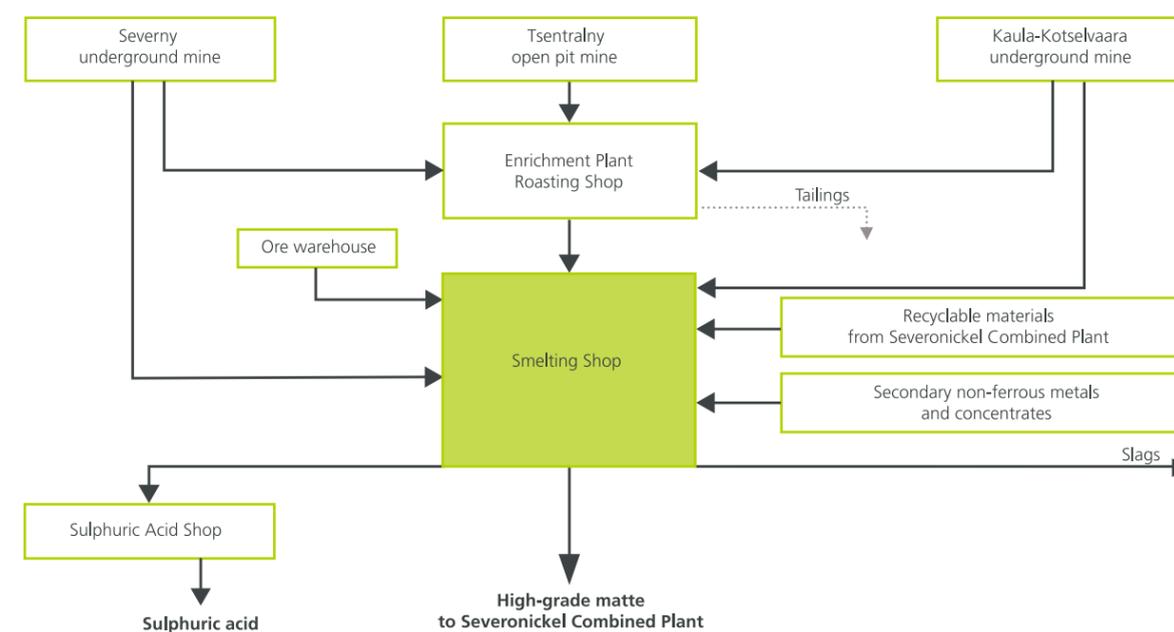
Kola Peninsula

The Group mines the Zhdanovskoe, Zapolyarnoe, Kotselvaara and Semiletka deposits in the Kola Peninsula, where it operates four mines extracting disseminated sulfide ores containing nickel, copper and sundry by-products.

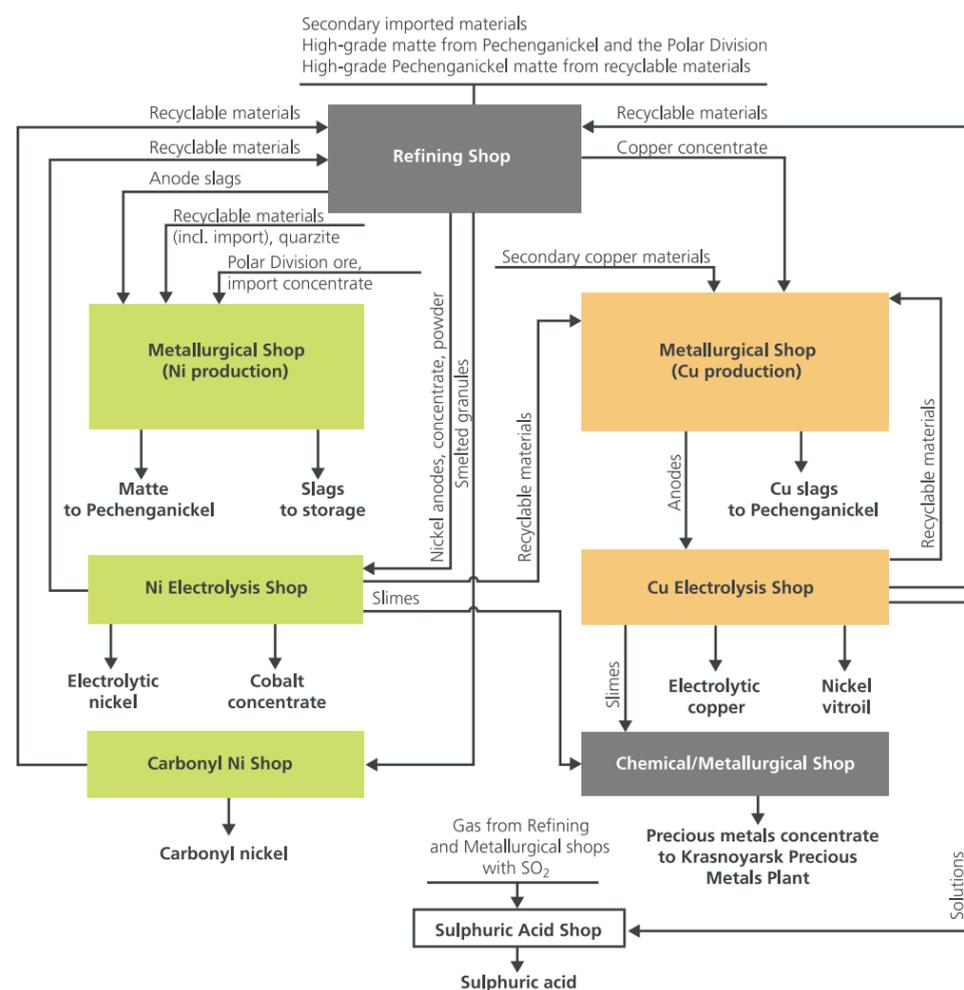
Disseminated ores produced by the Kola mines are processed by the Pechenganickel Enrichment Plant to produce collective copper and nickel concentrates. In 2004, the roasting shop was made part of the Enrichment Plant. The Enrichment Plant produces pellets and briquettes, which are then processed in the smelting shop to produce high-grade matte for further processing at Severonickel. Severonickel processes high-grade mattes received from the Taimyr Peninsula and Pechenganickel. Its key products include nickel and copper cathodes, carbonyl nickel, cobalt concentrate, precious metals concentrates and sulfuric acid.

The Group has outsourced the refining of the precious metal concentrates from the Kola Peninsula under toll refining agreements to an independent precious metals refinery (Krasnoyarsk Precious Metals Plant).

Technical map of production at Kola Peninsula: Pechenganickel Combined Plant



Technical map of production at Kola Peninsula: Severonickel Combined Plant



Stillwater Mining Company

Stillwater Mining Company, a majority-owned Group subsidiary, mines the J-M Reef deposit located in Montana, USA. Its two mines, Stillwater Mine and East Boulder Mine, produce sulfide ores mainly containing palladium and platinum.

Stillwater operates two enrichment plants located next to the two mines.

Stillwater processes concentrate produced by the enrichment plants at its smelter in Columbus, Montana. Granulate matte with a 2% PGM content is delivered for further processing to Stillwater's refinery located near the smelter where the PGM content is upgraded to 55%-60%.

Stillwater has outsourced the precious metal refining of the PGM filter cake produced by Stillwater to independent precious metal refineries in New Jersey and California, USA.

Transport and logistics stream

The Taimyr Peninsula is completely isolated from mainland Russia's road and railroad networks. As a result, all goods are shipped to and from the Peninsula by sea, river or air.

The Taimyr Peninsula ships refined nickel and copper to end users and high-grade matte to the Kola Peninsula using the North Sea Route via the Group-owned Dudinka Port located 80 km from Norilsk on the Yenisei River. The Taimyr Peninsula also uses the North Sea Route to receive raw materials and other supplies from Murmansk Commercial Sea Port and Arkhangelsk Commercial Sea Port and during the summer months by the Yenisei River. The North Sea Route is open for navigation throughout the year, except for a short period from late spring to early summer when the ice melts and water levels rise, which does not affect the continuity of metal supply to the market. The Murmansk Sea Shipping Company provides shipping services on the North Sea Route.

In 2002, Norilsk Nickel signed a 10-year agreement with the Russian Ministry of Transport under which the Government guarantees open shipping lanes via the North Sea Route.

As of 2005, the Group owned 43.9% of the Yenisei River Shipping Company and 53.1% of the Arkhangelsk Commercial Sea Port.

Metals produced in the Kola Peninsula are exported by sea via Murmansk Commercial Sea Port and the St. Petersburg Port and delivered by railway to the domestic market.

Energy stream

Until the 4th quarter of 2005, most of the power supplied to the Taimyr Peninsula (60% of electricity and 100% of heat) was produced by Norilskenergo, a division of MMC Norilsk Nickel, which operated three thermal/power plants. The other 40% of electricity power was supplied by OJSC Taimyrenero, an entity wholly-owned by RAO Unified Energy Systems (RAO UES).

In line with the Group's strategy to create an independent power supply system for its operations in the Taimyr Peninsula, since the 4th quarter of 2005 all power and heat supplied to the Taimyr Peninsula has been generated by OJSC Norilsk Taimyr Energy Company ("NTEC") incorporated by MMC Norilsk Nickel (51% ownership) jointly with RAO UES of Russia (49% ownership). NTEC will operate all power assets owned by Norilskenergo, a division of MMC Norilsk Nickel and OJSC Taimyrenero, for 10 years under a lease arrangement.

The Taimyr Peninsula receives gas to support its operations from OJSC Norilskgasprom and OJSC Taimyrgas, subsidiaries of the Group, which develop the Pelyatka gas condensate deposit. The construction of start-up capacities at the Pelyatka deposit is now complete, with 14 wells already drilled and another 2 expected to be drilled in 2006.

In 2005, the Kola Peninsula received power from OJSC Kolenergo, a subsidiary of RAO UES. Starting from 1 October 2005, OJSC Kolenergo was restructured through the spin-off of a number of companies specializing in the following areas:

- power and heat generation (OJSC Kola Generation Company, OJSC Murmansk Heating and Power Plant, OJSC Apatitskaya Heating and Power Plant);
- power transmission (OJSC Kola Transmission System); and
- sales (OJSC Kola Power Sales Company).

The Group's share in each of these companies is proportionate to its share in OJSC Kolenergo – 24.87%, of which:

- MMC Norilsk Nickel – 14.85%;
- Kola MMC – 10.02%.

Since 1 January 2006, Kola Peninsula has been receiving power from OJSC Kola Power Sales Company.

After the completion of formation of OJSC TGK-1, the Group will stop being the blocking shareholder of the generating company and will not be able to affect its decisions as before. Therefore, further holding of shares in Kolenergo and spun-off companies stopped being practical in terms of securing energy supplies to the Group.

On 25 November 2005, an agreement was reached and respective agreement was signed with Fortum Power and Heat Oy for the sale of shares in OJSC Kolenergo and companies spun off from it and owned by the Group.

Geology stream

The Group conducts geological exploration in the Taimyr and Kola Peninsulas and in the Krasnoyarsk and Tambov regions with the goal of developing and enhancing its own mineral resource base. The Group has 12 licenses for geological and geodesic exploration of subsurface resources in these regions.

In January 2006, the Group signed an agreement with Rio Tinto to establish a joint venture ("JV") to explore and prospect for base metals in South Eastern Siberia and in the Far East districts. Under this agreement, the Group will own 51% of shares in the JV, while Rio Tinto will hold the other 49%.

The joint venture will enable the two leading mining companies to cooperate in determining the resource potential of Siberia and the Far East and exploration and development. This cooperation is aimed at:

- development of a viable economic model of cooperation allowing to conduct geological and geodesic exploration of new mineral resources in Russia;
- evaluation of economic perspectives of newly discovered and known deposits which have a potential for exploration and significant capital investments;
- development of best practices and application of up-to-date scientific achievements to ensure profitable exploration, identification, evaluation and development of mineral deposits by using the respective technical, financial, and entrepreneurial skills of MMC Norilsk Nickel and Rio Tinto.

Within the framework of the JV, it is also planned to share expertise, as well as risks and costs associated with the development of natural sites of international significance. The Group's experience in exploration of Russian natural deposits will be supplemented by contemporary technical equipment of Rio Tinto and its experience as a participant in the development of large reserves. The JV will allow to reduce the time of exploration and preparation of the deposit to the development phase, as well as to use the best international practice in production. In addition, the JV will also impact extraction and production by strengthening the economic well-being of the respective Russian regions.

April 2006 was marked with another step made by the two companies towards closer cooperation – the creation of a Joint Venture LLC RioNor Exploration which is engaged in exploration and project development. RioNor Exploration is a limited liability company registered in Russia. Its headquarters is located in Moscow. The main task of LLC RioNor Exploration is identification and study of attractive deposits with a view to further create local operating companies engaged in exploration and production organization.

Sales stream

In the export market the Group sells base and precious metals through its regional distribution subsidiaries:

- Norilsk Nickel Europe in Europe;
- Metal Trade Overseas in Europe;
- Norilsk Nickel USA in the US; and
- Norilsk Nickel Asia in Asia.

On 31 December 2004, the Group stopped sales of cobalt through the joint venture Norgem (joint venture of MMC Norilsk Nickel and Sogem) and since 2005 has been selling cobalt products on its own.

RAO Norilsk Nickel has a quota (expiring in 2008) for the export of palladium. MMC Norilsk Nickel has a quota for the export of platinum, expiring at the end of 2006. In the domestic market, gold, silver and platinum group metals are sold by the Group's sales and marketing division located in the headquarters in Moscow.

Procurement stream

During 2005, Norilsk Nickel's procurement function catered to the resource requirements of nine entities within the Group. In addition, it supplied the Taimyr Autonomous District and enterprises of the Krasnoyarsk Region with petroleum products.

No production downtime occurred in the reporting year due to the procurement function. Savings amounted to approximately USD 21 million.

A large part of purchases was based on open tenders. A total of 174 tenders were held. In many cases, goods were supplied by manufacturers (a total of about USD 459.6 million, representing over 50% of all purchases in 2005).

In the reporting year, the Group pursued a number of initiatives to improve the efficiency of the following procurement functions:

- warehousing;
- workplace catering;
- supplying petroleum products to the Group's entities;
- scrap metal processing.

Support stream

The distanced position of the Norilsk industrial district and the absence of operational production capacities supporting the activities of the Group's mining stream, including for the purpose of regular repairs, precondition the existence of special-purpose production assets in the near distance from the Group's core businesses. These assets include:

- entities engaged in production of products for current and capital repairs of the fixed assets on the Taimyr Peninsula (mechanical plant, Stroykomplekt plant, TISMA plant);
- research and development, as well as design and surveying companies (mining research and development center, Norilskproject institute, JSC Gypronickel institute, design and research center);
- telecommunications company (LLC Norilsktelecom);
- non-profile service companies (the Taimyr Peninsula printing works, LLC Torginvest, resort centers Valek and Yenisei, TPO Cultural Facilities of the Taimyr Peninsula, LLC Kolabyt); and
- RAMAT-AVIV medical center (Nor-Med LTD, Israel).

As part of the ongoing reforms of the Group's management structure in 2005 the Group started to reorganize manufacturing enterprises, research and development and design and surveying entities into subsidiaries.

Maintenance stream

In 2005, maintenance stream within the Taimyr Peninsula consisted of three manufacturing entities: PO Norilskremont, Norilskshakhtservis Trust and MPO Norilskavtomatika. Maintenance stream of Kola MMC comprised of the following units: repairs shop, technical maintenance section and 2 technical and repairs shops. The units of the maintenance stream perform all types of work connected with repairs of the Group's fixed production assets.

In the course of management structure reforms in 2006 it is planned to:

- transfer all employees engaged in maintenance from production units into maintenance stream;
- establish a maintenance directorate for comprehensive management of maintenance activities;
- establish a special-purpose subsidiary engaged in maintenance on the basis of the maintenance directorate.

Construction stream

The Group's construction stream in the reporting year included two divisions of the Taimyr Peninsula – Construction department and Norilskshakhtstroy Trust on the basis of which in 2005 the Group created the construction directorate of the Taimyr Peninsula and two divisions of Kola MMC – OJSC Pechenegastroy and repairs shop.

Construction stream entities of the Group are engaged in capital construction, reconstruction, technical re-equipment, and capital repairs of production and mining facilities.

In the reporting year, the Group completed the reconstruction of the second flash smelter line at Nadezhda Metallurgical Plant and undertook environmental initiatives at the Copper Plant. In the first quarter of 2006, the Group completed the construction of vertical shaft No.7 of the Taimyrskiy mine, which is the deepest in Eurasia.

Within the framework of the management structure reforms in 2006 on the basis of the Construction Department, Norilskshakhtstroy trust and Central Construction Laboratory, it is planned to create the Group's subsidiary LLC Taimyr Construction Company.

Security stream

In the reporting period, the Group's security stream included 4 private security companies ("PSC"): PSC Nornick, PSC Nornick-N, PSC Nornick-M, and PSC Nornick-K.

In 2005, the Group proceeded with countermeasures aimed at fighting organized criminal groups stealing its products. It should be noted that fighting organized crime is the prerogative of state authorities. According to the effective legislation, commercial security services and PSCs are limited in resources and means of fighting this type of crime.

However, security services initiated more than 50 criminal proceedings based on identified thefts. The Belgium Federal Police and Bavarian Prosecutor's Office are investigating legalization and illegal sale of the precious metals stolen from the Group's enterprises.

In the reporting year, the Company for the first time introduced a new security system for production assets (refineries) of high risk based on the so-called "rotation" method. This method presupposes a selection of security guards from various Russian regions excluding those where the Group's entities are located. Implementation of this approach at Severonickel Combined Plant has not only increased the efficiency of fighting thefts of material and technical valuables, base and precious metals, but also has made a positive impact on labor discipline of the Group's staff.

Mining of ore

Ore was mined in the Taimyr and Kola Peninsulas in 2005 in accordance with the mining plans developed in line with the Production Development Strategy to 2015 approved by the Board of Directors on 18 March 2003.

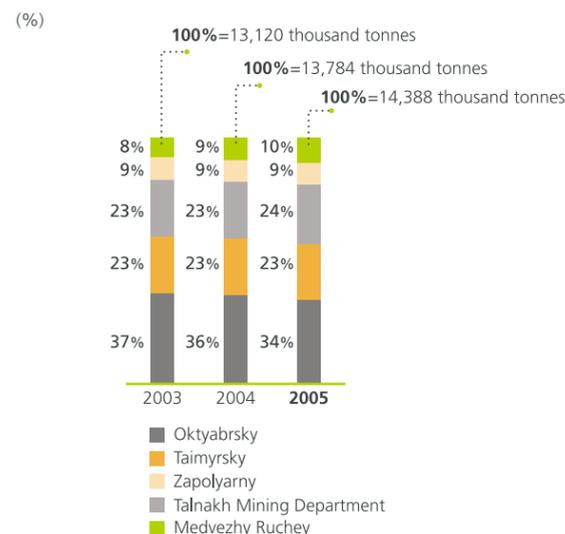
Taimyr Peninsula

The total ore mining output in the Taimyr Peninsula is 4.2% higher than the previous year. This includes:

- 1.4% growth for rich ore (107,000 tonnes);
- 5.3% growth for cuprous ore (195,000 tonnes); and
- 9.2% growth for disseminated ore (302,000 tonnes).

Oktyabrsky mine is the most productive mine in the Taimyr Peninsula, it accounted for 34% of the total mining output and contributed 44% of nickel extraction, 61% of copper extraction and 51% of PGM extraction.

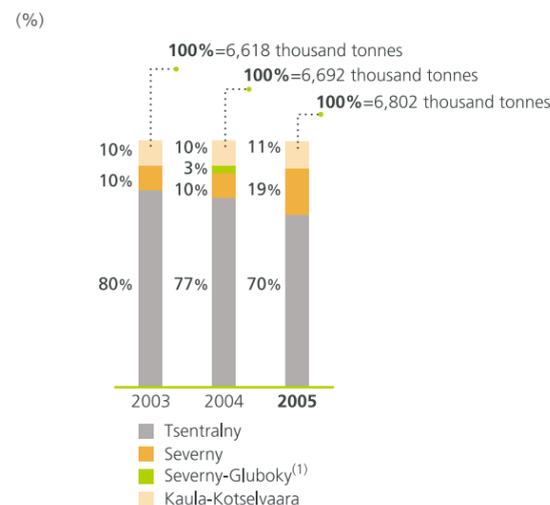
Ore extraction by mine on the Taimyr Peninsula in 2003-2005



Kola Peninsula

During 2005, the Group continued to put into operation the first start-up set of facilities at the Severny-Gluboky mine, which allowed it to compensate for the reduction in ore production in the Tsentralny open pit mines due to the planned curtailment of production because of the depletion of resources and increase the nickel grade of the ore from 0.67% to 0.69% and the copper grade – from 0.29% to 0.32%.

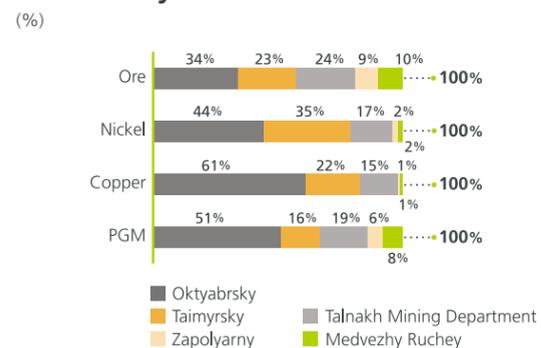
Ore extraction by mines on the Kola Peninsula in 2003-2005



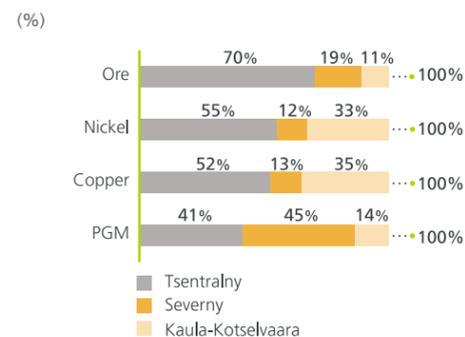
Note:

(1) In 2005, Severny-Gluboky mine was merged with Severny mine.

Ore and metals extraction by mines on the Taimyr Peninsula in 2005



Ore and metals extraction by mines on the Kola Peninsula in 2005



Ore mined and metal grades at the Group's mines (excluding Polus and Stillwater Mining Company)

('000 tonnes or as noted)

Type of ore	2005	2004	2003
Taimyr Peninsula			
Oktyabrsky mine			
Rich	3,684	3,855	3,960
Cuprous	1,214	1,055	896
Disseminated	26	26	28
Total	4,924	4,936	4,884
Taimyrsky mine			
Talnakh Mining Department ⁽¹⁾			
Rich	492	312	128
Cuprous	2,456	2,420	2,419
Disseminated	502	505	518
Total	3,450	3,237	3,065
Zapolyarny mine			
Medvezhy Ruchey mine			
Disseminated	1,223	1,206	1,195
Disseminated	1,528	1,240	1,006
Summary			
Rich	7,439	7,332	7,059
Cuprous	3,670	3,475	3,315
Disseminated	3,279	2,977	2,746
Total ore mined	14,388	13,784	13,120
Average metal grades			
(% or as noted)			
Nickel	1.70	1.74	1.73
Copper	2.97	3.03	3.13
PGM (g/tonne)	9.43	–	–
Kola Peninsula			
Tsentralny mine			
Disseminated	4,774	5,124	5,305
Severny mine			
Disseminated	1,302	675	656
Severny-Gluboky mine ⁽²⁾			
Disseminated	–	194	–
Kaula-Kotselvaara mine			
Disseminated	726	699	657
Summary			
Total ore mined	6,802	6,692	6,618
Average metal grades			
(%)			
Nickel	0.69	0.67	0.66
Copper	0.32	0.29	0.29

Notes:

(1) In 2003, Mayak, Skalistaya and Komsomolskaya mines were included in the Talnakh Mining Department.

(2) In 2005, Severny-Gluboky mine was merged with Severny mine.

Enrichment

Taimyr Peninsula

The existing production facilities of two enrichment plants at the Taimyr Peninsula provide for the processing of all types of extracted ore (rich, cuprous and disseminated ores) with an output of 14 million tonnes a year and secondary raw materials (previously stored pyrrhotite concentrates) with an output of up to 900,000 tonnes a year.

Due to the growth of ore extraction volumes in 2005, the processing of raw ore at the enrichment plants exceeded the 2004 level by 697,000 tonnes of ore. As for the production of metal concentrate:

- nickel in nickel concentrate was up by 3,000 tonnes; and
- copper in copper concentrate was up by 4,000 tonnes.

Extraction of nickel to collective concentrate within the enrichment cycle in 2005 was 84.3%, an increase by 0.3% on the previous year.

Extraction of copper to collective concentrate within the enrichment cycle in 2005 was 96.7%, an increase by 0.1% on the previous year.

Following the approval in 2004 of the temporary atmospheric sulfur dioxide emission limits for the Taimyr Peninsula entities for the period up to 2009, the Group proposed organizational and technical measures to ensure compliance with the limits subject to preservation of the current production levels. Implementation of those measures allowed the Group to operate within the agreed limits in 2005.

Key measures include:

- transfer of rich ore processing (ore swapping) from the Norilsk Enrichment Plant to the Talnakh Enrichment Plant;
- reconstruction of the nickel floatation system at the Talnakh Enrichment Plant, introducing additional crushing of the core nickel concentrate.

Norilsk Enrichment Plant

Alongside with the 6.2% increase in raw ore processing in 2005 compared to 2004, the plant slightly reduced the processing of stored pyrrhotite concentrate by 6.3%.

In 2005, the quality of nickel and copper concentrates sank below the level of commodity concentrates observed in 2004. The content of nickel in nickel concentrate fell from 4.7% (2004) to 4.0% (2005); copper in copper concentrate – from 25.1% (2004) to 24.2% (2005). The extraction rate of nickel to nickel concentrate fell from 70.4% (2004) to 65.7% (2005), and copper to copper concentrate – from 71.9% (2004) to 66.6% (2005).

Key reasons for the decline in production indicators at the Norilsk Enrichment Plant include the complete transfer of rich ore processing from the Norilsk Enrichment Plant to the Talnakh Enrichment Plant and the deterioration in the technical characteristics of stored pyrrhotite concentrate due to changes in its material and granular composition.

To stabilize the production process at the Norilsk Enrichment Plant and to increase the extraction rate of nickel to nickel concentrate during the enrichment of stored pyrrhotite concentrate, the Group developed an investment project expected to be implemented in 2006–2007, which will help to improve the qualitative and quantitative characteristics of enrichment.

Talnakh Enrichment Plant

In 2005, the processing level of raw ore at the Talnakh Enrichment Plant was 4.4% higher than in 2004. Throughout the year the Talnakh Enrichment Plant continued to develop the selectively-collective-selective ("SCS") enrichment process, which allowed the Plant to increase nickel extraction to nickel concentrate and reduce metal loss in tailings as compared to the direct selection method. The content of nickel in nickel concentrate increased from 9.0% (2004) to 9.6% (2005); the content of copper in copper concentrate remained at the 2004 level. The extraction of nickel and copper to the respective concentrates corresponds to the 2004 level.

The SCS process development makes it possible to further use the waste in the tailings to fill in the developed mining areas.

Kola Peninsula

The capacities of the enrichment factory of the Pechenganickel combined plant provide for the processing of all extracted ore and approximately 500,000 tonnes of poor ore (nickel content – 0.4%, copper content – 0.1%) from the waste stock piles of the Tsentralny mine.

In 2005, the enrichment plant completed the implementation of measures aimed at improving the quality of concentrate while preserving the metal extraction rate; as a result, nickel content in nickel concentrate increased from 8.4% (2004) to 8.5% (2005) and copper content in copper concentrate increased from 3.6% to 4.1%. However, the extraction of nickel to nickel concentrate fell from 74.5% to 72.7% and extraction of copper increased from 74.7% to 77.5%.

The reduction of the extraction rate of nickel to nickel concentrate during the re-equipment of the enrichment processes in 2005 was mainly due to changes in the structure of raw ore processed represented by the increased share of hard-cleaning ores caused by the growth of ore extraction at the facilities of Severny-Gluboky mine in 2004 and the reduction in extraction volumes in the Tsentralny mine.

To stabilize the production process at the Enrichment Plant and to increase the extraction rate of nickel to nickel concentrate, the Group and JSC Gipronickel Institute developed an action plan expected to be implemented in 2006–2007.

Metallurgy

In 2005, the Group undertook measures to improve the production processes and key production equipment at its metallurgical plants: the Group completed the first stage of the reconstruction of the 2nd production line of the flash smelters at Nadezhda Metallurgical Plant and the reconstruction of production line No. 1 for the production of elemental sulfur at the Copper Plant.

At the Taimyr Peninsula, extraction of nickel to final products increased from 94.7% to 95.0%, and nickel increased from 92.9% to 93.0%. The rate of nickel extraction to high-grade matte at the smelting plant was 96.2%, which is 0.03% up from previous year.

The Group continued its efforts aimed at reducing losses and increasing base metal extraction, Severonickel increased nickel extraction to final products by 0.2% in comparison to the previous year and increased copper extraction to final products by 0.07%.

Extraction of metal by the Group's enrichment plants (excluding Polus and Stillwater)

(%)

	2005	2004	2003
Taimyr Peninsula			
Norilsk Enrichment Plant			
Recovery from nickel concentrate			
Nickel	65.7	70.4	72.7
Copper	24.9	20.5	21.6
Recovery from copper concentrate			
Nickel	8.2	7.7	7.6
Copper	66.6	71.9	72.2
Talnakh Enrichment Plant			
Recovery from nickel concentrate			
Nickel	73.5	73.9	73.4
Copper	20.7	21.0	21.0
Recovery from copper concentrate			
Nickel	5.1	5.0	5.4
Copper	76.3	76.4	76.2
Recovery from pyrrhotite concentrate			
Nickel	8.9	7.3	7.2
Copper	1.7	1.1	1.2
Total metal recovery on the Taimyr Peninsula			
Nickel	84.3	84.0	84.2
Copper	96.7	96.6	96.7
Extraction of metal from concentrates in the metallurgical processes			
Nickel	93.0	92.9	93.2
Copper	95.0	94.7	94.5
Kola Peninsula			
Pechenganickel Enrichment Plant No. 1 (from ore to matte)			
Recovery from collective concentrate to matte			
Nickel	73.3	75.5	76.3
Copper	82.1	80.7	82.6
Severonickel metallurgical operations			
Nickel	97.0	97.2	96.9
Copper	96.1	96.7	96.5

Metal production

In 2005, the Group continued its efforts to reduce work-in-progress at the metallurgical plants on the Taimyr Peninsula – 6,700 tonnes of nickel (6,400 tonnes in 2004) were used in processing. Increased volumes of extracted and processed raw ores (4.4% up from 2004) facilitated the growth of internally produced nickel by 0.8%, including the tolling processing of high-grade matte at the refining facilities of the Kola Peninsula. The growth of copper production by 1.3% (including tolling) in comparison to the previous year is explained by increased supplies of raw ores with copper. The 3.3% increase of metallic nickel production at the Kola Peninsula is due to the growth in deliveries of high-grade matte at the Taimyr Peninsula and the production of metals from its own raw ores. The 3% decrease in copper production is explained by the reduction in processing of purchased copper scrap.

2005 saw an increase in the production of platinum group metals (PGM) both at the Taimyr Peninsula and the Kola Peninsula in comparison to 2004, which was due to increased deliveries of PGMs with raw ores for processing and the completion of work-in-progress.

Gold production at MMC Norilsk Nickel (excluding Polus) grew by 12% due to the increase in its supply for processing and the depletion of work-in-progress at the Taimyr Peninsula.

Volume of metal produced by the Group (excluding Polus and Stillwater)

('000 tonnes or as noted)

	2005	2004	2003
Taimyr Peninsula			
Nickel	123	127	132
Copper	361	353	345
Gold ('000 ounces)	144	123	122
Kola Peninsula			
Nickel ^(1, 2)			
From own ores	37	36	35
From other materials	83	80	71
Total nickel	120	116	107
Copper			
From own ores	35	16	15
From other materials	56	78	91
Total copper	91	94	106
Gold ('000 ounces)	8	12	14
Total volume of metal produced by the Norilsk Nickel Group (excluding Polus and Stillwater)			
Nickel ⁽¹⁾	243	243	239
Copper	452	447	451
Palladium ('000 ounces)	3,133	–	–
Platinum ('000 ounces)	751	–	–
Gold ('000 ounces)	151	135	136

Notes:

(1) Excludes nickel produced from purchased materials.

(2) Totals may differ from the sum of the components due to rounding.

Volume of metal produced by Stillwater Mining Company

In 2005, Stillwater Mining Company, in accordance with the production plan, produced an aggregate of 554,000 ounces of palladium and platinum. In 2004, 569,000 ounces of palladium and platinum was produced. The decrease in the aggregate production volumes reflects the allocation of operating resources to improve mining conditions in 2005.

The production of PGM at Stillwater mine in 2005 fell by 6% to approximately 381,000 ounces as compared to 405,000 ounces in 2004. Production of PGM at East Boulder mine increased by 5% to approximately 173,000 ounces compared to 2004.

The volume of secondary processing of PGM grew in 2005 by 27% to 209,000 ounces as compared to 165,000 ounces in 2004.

Volume of metal produced by Stillwater Mining Company

('000 ounces)

	2005	2004	2003
Stillwater mine			
Palladium	293	311	163
Platinum	88	94	49
Total	381	405	212
East Boulder mine			
Palladium	135	128	63
Platinum	38	36	18
Total	173	164	81
Total volume of metal produced by Stillwater Mining Company			
Palladium	428	439	226
Platinum	126	130	67
Total	554	569	293

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Capital investments

8.6

Structure of the Group's capital investments per IFRS

(US dollars million)

Country and purpose	2005	2004
Russian Federation		
Production assets		
Mines	149	146
Enrichment	42	37
Metallurgy	116	89
Energy	78	75
Auxiliary facilities	48	35
Total production assets	433	382
Non-production assets	26	61
Equipment not budgeted in construction projects and in replacement of obsolete equipment in the Russian Federation	125	125
Total MMC Norilsk Nickel	584	568
Capital investments of Polus	149	46
United States of America		
Capital investments of Stillwater Mining Company	18	21
Total capital investment of the Group	751	635

In 2005, the Group's efforts were directed at sustaining the quantity of metal extracted in ore, at the modernization and reconstruction of production facilities and at decreasing the unit product cost. Priority directions for the Group's investment policy in 2005 included:

- construction and commissioning of mining facilities to ensure the timely replacement of decommissioned facilities and the preservation of the extracted ore volume at the current level;
- upgrade and re-equipment of facilities in the ore enrichment and metallurgic processes;
- implementation of automatic systems for the management of production processes; and
- performance of environment protection activities to reduce emissions and improve the natural environment.

In 2005, the Group's capital investment per IFRS (excluding Polus) totaled USD 602 million. Capital investment in production assets in the Russian Federation amounted to USD 433 million, investment in equipment not budgeted in the construction projects and in replacement of the obsolete equipment amounted to USD 125 million.

Mining and metallurgical production assets

Mining

In 2005, USD 149 million was invested in the development of the mining production facilities, mostly in the construction of mining production facilities on the Taimyr Peninsula (USD 116 million).

Taimyr Peninsula

In 2005, the Group continued capital work on the main facilities of the Taimyr Peninsula ore base.

USD 44 million was invested for the construction of facilities at the Skalisty mine in 2005:

- USD 39 million were spent to replace the decommissioned production facilities and ensure the commissioning of production facilities for disseminated ore extraction and the development of flank reserves of rich and cuprous ores;
- USD 5 million were spent on stripping, preparation and mining of rich and cuprous ores in the Talnakh deposit and the deep ores of the Oktyabrsky deposit.

USD 24 million was invested in the Oktyabrsky mine, in the reconstruction of the existing facilities of the –650m horizon used for the mining solid sulfide ores in the western flank of the deposit (expected completion date of project – 2014), as well as facilities for the stripping, preparation and mining of cuprous ores (expected completion date of project – 2007).

USD 22 million was invested in the Taimyrsky mine in 2005 for the reconstruction of the existing facilities and developing new horizons: –1100m, –1300m, –1400m and to replace decommissioned facilities for copper and nickel ore production.

USD 16 million was invested in the Komsomolsky mine in 2005 in the construction of the following facilities:

- development of rich and cuprous ore reserves at the flanks. Project started in 2000 and expected completion date of project is 2008. Project objective – extraction of flank reserves of rich and cuprous ores aimed at sustaining the mine's output. Capital investment in 2005 – USD 5 million;
- mining of disseminated ore. Start-up facilities. Project started in 1992 and expected completion date of project – 2008. Project objective – extraction of disseminated ores due to the decommissioning of rich and cuprous ore extraction facilities. Capital investment in 2005 – USD 10 million;
- modernization of skip winding facilities. Project objective – comprehensive technical re-equipment of the winding facilities of the skip shaft. Capital investment in 2005 – USD 1 million.

USD 6 million were invested in the Anhydrite mine producing anhydrite (raw materials for production of consolidating stowing on the Talnakh ore field) and USD 4 million was invested in the Zapolyarny mine.

Kola Peninsula

In 2005, the principal investment in the ore facilities on the Kola Peninsula (USD 33 million) went to construct the Severny-Gluboky underground mine, to replace the decommissioned facilities of the Tsentralny mine and to ensure the optimum load of the processing facilities on the Kola Peninsula. Project started in 2000 and expected completion date of project is 2010. Capital investment in 2005 amounted to USD 28 million.

Capital investment of USD 4 million was used to develop ore reserves on –620m and –740m horizons of the Severny mine. The objective of the project initiated in 2001 is to develop the remaining ore reserves of the Zapolyarnoye deposit.

Approximately USD 1 million was invested in capital mining work at the Kaula-Kotselvaara mine. The expected completion date of the project is scheduled for 2008.

Enrichment

Taimyr Peninsula

In 2005, investment in the enrichment facilities in the Taimyr Peninsula amounted to USD 40 million, including USD 27 million invested in the construction of the Norilsk Enrichment Plant facilities.

At the Norilsk Enrichment Plant most investments were made in the construction of a set of projects:

- addressing the issues of enrichment tailings storage in the Taimyr Peninsula;
- preservation of production output; and
- compliance with environmental legislation.

Reconstruction of the Lebyazhye tailings pit will provide the necessary tailings storage capacities for the Taimyr Peninsula enrichment plants in view of the potential ore mining and processing volumes. Project started in 2002, expected completion date of the project is 2007.

Kola Peninsula

USD 2 million was spent on additional and start-up work to complete the Pechenganickel Enrichment Plant No. 1 modernization project on the Kola Peninsula. The facility was put into operation in 2005. The project's main objective was to replace depleted equipment on the floatation and grinding sections in order to improve the extraction of nickel into collective concentrate by 9%-10%. This will increase production efficiency on account of the reduction of costs in the smelting process.

Metallurgical production

Taimyr Peninsula

During 2005, investment in the development of the metallurgical production of the Taimyr Peninsula amounted to USD 111 million.

At the Nadezhda Metallurgical Plant:

- USD 82 million was spent to reconstruct the production line of flash smelter No. 2 to increase its productivity to 850,000 tonnes per year and facilitate a possible further increase to 1,200,000 tonnes per year;
- capital expenditures in 2005 amounted to USD 22 million due to ongoing project of oxygen block replacement aimed at developing oxygen production on the Taimyr Peninsula. The project is scheduled for completion in 2006; and
- USD 2 million was spent for the completion of construction and installation work in the reconstruction of the production line of flash smelter No. 1 in order to increase the capacity of the nickel ore processing line to one million tonnes per year.

At the Copper Plant, USD 5 million was invested in the completion of the construction and installation work involved in the reconstruction project of the production and suction gas evacuation system in the smelter and elemental sulfur production section.

Kola Peninsula

In 2005, investment in metallurgical production of the Kola Peninsula amounted to USD 5 million, of which USD 3 million was invested in the development of metallurgical production support on the Kola Peninsula.

At the Severonickel combine, an investment of USD 2 million was made to complete the construction and commission the testing block for copper and nickel concentrate smelting of the two zones Vanukov furnace. The main objective of the project initiated in 2004 was to create an experimental pyrometallurgical site for all the companies of MMC Norilsk Nickel as part of the Program of metallurgical production modernization.

Energy facilities

Taimyr Peninsula

USD 25 million was spent to ensure reliable production and reserve capacity for the production of thermal power, of which USD 24 million was invested in the following main capital construction projects:

- implementation of the TPP-1 reconstruction project "Replacement of medium pressure turbine units. The replacement of TA-20 with the generator (start-up complex)" will provide the required quantity of thermal and electric power to the production facilities, reduce the number of turbine units while preserving the necessary capacity, and create reserve capacities for the generation of thermal and electric power in accordance with the Development Concept of the Energy Complex in the Norilsk Industrial District. Investments in 2005 amounted to USD 11 million. The project is scheduled to be completed in 2006;
- the project for the technical water supply reconstruction "Water conduit 2D = 900 from KP-5 to Nadezhda Metallurgical Plant" initiated in 1999 is continuing at the Copper Plant. As a result of the project, it is planned that reliable and continuous technological water supplies in the required quantities will be ensured for consumers and costs related to technological water losses as a result of water conduit holes, as well as respective repair costs, will be eliminated. Capital investments in 2005 amounted to USD 11 million and the project is scheduled for completion in 2006;
- replacement of water boiler No. 1. Main project objective is to ensure the production of the required quantity of thermal power to meet consumers' needs and to provide reserve capacities for thermal energy production in accordance with the Development Concept of the Energy Complex in the Norilsk Industrial District. Capital investment in 2005 amounted to USD 3 million.

OJSC Taimyrgaz

In 2005, the Group continued construction of the Pelyatka gas condensate deposit in the Taimyr Peninsula, with an investment of USD 52 million. In 2005, 3 wells were commissioned. Thus, the Group had 14 drilled wells by the end of the year (of which 11 are operating).

The pilot-industrial operation of the Pelyatka gas condensate deposit, which was started in 2003, will continue until 2008 when commercial operation will start. The commissioning of the overall gas condensate deposit will allow the Group to meet the demand for gas supplies for the entities in the Norilsk Industrial District for at least 50 years.

Kola Peninsula

An investment of USD 1 million was made in the energy facilities of the Kola Peninsula to ensure reliable operation of the existing facilities.

Auxiliary facilities and equipment not budgeted in construction projects and in replacement of obsolete equipment

Investments in auxiliary facilities amounted to USD 48 million. They were mainly spent on the production process support and for the improvement of the Group's employees' working conditions.

In 2005, USD 125 million was invested in equipment not budgeted in construction projects and in replacement of obsolete equipment.

An investment of USD 26 million was made in the acquisition of equipment necessary to support the current operations of branches (excluding the Taimyr Peninsula), subsidiaries and associates of the Group.

Taimyr Peninsula

In 2005, investments in equipment not budgeted in construction projects and in replacement of obsolete equipment amounted to USD 84 million, meant for the acquisition of the following:

- mining equipment – USD 41 million;
- surveyor's instruments, control and analytical equipment and other equipment – USD 20 million;
- lifting and transportation equipment – USD 9 million;
- general plant equipment – USD 8 million;
- power equipment – USD 4 million; and
- drilling equipment – USD 2 million.

Kola Peninsula

Of the total investment in equipment not budgeted in construction projects and in replacement of obsolete equipment, which amounts to USD 15 million, investments in:

- heavy and transport equipment amounted to USD 8 million;
- auxiliary and technological equipment, as well as communication equipment and control and measurement devices – USD 3 million;
- power equipment – USD 2 million; and
- general plant and chemical equipment – USD 2 million.

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••• Review of sales performance

8.7

In 2005, the Group sold its base metal through its own distribution network in the external markets:

Sales of metals produced by the Group (not including gold mining assets (Polus))

('000 tonnes or as noted)

Products	2005	2004	2003
Nickel	244	250	308
Copper	450	451	467
Palladium ('000 ounces)	3,231 ⁽¹⁾	–	–
Platinum ('000 ounces)	758 ⁽¹⁾	–	–
Gold ('000 ounces)	162	135	147

Note:

(1) Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy laws. As a result of changes to the law on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose both current information on PGM and information on past periods beginning from 18 February 2004. Information on the periods before that date remains secret.

Nickel

In 2005, the Group sold 244,000 tonnes of nickel, an insignificant decrease of sales volumes as compared to 2004 is explained by the change in the current inventory in accordance with the geographical structure of sales.

Copper

In 2005, copper sales amounted to 450,000 tonnes, which nearly corresponds to the level of sales in 2004.

Palladium and platinum

Despite a difficult market situation and a considerable surplus in the palladium market, sales policy enabled the Group to sell the volume of PGMs produced during 2005. Sales of palladium and platinum produced by the Group in Russia amounted to 3,231 thousand and 758,000 ounces respectively.

Gold

The Group sold all the gold produced to commercial banks in Russia. Sales of gold produced by the Group (not including Polus) increased in physical terms from 135,000 ounces in 2004 to 162,000 ounces in 2005.

Sales of Stillwater Mining Company

In 2005, Stillwater Mining Company sold a record 1.2 million ounces of PGMs from mine production and other PGMs activities.

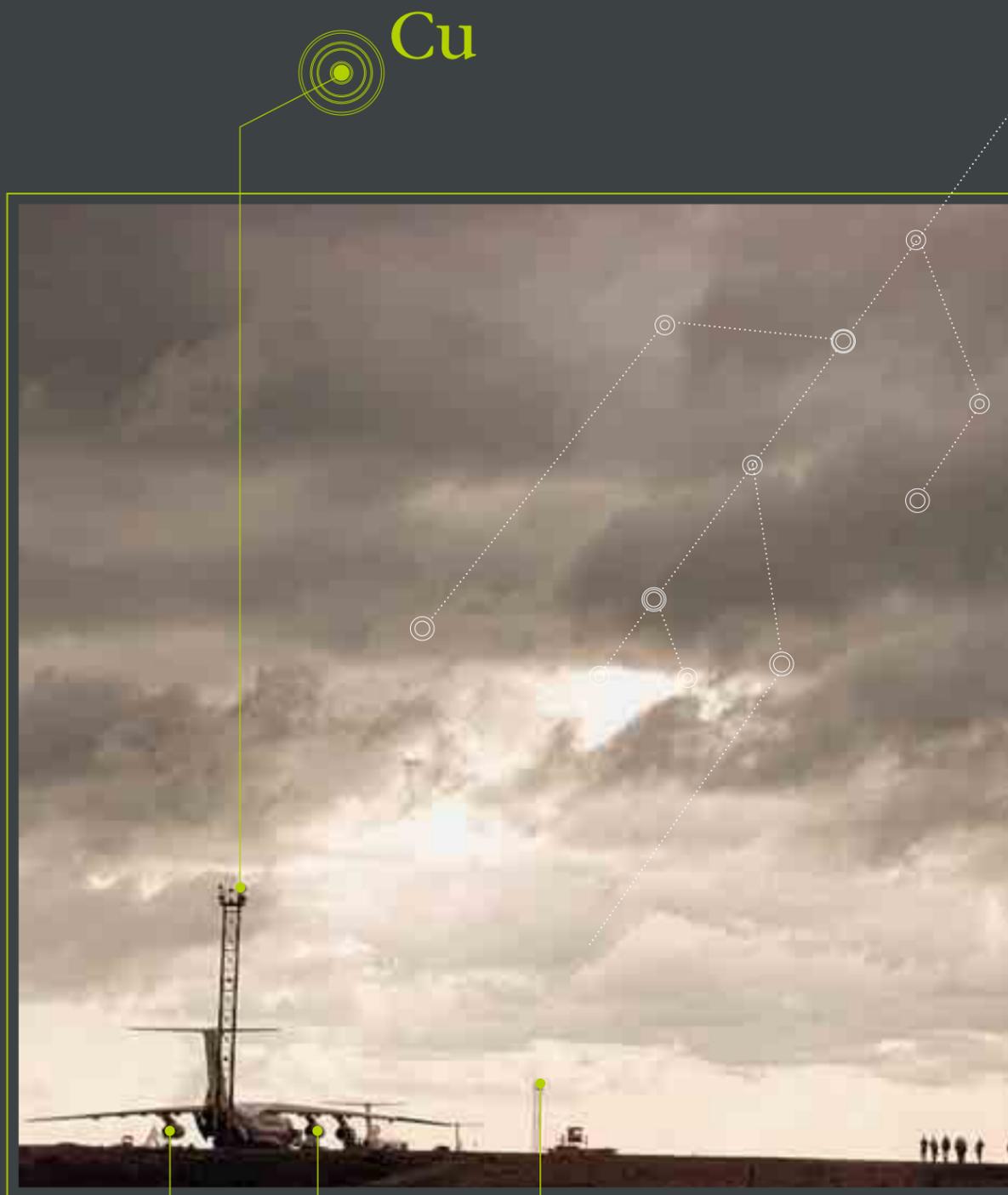
Sales of metals produced by Stillwater Mining Company

('000 ounces)

Products	2005	2004	2003
Palladium	933 ⁽¹⁾	850 ⁽¹⁾	223
Platinum	216	202	64

Note:

(1) Sales in 2005 include about 439 thousand ounces of palladium (2004: 375 thousand ounces) delivered out of the inventory received in the 2003 Norilsk Nickel transaction. In the first quarter of 2006, Stillwater Mining Company completed the sale of palladium received in the 2003 transaction.



••• Commitment to environmental protection

8.8

In 2005, the Group performed the following activities in accordance with the key provisions of the Group's Environmental Policy related to:

- gradual reduction of pollutant emissions into the atmosphere;
- consistent reduction of polluted wastewater discharge to water bodies; and
- improvement of waste disposal sites in order to decrease environmental impact.

Taimyr Peninsula

In 2005, the Group completed a number of major investment projects aimed at reducing atmospheric emission of pollutants, as part of the long-term production upgrade program.

The key environmental result of the reconstruction and launch of the start-up complexes of the production lines of flash smelters No. 1 and 2 at Nadezhda Metallurgical Plant, in addition to the increased efficiency of the gas purification equipment, is the creation of the ability for closing down the obsolete pyrometallurgic facilities at the Nickel Plant, which were a source of lean sulfur containing gases that were not reclaimable.

In order to increase the productivity of the Copper Plant, the Group completed reconstruction of production line No. 1 for the production of elemental sulfur from rich gases from the Vanyukov furnaces – a waste heat boiler and a catalyst were installed. When the line reaches design capacity, they will reclaim additional amounts of gases and will reduce dioxide emission by 100 thousand tonnes per year.

In 2005, the Gipronickel Institute completed the design work for the reconstruction of production line No. 2 for sulfur production at the Copper Plant; the implementation of this project within the next several years will reduce sulfur dioxide emission in the atmosphere by the Copper Plant by 40% as compared to the emission in 2005.

In 2005, the Group increased the rate of reclamation from waste gases of the metallurgical facilities by 4.1% (by 7.2% at the Copper plant) as compared to the previous year. Sulfur dioxide emission per tonne of base metal produced decreased by 3.8%. Total atmospheric emissions of pollutants were reduced by 2.9% as compared to 2004 (with the total emissions of sulfur dioxide down by 2.8% and hard elements by 5.0%). The efficiency of the operation of the gas and dust purification facilities for the overall Taimyr Peninsula increased to 98.96% (as compared to 98.95% in 2004).

In 2005, design work was performed on a number of projects for the purification of sewage and wastewater for the Group's production facilities. The implementation of these projects in 2006-2008 will ensure an aggregate reduction of unpurified sewage and waste water discharge by 12 million m³ per year.

In 2005, the aggregate volume of water intake by the Taimyr Peninsula for technological needs and utility water supply reduced by 5% as compared to 2004; the total volume of water discharge decreased by 1% with the mass of pollutants discharged with the wastewater reduced by 10%.

In 2005, the Group implemented a range of measures to reduce the negative impact of the production waste on the environment. The Group continued to reconstruct the Lebyazhie tailing pond intended for joint storage of enrichment tailings from the Norilsk and Talnakh enrichment plants. The implementation of the project ensured environmentally friendly disposal of ore enrichment tailings, preventing pollutants from penetrating soil and water.

In 2005, the Group continued to implement a program of rational waste utilization providing for the use of:

- enrichment tailings for the aggradation of the tailing pond dams;
- metallurgical slag as construction material for road construction, road filling and preparation of filling mixes;
- stripping and solid rocks to fill the exhausted mines;
- excavations of exhausted quarries; and
- reclaim land disturbed by mining works.

As a result, the overall volume of waste disposal by the Taimyr Peninsula decreased by 6.4% in 2005 as compared to 2004 despite the general increase of waste in the reporting year.

The Taimyr Peninsula was awarded a Diploma by the Federal Service for Environmental, Technological and Atomic Supervision in July 2005 for the extensive contribution to the development and implementation of environment protection projects.

On 22 November 2005, MMC Norilsk Nickel was awarded the honorary diploma as the Leader in Environment Protection Activity for active participation in the implementation of the state environmental policy in the Russian Federation by the organizational committee of the Russian National Conference New Government Environmental Policy in the Russian Federation, which took place in the Kremlin State Palace; and a number of the Group's environmental specialists were awarded honorary medals For Achievements in Environment Protection.

Kola Peninsula

During the reporting period, the Kola Peninsula performed a number of projects aimed at reducing the impact of its operations on the environment.

Severonickel Combined Plant:

- completed the construction of the testing block of the two zones Vanukov furnace and conducted a series of tests of the new technology of concentrate smelting into high-grade matte (implementation of this technology at the Group's companies will significantly reduce sulfur dioxide emission in the atmosphere);
- reconstructed and put in the operation suction systems in the refining shop;
- started the project to replace the catalyst chamber in the technological system No. 3 of the sulfuric acid shop;
- replaced the collector of fume-laden gas from the electric filters in the roasting and reduction unit of the refining shop (the work is to be completed in the first half of 2006);
- reclaimed a total of 12.2 ha of disturbed land in the Monchegorsk district; and
- planted 1.7 ha of the Plant's industrial site with trees.

Pechenganickel Combined Plant:

- as part of the metallurgic production upgrade program financed jointly by the Group and the Norway government, continued work to reconstruct the roasting shop;
- completed reconstruction of the third floatation section in the enrichment factory in order to increase nickel grade of the concentrate and decrease the transfer of sulfur to metallurgic phases;
- continued to build the biological treatment plant for Zapolyarny city with implementation of an ultraviolet disinfection technology;
- reclaimed 2.4 ha of disturbed land in the Pechenga district; and
- planted 1.6 ha of the Plant's industrial site with trees.

Total atmospheric emissions of pollutants in the Kola Peninsula were reduced by 1.2% as compared to 2004 (with the total emissions of hard elements down by 15.7% and sulfur dioxide by 0.2%).

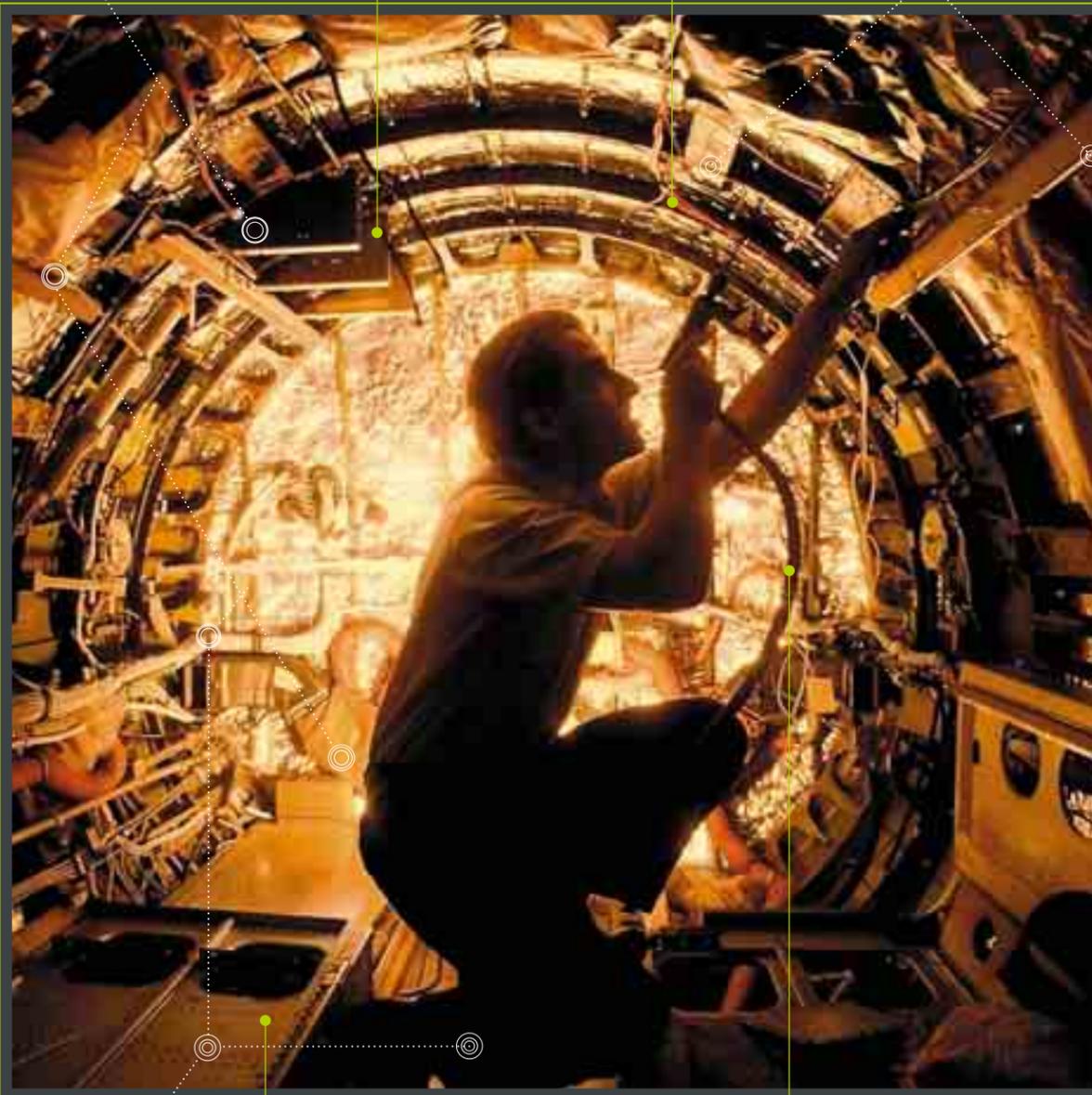
The key focus of the Kola Peninsula in water resource protection is on:

- reduction of all pollutant discharge to allowable limits, development of an optimum scheme for the reclamation of the salt discharge from the electrolytic shops at the Severonickel combine; and
- searching for options to purify mine waters at Pechenganickel Combined Plant.

In March 2005, following the competition jointly organized by the International Institute of Business Quality and the Academy of Quality Issues, sponsored by the Federal Agency for Technical Regulation and Metrology, Kola MMC was included in the Register of the top 100 environmentally oriented companies and awarded a diploma.

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... Implementation of a quality and environmental management system in accordance with international standards

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During 2005, the Group continued to implement an international quality management and environmental standards in the principal management and production structures of the Group.

In December 2005, MMC Norilsk Nickel received certificates of compliance with the requirements of ISO 9001:2000 and ISO 14001:2004 for its integrated system of quality and environment protection management in the area of Production and Project Management, Sales and Supplies of Products (Nickel, Copper, Cobalt, Precious Metals, Sulfur, Selenium, Tellurium). The system was accredited by the international bodies such as the United Kingdom Accreditation Service (UK) and Dutch Accreditation Council – Road voor Accreditatie (Netherlands). The Group received a unified certificate of compliance with the two international standards for its Integrated System, for the first time in the history of international certification.

The Taimyr Peninsula implemented and in September 2005 certified its quality management system for compliance with international standards ISO 9001:2000 in the area of Production of Nickel, Copper and Cobalt. This system was subsequently accredited by international accreditation bodies such as the United Kingdom Accreditation Service (UK), Dutch Accreditation Council RvA (Netherlands), Deutschen Akkreditierungs Rat (Germany) and American National Accreditation Board (USA). In 2005, the Taimyr Peninsula also continued implementation of the environmental management system in accordance with ISO 14001:2004.

In June 2005, a supervisory audit performed at the Kola Peninsula confirmed the compliance of the current quality management system in the area of Production of Nickel, Copper, Cobalt and Their Compounds, Precious Metal Concentrates and Sulfuric Acids with the requirements of the international standards ISO 9001:2000. At the same time, the current system of environmental management in the area of Production of Ore, High-grade Matte, Nickel, Copper, Cobalt and Their Compounds, Precious Metal Concentrates and Sulfuric Acid was recertified for compliance with the international standards ISO 14001:2004.

The Murmansk transportation branch, in accordance with the requirements of the International Convention for the Safety of Life at Sea, prepared the overall management system of the branch for the certification for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention.

Therefore, in the reporting year the Group received international compliance certificates in the above areas and their accreditation in the countries presenting practical interest as consumers of the Group's products.

The main task for the near future is to maintain, improve and develop all the implemented and certified management systems based on the integration principles.

Technical regulation

In 2005, MMC Norilsk Nickel continued participation in the systematic work conducted by the Russian Federation Government to reform the technical regulations in accordance with the norms set out in the Federal Law On Technical Regulation.

These efforts are aimed at ensuring maximum agreement of the positions of the society, government and the Group in the development of the technical legislation and legal assurance of the production operations conducted. The Group participated in the work of the Coordination and Expert Board for Technical Regulation under the Expert Department of the Russian Federation President, the Metallurgy Committee of the Russian Chamber of Commerce and the expert commissions of the Ministry of Industry and Energy of the Russian Federation as regards the principal lines of the Group's operations.

The Group carries out expert examinations of draft federal legislation (general and special technical regulations issued in the form of federal laws) worked out pursuant to the Program of the Technical Regulation Development approved by Directive of the Russian Federation Government No. 1421-r dated 6 November 2004. It considered and prepared comments regarding the 14 drafts of federal legislation exposed for public discussion, including the following technical regulations:

- on environmental safety;
- on the safety of the process of extraction, enrichment and processing of mineral resources;
- on the safety of the processes in metallurgic production;
- on fire safety;
- on the safety of the operation and disposal of machines and equipment;
- on the safety of the processes of production, application, storage, transportation, sale and disposal of toxic and highly toxic substances.

... Review of financial performance of Norilsk Nickel Group not including gold mining assets (Polus) in 2005

8.10

MMC Norilsk Nickel and subsidiaries present the results of the consolidated annual financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been audited by Deloitte & Touche in accordance with the International Standards on Auditing, which issued an unqualified audit opinion on them.

The measurement currency of the consolidated annual financial statements is the Russian Ruble, which reflects the economic substance of the operations conducted by the Group that has most of its assets in the Russian Federation.

The presentation currency of the Group is the United States of America Dollar. Using USD as a presentation currency is common practice for global mining companies.

At an Extraordinary General Meeting of Shareholders held on 30 September 2005 the qualified majority of the eligible voting shareholders of MMC Norilsk Nickel voted in favor of the spin-off of Polus and its subsidiaries (hereinafter – "the Polus Group"). As a result of the spin-off, Polyus Gold, a new Russian joint stock company, was formed on 17 March 2006. It received from MMC Norilsk Nickel 100% of shares in CJSC Polus and a cash contribution of USD 360 million (RUR 10 billion).

Due to the spin-off of the gold mining assets, the financial result, assets and liabilities of the Polus Group intended for disposal were presented separately in the respective sections of the financial statements.



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Consolidated financial highlights

(US dollars million or as noted)

	2005	2004	2003
Gross metal sales revenue			
Nickel	3,674	3,564	2,824
Copper	1,644	1,265	828
Palladium	914	1,005	640
Platinum	864	706	537
Gold	73	51	68
Total gross metal sales revenue	7,169	6,591	4,897
Cost of metal sales	2,994	2,938	2,761
Gross profit on metal sales	4,175	3,653	2,136
Selling, general and administrative expenses	841	821	734
Other net operating expenses	58	166	45
Operating profit	3,276	2,666	1,357
Profit before taxation	3,116	2,507	1,174
Net profit for the year	2,352	1,857	741
Cash and cash equivalents	922	1,346	950
Investments in securities and other financial assets	690	1,407	162
Capital construction-in-progress	1,184	1,208	1,119
Property, plant and equipment	5,961	6,644	5,801
Total assets	14,730	13,632	10,793
Short-term borrowings	357	552	438
Long-term borrowings	635	657	169
Share capital and reserves	11,397	10,643	8,172
Total liabilities	3,333	2,989	2,621
Net cash flows generated by operating activities	2,994	2,504	1,526
Net cash flows used in investing activities	(1,455)	(2,028)	(490)
Net cash flows used in/generated by financing activities	(1,878)	21	(487)
Weighted average number of ordinary shares in issue for the year	201 ⁽¹⁾	211 ⁽²⁾	211 ⁽²⁾
Basic and diluted earnings per share, US cents	1,133	893	420
Declared dividend per share, US cents	347	247	137

Notes:

(1) Excluding 25 million treasury shares.

(2) Excluding 3 million treasury shares.

Metal sales revenue

In 2005, revenues from metal sales increased by 9% from 2004 to a total of USD 7,169 million. The main reason for the revenue growth in 2005 was the increase of the average annual sales prices for all metals sold by the Group, except for palladium.

Favorable situation in the metal markets, extension of the sales geography and focus on end customers enabled the Group to have a revenue increase for all metals of USD 578 million, of which USD 489 million (85%) for base metals, and USD 89 million (15%) for PGMs and gold.

Average export selling price for metals (excluding the Polus group and Stillwater Mining Company)

(US dollars per tonne or as noted)

Metal	2005	2004	2003
Nickel	14,560	14,121	8,991
Copper	3,652	2,820	1,765
Palladium (US dollars per ounce) ⁽¹⁾	205	–	–
Platinum (US dollars per ounce) ⁽¹⁾	901	–	–

Note:

(1) Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes in the legislation and other regulatory acts on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose current information on PGM and information on past periods, beginning 18 February 2004. Information on the periods before that date remains secret.

Physical volumes of metals sold by the Group (excluding the Polus group)

Metal	2005	2004	2003
MMC Norilsk Nickel			
Nickel ('000 tonnes) ⁽¹⁾	244	250	308
Copper ('000 tonnes)	450	451	467
Palladium ('000 ounces) ⁽²⁾	3,231	–	–
Platinum ('000 ounces) ⁽²⁾	758	–	–
Gold ('000 ounces)	162	135	147
Stillwater Mining Company			
Palladium ('000 ounces)	933 ⁽³⁾	850 ⁽⁴⁾	223
Platinum ('000 ounces)	216	202	64

Notes:

(1) Except for sales of refined metal purchased from third parties.

(2) Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes in the legislation and other regulatory acts on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose current information on PGM and information on past periods beginning from 18 February 2004. Information on the periods before that date remains secret.

(3) Include 439 thousand ounces of palladium delivered ex the inventory received in 2003 as part payment in the Norilsk Nickel transaction.

(4) Include 375 thousand ounces of palladium delivered ex the inventory received in 2003 as part payment in the Norilsk Nickel transaction.

Nickel

Revenue from nickel sales increased by 3% from USD 3,564 million in 2004 to USD 3,674 million in 2005. In 2005, the decrease in the physical volume of nickel sales (not including sales of metals purchased from third parties) by 2% (6,000 tonnes) to 244,000 tonnes as compared to 2004 was offset by an increase in the average annual nickel export price of 3% – from USD 14,121 per tonne in 2004 to USD 14,560 in 2005.

Copper

During 2005, the physical volume of copper sales amounted to 450,000 tonnes, which nearly corresponds to the level of sales in 2004. Due to a significant growth in the average annual copper export price by 30% – from USD 2,820 per tonne in 2004 to USD 3,652 per tonne in 2005, the revenue from copper sales grew by 30% and reached USD 1,644 million in 2005 as compared to USD 1,265 million in 2004.

Palladium

Palladium sales decreased by 9% from USD 1,005 million in 2004 to USD 914 million in 2005. The main contributing factor for the palladium sales decrease is the decline in the average annual palladium export price from 2004. Palladium sales without Stillwater decreased by 9% from USD 725 million to USD 661 million in 2005. In physical terms, sales of palladium produced by the Group in Russia amounted to 3,231,000 ounces in 2005.

In 2005, Stillwater Mining Company sold 933,000 ounces of palladium, including 439,000 ounces of palladium received from the Group in 2003.

Platinum

Platinum sales increased by 22% from USD 706 million in 2004 to USD 864 million in 2005. Sales of platinum produced by the Group in Russia increased by 27% from USD 539 million in 2004 to USD 683 million in 2005. The increase is explained mainly by the increase in the average annual platinum export price. In physical terms, platinum sales amounted to 758,000 ounces in 2005.

During 2005, platinum sales by Stillwater Mining Company amounted to 216,000 ounces.

Cost of metal sales (excluding the Polus group)

(US dollars million)

	2005		2004		2003	
	Group	% of total	Group	% of total	Group	% of total
Cash operating costs						
Labor	771	31	725	32	726	33
Consumables and spares	679	27	473	21	661	30
Cost of refined metals purchased from third parties	87	4	211	9	179	8
Scrap metals purchased	167	7	175	8	91	4
Mineral extraction tax and pollution tax	119	5	115	5	99	5
Repairs and maintenance	125	5	121	5	81	4
Insurance	101	4	110	5	71	3
Transportation of metals	117	5	97	4	117	5
Utilities	83	3	79	4	67	3
PGM toll refining costs	66	3	55	2	43	2
Other cash costs	165	6	114	5	54	3
Total cash operating costs	2,480	100	2,275	100	2,189	100
Amortization and depreciation of operating assets	428		422		399	
Decrease in metal inventories	86		241		174	
Cost of metal sales	2,994		2,938		2,762	

During 2005, the cost of sales grew by 2% from USD 2,938 million in 2004 to USD 2,994 million in 2005.

Gold (excluding the Polus group)

Gold sales increased by 43% from USD 51 million in 2004 to USD 73 million in 2005. The increase is due both to the growth of the average annual gold export price and the growth of the physical sales volume. In physical terms, gold sales amounted to 162,000 ounces in 2005.

Cash operating costs

In 2005, cash operating costs increased by 9% and amounted to USD 2,480 million compared to USD 2,275 million in 2004.

The breakdown of cash operating cost almost did not change in 2005. Labor costs remained the most significant item of cash operating costs and its share decreased (from 32% in 2004 to 31% in 2005). At the same time, the share of consumables and spares increased (from 21% in 2004 to 27% in 2005). In addition, the expenses on the metal purchased from third parties decreased (from 9% in 2004 to 4% in 2005). The share of other items remained virtually unchanged.

The key reasons for the growth of cash operating costs in 2005 include:

- increase of cash operating costs by USD 44 million due to RUR appreciation against the USD, which amounted to 2% based on the average annual exchange rate;
- increase of actual cash operating costs by USD 139 million; and
- increase of cash operating costs was offset by the amount of increase in revenue generated from the sale of by-products of USD 22 million.

Labor

During 2005, labor costs grew by USD 46 million to USD 771 million. The increase is due to the effect of translation to the presentation currency resulting from the appreciation of the RUR against the USD of USD 14 million and the growth of labor costs in the Group.

Consumables and spare parts

Consumables and spares costs increased by USD 206 million in 2005 to USD 679 million. In addition to the effect of translation to the presentation currency, this increase was due to the growth of consumables prices resulting from inflation, especially fuel price in the global markets, and growth of Stillwater's costs.

Cost of refined metals purchased from third parties

In 2005, the cost of refined metal purchased from third parties decreased by USD 124 million to USD 87 million, mainly due to decreased physical purchases of nickel.

Scrap non-ferrous metals and PGM purchased

In 2005, the cost of scrap non-ferrous metals and PGM purchased reduced by USD 8 million to USD 167 million due to decreased volumes of scrap copper bought by the Taimyr Peninsula and the Kola Peninsula entities.

Mineral extraction tax and pollution tax

The increase in mineral extraction tax and pollution tax by USD 4 million up to USD 119 million in 2005 is due mainly to the appreciation of the RUR against the USD.

Repairs and maintenance

In 2005, repairs and maintenance costs increased by USD 4 million up to USD 125 million due to growth of these expenses at Stillwater and as a result of the RUR appreciation against the USD.

Insurance

Decrease of insurance costs by USD 9 million to USD 101 million in 2005 resulted from the implementation of the new corporate property insurance policy, which changed the existing property risk insurance model.

Transportation of metals

Increase of metal transportation costs by USD 20 million to USD 117 million in 2005 related to the increase of charges for high grade matte transportation from Dudinka to the Kola Peninsula and for transportation out of Russia.

Utilities

In 2005, utility costs increased by USD 4 million to USD 83 million as a result of power resource price increases in the Kola Peninsula and at Stillwater and as a result of the RUR appreciation against the USD.

PGM toll refining costs

In 2005, PGM toll refining costs increased by USD 11 million to USD 66 million on account of increased charges for PGM toll refining and increased volumes of PGM produced.

Other cash costs

In 2005, other cash operating costs increased by USD 51 million up to USD 165 million due to growth of tailings lift and transportation costs and as a result of the RUR appreciation against the USD and increase of research and development costs and people transportation costs.

Amortization and depreciation of operating assets

In 2005, amortization and depreciation charges increased by USD 6 million to USD 428 million as compared to 2004 as a result of the commissioning of capital construction assets, which was partially offset by the appreciation of the RUR against the USD that led to the decrease of depreciation charges as a result of the commissioning and disposal of capital construction assets.

In addition, amortization and depreciation charges increased as a result of an increase in revenue generated from sale of by-products of USD 11 million.

Decrease in metal inventories

During 2005, the value of metal inventories decreased by USD 155 million compared to USD 86 million in 2004 mainly due to a reduction in finished goods and work-in-progress.

Unit cost of production

(US dollars per tonne or as noted)

	Taimyr Peninsula			Kola Peninsula		
	2005	2004	2003	2005	2004	2003
Nickel	4,637	4,367	3,972	5,177	5,022	4,595
Copper	1,020	978	931	2,940	867	836
Palladium (USD per ounce) ⁽¹⁾	85	–	–	88	–	–
Platinum (USD per ounce) ⁽¹⁾	364	–	–	374	–	–
Gold (USD per ounce)	181	182	222	185	198	247

Note:

(1) Until 2005 the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes in the legislation and other regulatory acts on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose current information on PGM and information on past periods beginning from 18 February 2004. Information on the periods before that date remains secret.

In 2005, the cost of nickel production in the Taimyr Peninsula increased by 6% to USD 4,637 per tonne, and by 3% to USD 5,177 per tonne in the Kola Peninsula. The main reason for the increase of the cost of nickel production was the inflationary growth of prices for materials and fuel.

In 2005, the cost of copper production in the Taimyr Peninsula increased by 4% to USD 1,020 per tonne and increased by more than 3 times to USD 2,940 per tonne in the Kola Peninsula. The main reason for the considerable growth of copper production cost in the Kola Peninsula was the processing of expensive scrap copper, the ownership of which has been passed from the Taimyr Peninsula to the Kola Peninsula starting 1 January 2005.

In 2005, the cost of palladium production in the Taimyr Peninsula was USD 85 per ounce and USD 88 per ounce in the Kola Peninsula.

In 2005, the cost of platinum production in the Taimyr Peninsula was USD 364 per ounce and USD 374 per ounce in the Kola Peninsula.

In 2005, the cost of gold production in the Taimyr Peninsula decreased by 1% to USD 181 per ounce and by 7% to USD 185 per ounce in the Kola Peninsula. In the Taimyr Peninsula, the proportionate share of net production cost for the year allocated to the production of gold, based on gold's relative sales value, remained relatively unchanged in percentage terms with a corresponding 16% increase in the volume of physical gold produced during the year resulting in more or less the same unit cost of production per ounce of gold produced.

In the Kola Peninsula, the proportionate share of net production cost for the year allocated to the production cost for the year allocated to the production of gold, based on gold's relative sales value, has decreased in relation to the other joint products due to a 33% decrease in the volume of physical gold produced during the year, resulting in a reduction in the unit cost of production per ounce of gold produced.

Selling, general and administrative expenses

During 2005 selling, general and administrative expenses ("SG&A") increased by USD 20 million to USD 841 million as compared to USD 821 million in 2004. The increase in this item due to the effect of translation to the presentation currency amounted to USD 15 million.

The key item of SG&A expenses – export customs duties – increased by USD 10 million to USD 301 million in 2005 as a result of growth of revenues from metals sold.

The second largest component of SG&A expenses – labor costs – increased by USD 16 million to USD 194 million. The main reasons for the growth were the appreciation of the RUR against the USD and the growth of labor costs in the Group's foreign operations.

Other expenses such as research and developments, consulting services and tax payments, however, decreased during the year.

Other net operating expenses

During 2005, other net operating expenses decreased by USD 108 million to USD 58 million as compared to USD 166 million in 2004. The main reason for the reduction was the decrease of expenses related to the loss from the disposal of property, plant and equipment of USD 109 million to USD 28 million and the decrease in the asset impairment provision of USD 57 million. In addition, the provision for tax penalties increased by USD 56 million and operating profit from non-mining operations decreased by USD 18 million; besides, negative foreign exchange differences increased by USD 14 million.

Net profit for the year

Net profit for the year increased from USD 1,857 million in 2004 to USD 2,352 million in 2005 due to higher metal prices and cost control.

Cash and cash equivalents

At 31 December 2005, cash and cash equivalents amounted to USD 922 million as compared to USD 1,346 million at 31 December 2004. The reduction of the cash balances is mainly due to the buy-back of the Company's ordinary shares. The bank overdraft at 31 December 2004 of USD 21 million has been reclassified as part of short-term borrowings.

Investments in securities and other financial assets

At 31 December 2005, investment in securities and other financial assets amounted to USD 690 million as compared to USD 1,407 million at 31 December 2004. The decrease by USD 717 million resulted mainly from reclassification of the investment held in Jenington International Inc., the holder of a 20% stake in Gold Fields to Current Assets of the Disposal Group aimed at the consolidation of the gold mining assets in the Polus Group and partly was offset by the investment in RAO UES of Russia.

Property, plant and equipment

At 31 December 2005, property, plant and equipment amounted to USD 5,961 million as compared to USD 6,644 million at 31 December 2004. The decrease by USD 683 million was mainly the result of:

- spin-off of the Polus Group assets worth USD 1,099 million (less accumulated amortization and depreciation of USD 133 million);
- amortization and depreciation charges for 2005 amounting to USD 587 million; and
- sale of subsidiaries worth USD 14 million (less accumulated amortization and depreciation of USD 2 million).

The decrease of property, plant and equipment was partially offset by the commissioning of property, plant and equipment transferred from capital construction-in-progress amounting to USD 593 million, acquisition of new assets for USD 437 million and the elimination of depreciation charges on the assets of the disposal group (spin-off).

Short-term borrowings

At 31 December 2005, short-term loans and borrowings (including current portion of long-term borrowings and overdrafts) amounted to USD 357 million as compared to USD 552 million at 31 December 2004. The reduction was mainly due to the decrease of the current portion of long-term borrowings by USD 315 million, which was partially offset by the growth of short-term borrowings by USD 120 million.

Long-term borrowings

At 31 December 2005, long-term borrowings of the Norilsk Nickel Group amounted to USD 635 million as compared to USD 657 million at 31 December 2004.

Share capital and reserves

At 31 December 2005, share capital and reserves amounted to USD 11,397 million (including minority interest of USD 334 million) as compared to USD 10,643 million (including minority interest of USD 366 million) at 31 December 2004. Key factors that affected the share capital and reserves are as follows:

- growth in net profit for 2005 by USD 2,355 million adjusted for dividends of USD 492 million;
- decrease of accumulated profits due to the buy-back of the Company's ordinary shares by USD 657 million;
- effect of the translation to the presentation currency of USD 390 million;
- decrease of share premium due to the buy-back of the Company's ordinary shares by 799 million; and
- increase of the investment revaluation reserve of USD 744 million due to the increase in the fair value of available-for-sale investment.

Net cash flow generated by operating activities

The main source of cash for the Norilsk Nickel Group is the net cash inflows from operating activities. Due to the significant growth of revenue from metal sales in 2005, net cash generated by operations increased by 20% and amounted to USD 2,994 million as opposed to USD 2,504 million in 2004.

The growth resulted from the aggregate effect of increased pre-tax income, effect of non-cash flow items (such as amortization, depreciation, changes in provisions and impairment of goodwill on acquisition of subsidiaries) and reduction of trade and other payables. During 2005, the considerable growth of operating cash inflows enabled the Norilsk Nickel Group to invest into operating assets and maintaining a significant cash balance.

Net cash flow used in investing activities

In the year under review net cash outflows from investing activities were mainly used to finance the acquisition of property, plant and equipment, securities and other financial assets.

During 2005, the use of cash in investing activities decreased by USD 573 million to USD 1,455 million. This was mainly due to the reduction of expenses for the acquisition of subsidiaries.

Net cash flow used in/generated by financing activities

During 2005, the outflow of cash for financing activities significantly exceeded the inflow of cash and amounted to USD 1,878 million. During 2004, net cash inflow amounted to USD 21 million. The reason for the growth in cash outflow for financing activities is mainly the repayment of the short-term borrowings of USD 1,792 million, the buy-back of the Company's ordinary shares for USD 1,457 million and the payment of dividends of USD 201 million.

GOLD MINING ASSETS OF MMC NORILSK NICKEL (Polus)

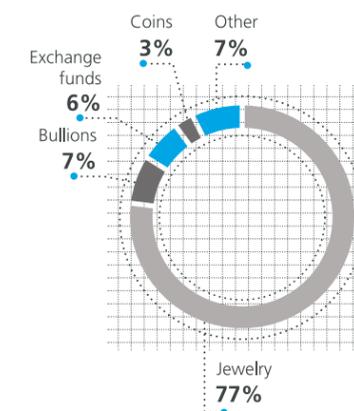
9

Review of market developments

9.1

Today, gold is no more a legitimate means of payment in most developed countries, yet a special attitude to this metal remains. Gold still serves as the guarantor of stability and preservation of wealth both for private individuals buying jewelry and for investment institutions and countries. The main consumer of the gold produced is the jewelry industry, using two thirds of the gold output.

Gold end users in 2005



Source: BMO Gold Book, 2006

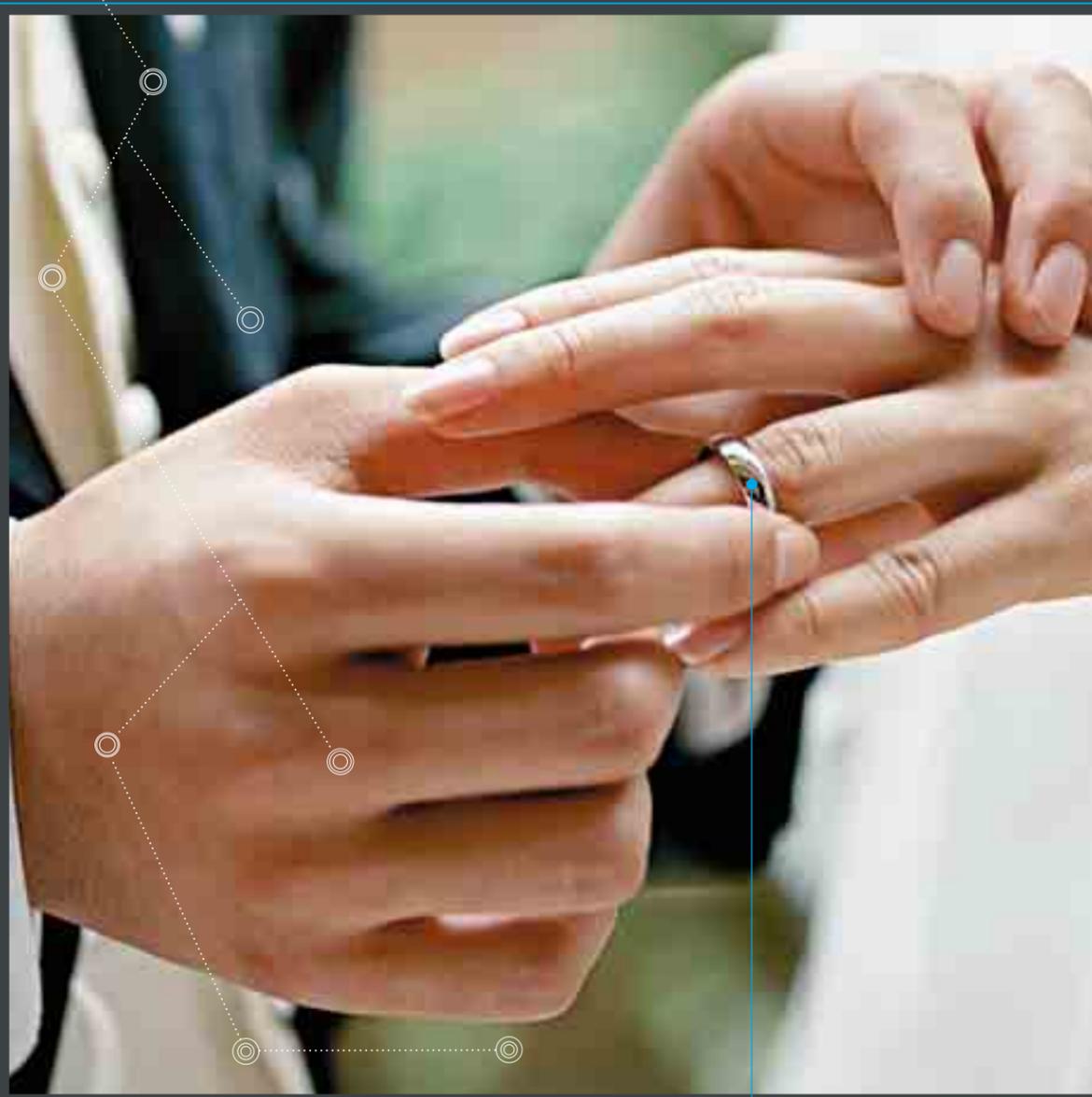
Review of gold market developments in 2005

In 2005, the average annual price for gold increased by 8.3% and amounted to USD 444 per ounce, hitting the annual record (USD 537 per ounce) on 12 December 2005. Due to a sharp increase in gold sales from government reserves, high gold prices, and a reduced volume of gold sales under hedge contracts, there was a surplus of gold on the market by the end of the year estimated at 7.3 million ounces.

The trend for high gold prices keeps due to further weakening of the US dollar against the background of interest rate increase and growth of the US budgetary deficit. Growth of energy prices has a controversial effect: on the one hand, they instigate inflation, and hence, gold price growth, and on the other – increase gold production costs. In early 2006, experts of the US Department of Energy, among the most conservative in the industry, increased their oil price forecast for the period from 2006 to 2007 up to USD 50 – 60 per barrel, and from 2008 to 2030 up to USD 43 – 50 per barrel.

These factors are expected to play an even more significant role in 2006 as we have seen no world-class projects for new gold field development over the last several years. Other factors affecting gold price include sustaining investment demand for gold from investment funds and growing jewelry markets in India and China, which are the main consumers of gold now. In addition, the US saw a considerable increase in interest towards gold with consumption growing by 7%.

In 2006, gold prices may continue to grow also due to the demand from hedge funds willing to diversify their investment portfolios. An important factor in gold price growth is the excess of demand over supply. Despite the fact that in 2005 the gold supply exceeded the demand, the GFMS and Deutsche Bank analysts expect a significant change in the gold market in the short and medium term and a growth of the negative balance between demand and supply to reach 213 tonnes by 2010.



Au

Demand

In 2005, the demand for gold declined by 2% and amounted to 121 million ounces. The main reason for the decrease in demand was the considerable reduction of gold sold under hedge contracts, down from 13.7 million ounces to 6.3 million ounces.

Despite the growth in the price of gold, especially in the fourth quarter of 2005, when it hit a 25 year record of USD 537 per ounce, the consumption of gold by the jewelry industry only increased by 5% to 88.1 million ounces from 84.2 million ounces in 2004.

Supply

In 2005, gold supply was estimated at 128.5 million ounces, which was 5.8% higher than in 2004. Total gold production in 2005 grew by 1 million ounces in comparison to 2004. Sales from government reserves increased by 40.8% to 21 million ounces. Inflow of gold scrap also increased, rising to 27 million ounces in comparison to 26.8 million ounces in 2004.

Polus expects that in 2006 gold prices will depend considerably on the overall global geopolitical situation, which has been characterized by increased tension in recent years and the rate of the US Dollar in relation to principal global currencies.

Average annual gold price

(US dollars per ounce)

	2005	2004	2003
Gold	444	410	364

Source: BMO Gold Book, 2006

Gold prices on spot market in 2005

(US dollars per ounce)



Source: London Bullion Market Association

Description of key operating assets

9.2

CJSC Polus, a wholly owned subsidiary of the Group in 2005, develops and mines hard rock gold deposits and alluvial gold and operates gold mining subsidiaries in Russia. Polus has controlling interests in:

- OJSC Lenzoloto, Irkutsk region;
- OJSC Aldanzoloto GRK, Republic of Sakha – Yakutia;
- LLC Lenskaya Gold Mining Company (LLC LGMC), Irkutsk region;
- OJSC Yuzhno-Verkhoyanskaya Mining Company (OJSC YVMC), Republic of Sakha – Yakutia;
- OJSC Yakutskaya Mining Company, Republic of Sakha – Yakutia; and
- OJSC Matrosov Mine (OJSC RIM), Magadan region.

Polus's headquarters are located in Moscow.



Key mining assets of Polus⁽¹⁾

Deposit and mine	Percentage of group's ownership	Region	Type of mine	Deposit and ores
Olimpiada deposit ⁽²⁾ Olimpiada MEC	100%	Krasnoyarsk	Open pit	Gold ores Oxidized and sulfide
Alluvial gold deposits ⁽³⁾	68.2%	Irkutsk		Gold sands
Kuranakh ore field ⁽⁴⁾ Kuranakh MEC	100%	Sakha – Yakutia	Open pit	Gold ores Oxidized
Zapadnoye deposit ⁽⁵⁾ Zapadny MEC	100%	Irkutsk	Open pit	Gold ores Gold quartz-veined and vein disseminated
Nezhdaninskoye deposit ⁽⁶⁾ Nezhdaninsky mine	50%	Sakha – Yakutia	Underground	Gold ores Sulfide
Natalka deposit ⁽⁷⁾ Matrosov mine	88.4%	Magadan	Underground	Gold ores Gold quartz and low-sulfide

Notes:

(1) Polus, directly or via its subsidiaries, holds licenses for geological exploration and production at a number of deposits in the Krasnoyarsk, Irkutsk, Magadan and Amur regions, and the Republic of Sakha – Yakutia.

(2) The Olimpiada deposit is developed by Polus.

(3) Alluvial gold deposits in Irkutsk region are mined by Lenzoloto.

(4) The deposits of the Kuranakh ore field are mined by Aldanzoloto GRK, which was acquired by Polus in September 2005.

(5) Zapadnoye deposit is developed by Lenskaya Gold Mining Company, a 100% subsidiary of Polus.

(6) From April 2005, gold production at the Nezhdaninsky deposit was suspended; preparation for additional exploration of the deposit and examination of the possibilities for open pit development are being carried out. The license for the development of the Nezhdaninsky deposit is held by Yuzhno-Verkhoyanskaya Mining Company, a share of which was acquired by Polus in September 2005. Polus also acquired Yakutskaya Mining Company.

(7) From mid-2004, the underground production of gold at the Natalka deposit was suspended and geological exploration is currently underway.

**CJSC Polus
Olimpiada Mining and Enrichment Combine**

The Olimpiada Mining and Enrichment Combine (MEC) is located in the Northern Yenisei district 500 kilometers north of Krasnoyarsk. Olimpiada MEC uses the open pit method to mine the Olimpiada deposit in Krasnoyarsk region, extracting oxidized and sulfide ores containing gold. Gold is extracted at two gold-extraction plants:

- Gold Extraction Plant No. 1, which was commissioned in 1996, uses hydrometallurgical production technology to process rich oxidized ore with a capacity of 1.5 million tonnes of ore per year; and
- Gold Extraction Plant No. 2, which was commissioned in 2001, uses biohydrometallurgical production technology (biooxidation technology) to process refractory sulfide ores with a capacity of 3 million tonnes of ore per year.

Olimpiada MEC has outsourced the refining of gold to an independent precious metals refinery, Krasnoyarsk Precious Metals Plant.

Olimpiada MEC receives electric power from a subsidiary of RAO UES of Russia, OJSC Krasnoyarskenergo.

Deposits mined and characteristics of ores

The Olimpiada deposit is divided into two sections: western and eastern. Ore bodies Nos. 1, 2 and 3 have been explored in the western section and are mined by the Zapadny (Western) pit. The Vostochny (Eastern) pit develops ore body No. 4, which contains the bulk of the ore and gold reserves. Sulfide and oxidized ore reserves have been identified and sulfide ore reserves have been measured separately and account for 75% of the total reserves.

Oxidized ores represent soft, poorly consolidated siltstone. Gold is present in the ore in finely dispersed and pulverized form. Some of it is combined with iron and manganese hydroxides, antimonite oxides and some is found in a free state. The gold grade of the oxidized ores varies between 8-10 g/tonne.

Sulfide ores represent metasomatic ore bodies with rare (3%–4% and up to 10% in the more enriched sections) impregnations of sulfide minerals, mainly such as arsenic pyrite, pyrite, antimonite and pyrrhotite. The average gold grade of the primary ores is 3.5 g/tonne.

Mining technologies

Olimpiada MEC mines the deposits using the open pit method with external spoil heap formation.

Rock is excavated from the pits with preliminary ripping via a set of drilling and blasting operations, which is necessitated by the sulfide ore and host rock hardness rate.

Benches are 10 meters high with a safety berm of 14 meters in width. Benches at temporarily non-operational faces are 30 meters high. The slope angles of the benches measure in the range of 60 to 75 degrees and the resulting slope angles of the pit walls are 41 to 43 degrees.

The pit walls are brought to the extreme position using special technologies of preliminary slotting and border zone excavation, which reduces the negative impact of the blasting work on the peripheral rock and the stability of the high benches.

Mined rock is loaded on trucks by excavators, with waste rock transported to external dumps and ore to the sorting yard.

Mining is conducted with the use of rock drills SBSH 250, DML (Ingersol Rand) and excavators EKG-5A, EKG-10, CAT 5130B. Mined rock is transported from the pit to the dumps and ore sorting yards by open-pit dump trucks CAT-777D and Comatsu HD-785 with a carrying capacity of 90 tonnes. Ore is transported from the warehouses to the gold extraction plant by dump trucks BelAZ-7540 and BelAZ-7548 with a carrying capacity of 30 and 40 tonnes, respectively.

The pit's total annual output of mined rock is approximately 24 million m³, and of mined ore (sulfide and oxidized) – approximately 5 million tonnes.

Oxidized ore processing technology

From the sorting yard the ore is delivered to the receiving bunkers from where it is fed into two parallel lines of two stage grinding and then for sizing. The overflow from the sizing is fed into circular thickeners.

The thickened ground pulp is fed to columns for absorption leaching by sodium cyanide. During the absorption leaching, the gold is diluted and absorbed by the ion exchange resin.

After detoxification, the gold saturated resin is fed for regeneration to a chain of columns. Gold bearing regenerate is fed for electrolysis as a result of which the finest particles of gold settle on the bottom of electrolytic baths.

Gold bearing sludge is filtered, roasted and smelted in induction furnaces. The final product is rough gold bars that are sent on to the gold refinery.

The rate of gold extraction from oxidized ores is 97.1%.

Sulfide ore processing technology

In sulfide ores, gold is combined with sulfides and is not suitable for direct cyanidation. For this reason, additional technological extraction operations are needed to unlock the gold.

Olimpiada MEC was the first in the world to apply bacterial oxidation (biooxidation) technology to unlock gold from refractory sulfide ore in the Far North environment.

Sulfide ore, preliminarily crushed and milled into pulp, is fed for floatation, after which the sulfide floating concentrate is fed for bacterial oxidation in cascades of mechanical air reactors and the floatation tailings are fed for absorption leaching after preliminary thickening. After neutralization, the oxidized concentrate is also fed for absorption leaching.

Otherwise, the technology used for extracting gold from sulfide ores is the same as that used in the oxidized ore processing section.

In 2005, the rate of gold extraction from sulfide ores was 80.7%.

OJSC Lenzoloto Alluvial gold deposits

The history of alluvial gold deposit mining in the Bodaibo district in the north-eastern part of the Irkutsk region began more than 150 years ago. Lenzoloto is the largest gold miner in the district.

To ensure profitable development of alluvial gold deposits with low gold content, Lenzoloto uses specialized equipment, including 10 dredges, 26 draglines with a bucket volume of 6 to 20 cubic meters, 18 mining shovels with a capacity of 5 cubic meters, over 200 bulldozers and 86 open-pit dump trucks.

Mining technologies

Lenzoloto companies mine gold using both the open-pit and underground methods. The share of underground mining is very small (less than 3%).

Open-pit method (separate)

Stripping operations for the preparation of the mining grounds use a combination of techniques involving draglines, bulldozers and open-pit dump trucks. Gold bearing sands from the grounds are fed to washing plants. The average gold content in the sands using this method of mining is 0.8–0.9 g/m³.

Dredging method

The dredging technology of alluvial gold mining requires the performance of preparatory works. The peat is stripped, depending on the depth of the productive layer, by bulldozers or by excavation with the use of draglines. The dredging method is the most economically effective in the development of alluvial gold deposits and ensures profitable mining provided that the gold content in sands is approximately 0.3 g/m³.

Sand extraction technology

Gold bearing sands are processed in various types of washing plants with sluice enrichment technology.

OJSC Aldanzoloto GRK Kuranakh MEC

The Kuranakh MEC, a subsidiary of Aldanzoloto GRK, is located in the Aldan district of the Republic of Sakha – Yakutia in the territory of the Eastern Siberia, several kilometers away from the Nizhny Kuranakh settlement.

Deposits mined and characteristics of ores

Over the period of operation, the 11 hard rock gold deposits in the Kuranakh ore field have been considerably affected by mining work. The central parts of the deposits with the most stable parameters of ore bodies and increased gold grade of ores have mainly been exhausted.

Total recorded subsoil reserves of the gold deposits in the Kuranakh ore field amounted to 61.2 million tonnes of ore (118.5 tonnes of gold) at 1 January 2005 with average gold grade of 1.94 g/tonne.

The following deposits are estimated to have the largest resources:

- Delbe (12.2 million tonnes of ore with a gold grade of 1.92 g/tonne);
- Severnoye (10.0 million tonnes of ore with a gold grade of 2.03 g/tonne);
- Yakokutskoye (10.0 million tonnes of ore with a gold grade of 1.69 g/tonne); and
- Kanavnoye (8.9 million tonnes of ore with a gold grade of 1.76 g/tonne).

All the deposits of the Kuranakh ore field have the same geologic, morphologic and lithologic characteristics. The ores are of the quartz pyritous type. The gold from Kuranakh ore field is represented mainly by microscopic (0.05–0.001 mm) and sub-microscopic (less than 0.1 micron) particles, is present in free state and genetically combined with sulfides, ironic and quartz hydroxides.

Mining technologies

Kuranakh ore field deposits are mined using the open pit method with drilling and blasting operations. The top down transportation system is used in the mining work with horizontal layers of up to 10 meters high.

In some cases, bulldozer mining or preparation (ripping) of ore is used. Ore is mined by bulldozers in trenches with bench height of up to 5 meters. Blasting operations are carried out using the simplest explosives (igdanites).

Mining is conducted using SBSH 250 MH rock drills and EKG-5, EKG-8, EKG-10, RH 90 C and Hitachi excavators. Mined rock is transported by HD-1200 open-pit dump trucks and by BelAZ-7540, BelAZ-7555 and BelAZ-75145 dump trucks.

The pit's total annual output of mined rock is approximately 11 million m³ and of mined ore is approximately 3.6 million tonnes.

Ore processing technology used by the Kuranakh gold extracting plant

The ores contained in all the Kuranakh deposits are easily cyanided with a low input of sodium cyanide – up to 0.5 kg/tonne, grind size – 95% of minus 0.315 mm class and leaching time of 6–8 hours. The plant uses cyanide leaching technology with the absorption of gold in the resin. Heap leaching is commercially used on the Kuranakh ore field ores: in 2006 it is planned to obtain 6,109 ounces of gold at the Nadezhny heap leaching section by processing 300 thousand tonnes of ore with an average gold grade of 0.9 g/tonnes and an extraction rate of 70%.

LLC Lenskaya Gold Mining Company Zapadny MEC

The Zapadny deposit, mined by Lenskaya Gold Mining Company, is located in the Bodaibo district of the Irkutsk region and is part of the Sukhoy Log ore field adjacent on its east side to the largest Russian hard rock gold deposit – Sukhoy Log.

Deposit mined and characteristics of ores

The gold mineralization of the deposit is of the vein-disseminated quartz-pyrite type with low-gold-content quartz-vein bodies. The ores mainly contain placer gold.

The mining plan designed for Zapadny MEC states that there are 4.7 million tonnes of ore in the open pit envelope with an average gold grade in commercial ore of 2.77 g/tonne. The design capacity of the Zapadny MEC is 0.8 million tonnes of ore per year.

The refining of gold produced by Zapadny MEC is outsourced to an independent precious metals refinery, the Krasnoyarsk Precious Metals Plant.

Mining technologies

The pit configuration, mining technology and type of equipment used are determined by ore occurrence patterns, thinness of ore bodies and relatively low gold grade of the ore.

The deposit is mined by the open-pit method. The average rate of ore and host rock hardness determines the need to conduct drilling and blasting operations in preparing the rock for excavation.

Slope angles of the pit walls vary from 20 to 55 degrees and the mining and stripping benches are 5 meters high. The non-operating benches are 30 meters high in the extreme position with a slope angle of 65 degrees. The safety berms are 8 meters wide.

Mined rock is loaded on to trucks by excavators, with waste rock being transported to external dumps and ore to the sorting yard of the gold extraction plant. Ingersol Rand CM-695D rock drills with a drilling diameter of 160 mm are used for drilling operations; excavators EKG-5A are used to excavate and load the rock, together with the Caterpillar D-9R bulldozer; BelAZ-7540 dump trucks with a carrying capacity of 30 tonnes are used to transport ore and overburden. The annual design pit output of mined rock is 2 million m³ and of mined ore 800 thousand tonnes.

Enrichment process technology

More than 92% of the gold ore in the Zapadny deposit is in mineral form and only a very small portion is in the shape of the thinnest clots found in pyrite and pyrrhotite. The gold extracting plant uses gravitation technology with subsequent cyanidation of the concentrate.

OJSC Yuzhno-Verkhoyanskaya Mining Company Nezhdaninsky deposit

From April 2005, selective mining of the most enriched ores in the Nezhdaninsky deposit by the Yuzhno-Verkhoyanskaya Mining Company was suspended. Preparatory works are to be conducted and additional surveys performed on the deposit in 2006–2007 to evaluate the various options for the effective mining of the deposit (open-pit, underground or combined method).

OJSC Matrosov Mine Matrosov mine

In mid-2004, the mining and extraction of gold by Matrosov mine at the Natalka deposit were suspended and large-scale geological exploration on the flanks and deep horizons of the Natalka deposit began. Geological exploration is scheduled for completion in 2006. Based on the results of the exploration, the Group plans to assess the feasibility of developing the deposit using open pit mining and processing large volumes of ore. Matrosov Mine receives electrical power generated by the Kolymaskaya hydro power plant through OJSC Magadanenergo transmission lines.

9.3 Mineral resources and ore reserves

9.3

In 2005, Polus contracted SRK Consulting (SRK), one of the leading consultants in the mining industry, to perform an audit and classification/estimation of the gold bearing deposits in the Krasnoyarsk, Irkutsk and Magadan regions in accordance with internationally accepted standards. The results of the audit and classification are presented below.

As part of its assessment, SRK reviewed all key information used in the preparation of the latest reports on Polus's ore reserves and mineral resources. In particular, SRK reviewed the following information:

- geological setting and nature of the deposits especially with regard to the resource estimation methodologies used;
- nature of the gold mineralization;
- historical and current sampling and assaying methodology and coverage;
- resource estimation methodology and classification;
- results of any reconciliation studies completed to date to demonstrate that the reported resource has been accurately estimated; and
- pit designs and other technical and financial data to demonstrate that the resource can be technically and economically exploited.

In undertaking the above work, SRK visited Polus regional offices in Krasnoyarsk, Bodaibo and Magadan to review the available documentation and supporting geological data and also undertook site visits to the operations and principal geological-exploration projects. SRK also observed the mining operations first hand, held discussions with production personnel, reviewed the assaying procedures and, where possible, examined samples of recently drilled core. SRK also undertook certain check calculations to verify the resource estimation work done at each operation and, where appropriate, developed economic models for each asset so as to restrict the reported mineral resources to material that has the potential to be economically extracted and the ore reserve to material that is justifiable to be mined at the time of reporting.

Ore reserves of Polus at 1 September 2005⁽¹⁾

Deposit	Proved reserves			Probable reserves		
	Ore (mln. tonne)	Grade (g/tonne)	Gold (mln. ounces)	Ore (mln. tonne)	Grade (g/tonne)	Gold (mln. ounces)
Olimpiada	20.6	4.6	3.1	71.3	3.8	8.7
Oxidized	1.3	15.9	0.7	2.6	8.7	0.7
Sulfide	19.3	3.8	2.4	68.7	3.6	8.0
Zapadnoye	–	–	–	4.2	2.8	0.4
Verninskoye	–	–	–	10.2	3.3	1.1
Total	20.6	4.6	3.1	85.7	3.7	10.2

Mineral resources of Polus at 1 September 2005⁽¹⁾

Deposit	Measured resources			Indicated resources			Inferred resources		
	Ore (mln. tonne)	Grade (g/tonne)	Gold (mln. ounces)	Ore (mln. tonne)	Grade (g/tonne)	Gold (mln. ounces)	Ore (mln. tonne)	Grade (g/tonne)	Gold (mln. ounces)
Olimpiada	20.2	4.7	3.1	87.7	3.9	10.9	33.1	3.2	3.4
Zapadnoye	–	–	–	5.1	3.2	0.5	1.8	3.3	0.1
Verninskoye	–	–	–	26.6	2.0	1.7	10.4	2.9	1.0
Natalka	–	–	–	339.6	1.5	16.8	294.0	1.4	13.5
Blagodatnoye	–	–	–	55.2	2.5	4.4	83.5	2.2	6.0
Chertovo Koryto	–	–	–	13.3	2.4	1.0	14.2	2.2	1.0
Titimukhta	–	–	–	–	–	–	9.4	4.3	1.3
Total	20.2	4.7	3.1	527.5	2.4	35.3	446.4	1.8	26.3

Note:

(1) Polus, directly or via its subsidiaries, holds licenses for geological exploration and development of these deposits. The reported reserves and resources estimates for each deposit are given for the whole deposit and include interests attributable to minority shareholders in the Polus subsidiaries. The company holding the license for the development of the Verninskoye deposit was acquired in February 2005. Ore reserves and mineral resources are classified in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

The audit performed by SRK in early 2005 does not take into account the data on the resources of the deposits acquired by Polus in the second half of 2005 – deposits at the Kuranakh ore field, Nezhdaninskoye and Kyuchus in the Republic of Sakha (Yakutia).

During 2005, geological exploration designs were prepared for these deposits and at the beginning of 2006 SRK started a JORC audit and classification/estimation of the deposits of the Kuranakh ore field, as well as at Nezhdaninskoye and Kyuchus deposits.

In 2006, a review is planned of the results of the audits conducted in 2005–2006 and an analysis of the requirements and approaches used in international estimation/classification practice. Based on the results of these, a list of the measures necessary to obtain the maximum result from the international audit will be developed.

••• Review of operating performance

9.4

Geological and geodesic exploration

In 2005, Polus more than doubled its resource base: on 1 January 2006 the recorded reserves of the company per Russian classification (categories B+C1+C2) grew to 56,875 thousand ounces (including B+C1 – to 32,569 thousand ounces) as compared to 25,721 thousand ounces (including B+C1 – 17,522 thousand ounces) in 2004.

The validation of 222 tonnes at the Blagodatnoye deposit (Krasnoyarsk Region) with the State Committee for Reserves of the Russian Federation, the acquisition of three gold mining assets in the Republic of Sakha – Yakutia and the acquisition of new licenses for subsoil use in Krasnoyarsk, Irkutsk, Magadan and Amur regions were all key factors in the increase of Polus's resource base.

The considerable growth of Polus's recorded mineral resource base resulted from both the acquisition of licenses and shares in gold mining companies and from active geological exploration work during the year. The validation by the State Committee for Reserves of the Russian Federation of the Blagodatnoye deposit resources may be credited as the most significant result of geological exploration work in 2005. It was the first time in Russia in the last 10 years that the resources of a newly explored major gold deposit were included in the state resources.

In 2005, Polus's companies conducted geological exploration at the following 9 licensed gold deposits: Natalka deposit, Blagodatnoye deposit, Olimpiada deposit, Panimbinskaya deposit, Titimukhta, Chertovo Koryto, Mukodek, Verninskoye and Degdekanskoye ore field.

In 2005, Lenzoloto performed exploration work at 24 licensed areas of alluvial gold and one area of hard rock gold.

In addition, projects were prepared for the prospect appraisal work at Eastern site (Magadan region), the Razdolinsky site and the Zyryanovsky site, prospect appraisal and exploration work at the Quartzevaya Gora deposit (Krasnoyarsk region) and exploration work at the Bamsky deposit (Amur region).

At the end of 2005, preparations began for geologic exploration projects and an audit of reserves in accordance with the JORC Code at the Kuranakh ore field and the Nezhdaninsky and Kyuchus¹ deposits in the Republic of Sakha (Yakutia).

The volume of drilling work grew significantly in 2005 – more than 2.5 times to 143 thousand running meters as compared to 57 thousand running meters in 2004.

¹ Geologic exploration license is held by Yakutskaya Mining Company (Republic of Sakha – Yakutia)

Ore mined and gold produced

Operating highlights of Polus

('000 tonnes or as noted)

	2005	2004	2003
Ore mined			
Olimpiada deposit ⁽¹⁾			
Ore mined			
Oxidized ore	1,631	1,824	1,710
Sulfide ore	3,562	3,385	4,074
Average gold grade (g/tonne)			
Oxidized	8.6	10.9	11.1
Sulfide	3.3	4.6	3.7
Alluvial gold deposits ⁽²⁾			
Sand washed (million cubic meters)	10.8	13.06	–
Average gold grade (g/m ³)	0.6	0.6	–
Kuranakh ore field ⁽³⁾			
Ore mined	842	–	–
Average gold grade (g/tonne)	1.67	–	–
Zapadnoye deposit ⁽⁴⁾			
Ore mined	623	272	–
Average gold grade (g/tonne)	1.61	2.1	–
Natalka deposit ⁽⁵⁾			
Ore mined	–	94	–
Average gold grade (g/tonne)	–	2.8	–
Gold produced ('000 ounces)			
Olimpiada deposit ⁽¹⁾	783	820	832
Alluvial gold deposits ⁽²⁾	212	246	–
Kuranakh ore field ⁽³⁾	27	–	–
Zapadnoye deposit ⁽⁴⁾	15	11	–
Natalka deposit ⁽⁵⁾	1	8	–
Nezhdaninskoye deposit	1	–	–
Total production of gold	1,038	1,085	832

Notes:

(1) Total gold output at the Olimpiada MEC amounted to 813,000 ounces. Since a part of the gold produced at Olimpiada MEC in 2005 was refined by the Krasnoyarsk Precious Metals Plant in January 2006, this amount will be taken into account when preparing financial statements for 2006.

(2) Polus began to consolidate its 57.0% interest in Lenzoloto (subsequently increased to 68.2%), which develops alluvial gold deposits, in April 2004. The data for 2004 represent the volume of sands washed and gold produced by Lenzoloto from the date of consolidation up until 31 December 2004.

(3) The deposits at the Kuranakh ore field are developed by Aldanzoloto GRK, which was acquired by Polus in September 2005. The data reflect indicators consolidated from 1 October 2005.

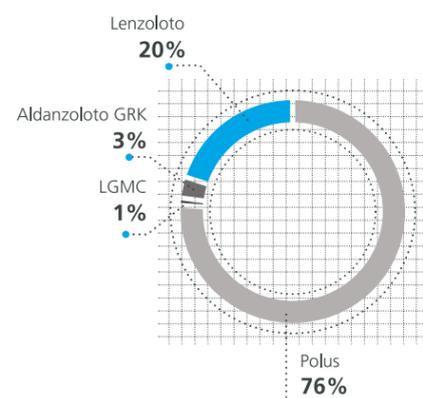
(4) The Zapadnoye deposit is developed by the Lenskaya Gold Mining Company, a 100% subsidiary of Polus created at the end of 2004. In 2004, the Zapadnoye deposit was mined by a company, which was part of Lenzoloto. Data for 2004 are included from the date of consolidation of Lenzoloto by Polus up until 31 December 2004. The total ore mined in the Zapadnoye deposit in 2004 amounted to 314,000 tonnes. The production volume of Zapadny MEC includes the amount of gold produced through the testing of ore processing technology at the Chertovo Koryto deposit.

(5) Polus began to consolidate its 57.1% interest in Matrosov Mine (subsequently increased 88.4%), which develops the Natalka deposit, in April 2004. The data for 2004 represent the volume of ore mined and gold produced by Matrosov Mine from the date of consolidation up until 31 December 2004. The volume of ore mined by Matrosov Mine in 2004 amounted to 180,000 tonnes and the volume of gold production amounted to 14,000 ounces. Mining and extraction of gold at the Natalka deposit were suspended in summer 2004 in order to conduct geological exploration work to further explore the flanks and deep horizons of the deposit.

The full production volume of Polus for the year ended 31 December 2005 was 1,038 thousand ounces of gold compared to 1,085 thousand ounces of gold in 2004. The reduction in reported output was primarily due to the fact that a part of the gold produced at Olimpiada MEC in 2005 was refined by the Krasnoyarsk Precious Metals Plant only at the beginning of 2006. These data will be considered when preparing financial statements for 2006. The reduction in gold production at the alluvial deposits of Lenzoloto in the Irkutsk region was offset by the consolidation of Aldanzoloto GRK (Republic of Sakha – Yakutia) acquired in the second half of 2005.

Gold production in 2005

(100% = 1,038 thousand ounces)



CJSC Polus Olimpiada MEC

The Olimpiada MEC with annual gold output over the past ten years at least 804,000 ounces is the main production facility of Polus, accounting for 76% of the gold produced by the Group.

In 2005, the Olimpiada MEC produced 813,000 ounces of gold, thus meeting its planned target. Part of this gold was refined by the Krasnoyarsk Precious Metals Plant only at the beginning of 2006. Therefore, the refined gold output at Olimpiada MEC amounted to 783,000 ounces. It mined 1,631.3 thousand tonnes of oxidized ore and 3,561.8 thousand tonnes of sulfide ore with respective gold grades of 8.6 g/tonne and 3.3 g/tonne. The production of oxidized ores fell by 10.58% in 2005, while the production of sulfide ores grew by 4.97%.

Gold extraction rate from the oxidized ore processed by the Olimpiada MEC increased from 96.9% in 2004 to 97.1% in 2005. Gold extraction rate for sulfide ores also grew insignificantly from 80.2% in 2004 to 80.74% in 2005.

Due to the reduction of the reserves of more enriched oxidized ores, which are expected to be fully exhausted by 2008, in 2005 a large-scale investment project was initiated to extend the facilities of the Olimpiada MEC with a view to preserving stable gold production volumes from sulfide ores.

In 2005, Olimpiada MEC began construction of the third section of the gold extraction plant for primary ore processing. The design capacity of Gold-Extracting Plant No. 3 is 5 million tonnes of ore per annum. The launch of the new plant is scheduled for 2007 and the target design capacity is planned to be achieved in 2008. The launch of plant No. 3 will provide for the processing of the primary ore reserves not processed to date and will increase the overall capacity for sulfide ore processing to 8 million tonnes.

As part of the project for the reconstruction of the Olimpiada MEC, it is also planned to extend the Vostochny and Zapadny pits, increase the pit base of the company and construct a road and housing for its employees.

In 2005, the Olimpiada MEC outsourced the refining of gold to an independent precious metals refinery – the Krasnoyarsk Precious Metals Plant.

OJSC Lenzoloto Alluvial gold deposits

In 2005, Lenzoloto companies washed 10.8 million m³ of gold bearing sands with an average gold grade of 0.6 g/m³. Lenzoloto companies mined 212,000 ounces of gold, a decrease in production by 14% compared to the previous year. Alluvial gold production volumes in the Irkutsk region continued to fall.

OJSC Aldanzoloto GRK Kuranakh MEC

In 2005, Kuranakh MEC mined 3,368 thousand tonnes of ore (of which 797 thousand tonnes were mined after the company was consolidated by Polus from 1 October 2005).

In 2005, gold production by Kuranakh MEC amounted to 27,000 ounces of gold after the company was consolidated by Polus from 1 October 2005.

In 2005, the Kuranakh MEC outsourced the refining of gold to the Prioksky Precious Metals Plant.

In 2005, industrial testing of the heap leaching technology started on the ores of the Kuranakh ore field. In 2006, it is planned to obtain 6,100 ounces of gold at the Nadezhny heap leaching section by processing 300 thousand tonnes of ore with average gold grade of 0.9 g/tonnes and extraction rate of 70%.

The total annual pit output of the Kuranakh MEC is approximately 11 million m³ of mined rock and almost 3.6 million tonnes of mined ore.

LLC LGMC Zapadny MEC

In 2005, Zapadny MEC mined 623.4 thousand tonnes of ore with an average gold grade of 1.61 g/tonne, increasing production almost twice. The production of gold at Zapadny MEC for the year ended 31 December 2005 was 13,545 ounces of gold. During 2005 in the course of the geological exploration work on the Chertovo Koryto deposit, LGMC also produced 1,575 ounces of gold.

In 2005, the Zapadny MEC outsourced the refining of gold to an independent precious metals refinery – the Krasnoyarsk Precious Metals Plant.

OJSC Matrosov Mine Matrosov mine

In summer 2005, Matrosov Mine continued geological exploration on the flanks and deep horizons of the Nataika deposit. Design work was also completed for a geological exploration for new licenses for the Degdekan and Tokichan (western site) ore fields.

As a result, reserves of the Nataika deposit below 600 meters grew by 576 tonnes with gold grade of 1.59 g/tonne. Also, a new Vostochnaya ore body was discovered, parallel to the main exploration area.

According to a quick-look analysis of the reserves of the Nataika deposit following the geological exploration, they amounted to more than 1,000 tonnes for B+C1 category and 500 tonnes for C2 category. The geological exploration results for the deposit are planned to be presented to the State Committee for Reserves of Russia in 2006.

••• Review of sales performance

9.5

Sales of gold by Polus and its subsidiaries

('000 ounces)

Entities	2005	2004	2003
Polus	795	819	794
domestic sales	334	819	794
export sales	461	–	–
Lenzoloto	211	257	–
LGMC ⁽¹⁾	15	–	–
Aldanzoloto GRK ⁽²⁾	27	–	–
YVMC ⁽²⁾	1	–	–
Matrosov mine ⁽³⁾	1	10	–
Total⁽⁴⁾	1,049	1,086	794

Notes:

(1) Includes sales of LGMC subsidiaries mining hard rock gold deposits (CJSC Tonoda, CJSC GRK Sukhoy Log).

(2) Includes sales of Aldanzoloto GRK and YVMC from the time of their acquisition by Polus (1 October 2005). Total sales of the companies for the year ended 31 December 2005 were 93,900 ounces and 1,700 ounces of gold, respectively.

(3) Sale of residual amounts of gold after the cleanup of the gold extraction plant.

(4) Totals may differ from the sum of the components due to rounding.

During 2005, Polus sold gold in the domestic market at a minor discount to its global price. Sales were made through the centralized distribution system: Polus sold both its own gold and gold of subsidiaries (except for Matrosov Mine and newly acquired companies – Aldanzoloto GRK, YVMC, which sold gold under direct contracts with banks) acting on the basis of agency agreements with them.

In addition, Polus obtained an export license from the Ministry of Economic Development of Russia and in February 2005 concluded its first direct export contract. Sales of gold in the international market amounted to 461 thousand ounces of gold. Deliveries of gold bullion in accordance with the standards of the London Bullion Market Association were made directly to the buyer's vault (Credit Suisse, Zurich, Switzerland). Sales were at prices determined on the basis of the London fixing plus an agreed upon premium.

During 2005, the average gold sale price for the group amounted to USD 449 per ounce (with the average London fixing of USD 444 per ounce).

••• Commitment to environmental protection

9.6

Polus is committed to the use of environmentally friendly mining and extraction technologies and to reducing the use of cyanide application in gold production in order to decrease risks to its employees, the residential areas located nearby Polus gold mining operations and to the environment as a whole.

Polus companies conduct their production activities in accordance with the requirements of Russian environmental legislation and the International Cyanide Management Code in the production of gold and work with the federal environmental agencies and public environmental organizations.

During 2005, the total cost of environment protection measures for Polus amounted to USD 3 million.

Polus

The Olimpiada MEC has created and effectively operates a sanitary, state-of-the-art industrial laboratory accredited by the Accreditation System of Analytical Laboratories.

On-going monitoring of atmospheric air demonstrated that in 2005 the plant did not exceed the established limits for sources of emission and the concentration of controlled pollution did not exceed the set norms.

To ensure compliance with pollutant limits for atmospheric emissions and increase the efficiency of the dust and gas purification equipment, the plant performs organizational measures and reconstructs and modernizes production facilities.

During 2005, the plant completed the construction of the third section of the tailing pond and local sewage treatment facilities with a capacity of 1,500 m³ per day. It started the construction of local stormwater treatment facilities. Jointly with specialists from the leading institutes of Russia, scientific research work was conducted to select an effective technology for the treatment of unbalanced water in the tailing pond. Rational use of water resources ensured the reduction of wastewater discharge to surface water reservoirs by 322 thousand m³ (or by 32%) as compared to the previous year.

The company pays particular attention to the organization of waste treatment. Waste of hazard class 1 is fully transferred to special companies for reclamation, waste of hazard classes 2 and 3 is reclaimed internally and waste of hazard classes 4 and 5 is buried in internal waste dumps at which a range of measures is implemented to prevent harmful impact on the natural environment. All the waste disposal operations are performed in accordance with the approved waste generation norms.

In 2005, capital investment in environmental protection measures amounted to USD 1.6 million.

Lenzoloto

Lenzoloto's key environmental protection activities are aimed at preventing the pollution of water by suspended substances as a result of mining work. In 2005, a set of hydraulic structures was constructed including cascades of dams and settling basins, conduits and ditches with a capacity of 1.2 million m³ and a range of special measures were implemented to prevent the discharge of oil products in the hydrosphere.

To ensure the continuous monitoring of the quality of wastewater treatment, an industrial sanitation lab was created and operated by LLC LenRem, a subsidiary of Lenzoloto.

During 2005, Lenzoloto's environmental protection costs amounted to about USD 800 thousand.

Aldanzoloto GRK

During 2005, pollutant atmospheric emissions at Aldanzoloto GRK came from 279 sources and amounted to 52.5% of the established limit. Water consumption was at 74.5% of the established limit.

A building adjacent to the well at the Kuranakh mine was constructed, the tailing pond at the Kuranakh gold extraction plant was reconstructed and capital repairs were performed on the septic tanks at the Kuranakh mine.

During 2005, the environmental protection costs of Aldanzoloto GRK amounted to approximately USD 100 thousand.

LGMC

Zapadny MEC develops the Zapadnoye deposit without the disposal of wastewater into water bodies and employs a recirculated water supply.

In 2005, the first section of the tailing pond dam was constructed. Observation wells were drilled. A settling basin for the hydrometallurgical unit was constructed with a high degree of protection and an impermeable screen from welded polyethylene sheets covering the entire floor and walls of the basin.

For atmospheric air protection, a cyclone was installed on the boiler in the rotational village and ventilation equipment was installed in the cyanide warehouse and the hydrometallurgical unit.

During 2005, environmental protection costs amounted to more than USD 100 thousand.

YVMC

Environmental measures taken at the Nezhdaninsky mine in 2005 were aimed at ensuring the safe flow of spring floodwater and mitigation of the risk of pollution. The tailing pond dam at the gold extraction factory was strengthened and the underground water intake facilities providing for the potable and process water needs were inspected, at the total cost of USD 20 thousand.

Matrosov Mine

In 2005, the Matrosov Mine performed an additional geological survey of the Nataika deposit. In 2005, the mine restored the fencing of the sanitary protection zone for underground water intake and in the second half of the year stopped the mine water discharge to the Nataika creek. In performing the geological exploration work drilling sites were equipped with special ditches for the settling of the heavy residues of drilling mud, preventing their penetration into the surface watercourse. Drilling mud was used to reduce the dust emission to the atmospheric air in the process of drilling.

During 2005, the environmental protection costs of Matrosov Mine amounted to approximately USD 300 thousand.

•• Review of corporate developments

9.7

The major events in corporate development were:

- acquisition of Jenington International Inc. holding a 20% stake in Gold Fields Limited (South Africa) from MMC Norilsk Nickel in April 2005;
- acquisition of three gold mining assets in the Republic of Sakha – Yakutia in August 2005;
- consolidation of interests in Russian gold mining companies Lenzoloto and Matrosov Mine; and
- acquisitions of a number of promising gold mining assets in Russia.

Acquisition of a 20% interest in Gold Fields Limited (South Africa)

In April 2005, Polus acquired Jenington International Inc., which owns 98.5 million shares or about 20% of total issued share capital of Gold Fields Limited (South Africa).

Gold Fields is one of the largest global gold producers and the second largest gold producer in South Africa. In 2005, Gold Fields produced 4.199 million ounces of gold. Gold Fields mines gold in Africa and Australia. Gold Fields' shares are listed on the Johannesburg Stock Exchange, its ADRs are traded on the New York Stock Exchange and the London Stock Exchange.

This acquisition was financed by the increase of the share capital of Polus through the distribution of 126 additional registered uncertified shares of Polus with a par value of RUR 400 (approximately USD 14.5) each at RUR 290,609,959 (approximately USD 10.5 million) per share in a closed subscription to its sole shareholder MMC Norilsk Nickel. A significant portion of funds received from the distribution of shares (USD 946 million) was used for the acquisition by Polus of Jenington International Inc. holding a 20% interest in Gold Fields Limited (South Africa).

In March 2006, Jenington International Inc. sold the 98.5 million ordinary shares of Gold Fields Limited at USD 20.50 per share.

Acquisition of gold mining assets in the Republic of Sakha (Yakutia)

In September 2005, Polus announced the acquisition of a 99.2% interest in LLC Aldanzoloto GRK², 50% of OJSC Yuzhno-Verkhoyanskaya Mining Company and 100% in OJSC Yakutskaya Mining Company from Investment Group Alrosa for USD 285 million.

The acquired companies have mineral rights for three licensed areas located in the Republic of Sakha – Yakutia – the Kuranakh ore field and the Nezhdaninskoye and Kyuchus deposits.

The mineral resources of the assets acquired by Polus (with account of interests) amounted to 28.1 million ounces (more than 875 tonnes of gold in accordance with the Russian classification).

Aldanzoloto GRK is the largest gold producer in the Republic of Sakha – Yakutia. The Nezhdaninskoye deposit is one of the largest hard rock gold deposits in the Russian Federation, ranking second in Russia by its mineral resources after Sukhoy Log (Irkutsk region).

The financial and operating results of the acquired assets have been consolidated by Polus from the fourth quarter of 2005.

Consolidation of interests in Lenzoloto and Matrosov Mine

At the end of 2004, Polus held 57.1% of shares in Matrosov Mine and 57% of shares in Lenzoloto.

Lenzoloto is a holding company, which owns the controlling interest in eight different gold-mining companies in the Bodaibo district, Irkutsk region, developing alluvial gold deposits. The company produced approximately 212,000 ounces of gold in 2005.

Matrosov Mine holds the license for the development of the Nataika gold deposit in the Magadan region. In 2004–2005, Polus performed an additional geological survey of the Nataika deposit. According to the JORC Code standards, the indicated and inferred resources of the Nataika deposit amount to more than 30 million ounces of gold. Gold production at the Nataika deposit was suspended in summer 2004 for geological exploration work.

In June 2005, Polus won the tenders for the sale of Lenzoloto shares, which were held by OJSC Atomredmetzoloto. The company acquired 5.61% of Lenzoloto for USD 2.9 million. Subsequently, Polus acquired 83,500 shares of Lenzoloto on the market for USD 561,000. As a result of these acquisitions, Polus became the owner of 68.2% of Lenzoloto.

In May 2005, Polus purchased the full additional issue of shares of Matrosov Mine distributed through a closed subscription of 186,302 shares for USD 67.8 million. As a result of the acquisition of additional shares in Matrosov Mine, Polus became the owner of 88.44% of the company. The funds received were used for the completion of the additional deposit exploration as part of the geological exploration program implemented in 2004–2005.

Acquisitions of prospective gold mining assets in Russia in 2005

In January 2005, Polus won a tender for geological research work and development of the Mukodek deposit in the Irkutsk region for a consideration of USD 200 thousand.

In February 2005, Polus, through its subsidiary LGMC acquired 74% of the shares in OJSC Pervenets for USD 25.8 million where the remaining 26% were held by Lenzoloto. In April 2005, Polus increased its share in Pervenets to 100% following the acquisition of the remaining 26% of Pervenets shares by LGMC from Lenzoloto. Pervenets holds licenses for the geological survey and subsequent production of gold at the Verninskoye and Pervenets deposits located in the Bodaibo district of the Irkutsk region.

In February 2005, Polus won a tender for the right to use the subsurface resources at the Bamsky deposit in the Amur region for a consideration of USD 900 thousand.

In March 2005, Polus, through its subsidiary Matrosov Mine, won a tender for the right to use the subsurface resources at the Degdekansky deposit in the Magadan region for a consideration of USD 1,200 thousand.

In April 2005, Polus, through its subsidiary Matrosov Mine, won a tender for the right to use the subsurface resources with the purposes of geological research, exploration and production of gold at the Eastern site, which is part of the Tokichansky ore field in the Magadan region for a consideration of USD 600 thousand. The Eastern site is located near to the Degdekansky deposit, the license for which was obtained by Polus in March 2005.

In June 2005, Polus won the tenders for the right to use the subsurface resources in two license areas in the Krasnoyarsk region: the Zyryanovsky ore cluster for a consideration of USD 187.5 thousand and a section of the Razdolinsky ore cluster for a consideration of USD 750 thousand.

In November 2005, Polus won a tender for the right to use the subsurface resources at the Quartzevaya Gora (Quartz Mountain) deposit in the Krasnoyarsk region for a consideration of USD 60 thousand.

² In January 2006, LLC Aldanzoloto GRK was transformed into OJSC Aldanzoloto GRK.

••• Review of financial performance of gold mining assets (Polus) in 2005

9.8

Key factors that affected the financial results of Polus group in 2005:

- growth of average market gold prices by 10% as compared to 2004;
- deterioration of mining and geological conditions at the Olimpiada deposit (increase of the stripping ratio, deepening of the pit, decline of the gold ore grade);
- growth of prices for consumables and spares, including for fuel (7.7%) and chemicals (7.4%);
- acquisition of gold mining subsidiaries Aldanzoloto GRK, Yuzhno-Verkhoyanskaya Mining Company and Yakutskaya Mining Company in Yakutia and consolidation of their financial results since their acquisition in the fourth quarter of 2005;
- RUR appreciation against the USD, which amounted to 2% based on the average annual rate.

Financial highlights

(US dollars million or as noted)

	2005	2004	2003
Gold sales revenues	473	442	299
Cost of gold sales	266	235	107
Gross profit on metal sales	207	207	192
Selling, general and administrative expenses	60	32	17
Other net operating expenses	25	(9)	15
Operating profit	122	184	159
Impairment of goodwill on acquisition	–	115	–
Profit before income taxes	167	72	164
Net profit for the year	115	10	120
Cash and cash equivalents	28	13	4
Investments in securities and other financial assets	4	3	–
Capital construction-in-progress	107	62	31
Property, plant and equipment	965	516	216
Total assets	3,573	1,138	409
Short-term loans and borrowings	26	36	–
Long-term loans and borrowings	5	9	–
Share capital and reserves	3,106	943	339
Total liabilities	467	195	69
Net cash flows generated by operating activities	52	127	147
Net cash flows used in investing activities	(1,307)	(593)	(145)
Net cash flows generated by financing activities	1,270	471	–
Total number of issued shares	419	293	243
Earnings per share (US dollars thousand)			
Basic	467	110	972
Fully diluted	314	59	492

Gold sales revenue

	2005	2004	2003
Gold sales revenue (US dollars million)	473	442	299
Consolidated gold sales ('000 ounces)	1,049	1,086	794
Average selling price of gold (US dollars per ounce)	449	407	377

Revenues from gold sales increased by 7% due to the following factors:

- increase in the average gold selling price in the domestic and external markets in 2005 by 10% as compared to 2004 to USD 449 per ounce, with the average export price of gold in 2005 amounting to USD 457 per ounce (the group did not have export sales in 2004); and
- reduction of physical sales of gold from 1,086,000 ounces in 2004 to 1,049,000 ounces in 2005 due to the reduction of alluvial gold production by Lenzoloto subsidiaries partially offset by the growth resulting from the sale of gold by Aldanzoloto GRK and Yuzhno-Verkhoyanskaya Mining Company acquired in 2005.

Cost of gold sales

(US dollars million)

	2005		2004		2003	
	group	% of total	group	% of total	group	% of total
Cash operating costs						
Consumables and spares	108	46	83	43	33	38
Labor	67	29	64	33	31	35
Mineral extraction tax and pollution tax	30	13	26	13	18	21
Utilities	14	6	12	6	3	3
Refining	3	1	3	2	2	2
Other cash costs	11	5	5	3	1	1
Total cash operating costs	233	100	193	100	88	100
Amortization and depreciation of operating assets	42		41		23	
Increase in metal inventories	(11)		(2)		(3)	
Provision for land reclamation and decommissioning of assets	2		3		–	
Cost of gold sales	266		235		108	

During 2005, the cost of gold sales grew by 13% from USD 235 million in 2004 to USD 266 million in 2005.

Cash operating costs

In 2005, cash operating costs increased by 20% and amounted to USD 233 million as opposed to USD 193 million in 2004. In 2005 consumables and spares continued to account for the largest portion of cash operating costs (46% as compared to 43% in 2004). At the same time, the share of labor costs decreased from 33% in 2004 to 29% in 2005.

The key reasons for the growth of cash operating costs in 2005 included:

- increase in prices for fuel, consumables and spares;
- deterioration of mining and geological conditions at the Olimpiada deposit resulting in increased costs for extraction and processing of gold;
- increase of the share of sulfide ores in total ore processed in 2005 by 4%; sulfide ore processing requires on average two times more reagents and materials and three times more energy;
- RUR appreciation against the USD and respective increase of costs in US dollar terms; and
- consolidation of cash operating costs of the acquired Yakut subsidiaries for the fourth quarter of 2005 totaling USD 13 million.

Consumables and spares

During 2005, the cost of consumables and spares increased by USD 25 million to USD 108 million. This increase is explained mainly by the growth of fuel prices (7.7%) and chemical prices (7.4%) and increase of fuel and material consumption as a result of deteriorating mining and geological conditions.

Labor

In 2005, labor costs increased by USD 3 million up to USD 67 million. This increase results from the consolidation of acquired Yakut subsidiaries and the growth of these costs in US dollar terms and as a result of the RUR appreciation against the US dollar.

Mineral extraction tax and pollution tax

The mineral extraction tax and pollution tax increased from USD 26 million up to USD 30 million in 2005, which relates mainly to the growth of gold prices by an average 10% as compared to 2004.

Amortization and depreciation of operating assets

During 2005, the amortization and depreciation charge on operating assets remained virtually on the same level as in 2004, amounting to USD 42 million despite the fact that average annual depreciated value of property, plant and equipment in 2005 was significantly higher than in 2004.

The reason for this was the review and resulting increase of the useful lives of gold mining and smelting property, plant and equipment in 2005. Accordingly, the rate of depreciation on these property, plant and equipment decreased in 2005 as compared to 2004 and so did the depreciation charge. Under IFRS this change was reflected as change in accounting estimates prospectively, without adjusting the prior year amount.

Increase in gold inventories

During 2005, the metal inventories increased by USD 9 million compared to USD 11 million mainly due to an increase in unrefined gold balances in CJSC Polus at the end of December 2005.

Cost of gold production by Polus and its subsidiaries

(US dollars per ounce or as noted)

	2005	2004	2003
Gold production ('000 ounces)	1,038	1,085	832
Unit cost of production	244	209	133
Cash operating cost	206	175	107

The amortization and depreciation of operating assets constituted a considerable component of the production cost in 2005, amounting to USD 38 per ounce.

In 2005, the cost of production per ounce of gold of the Polus group increased by USD 35 per ounce to USD 244 per ounce and cash operating costs of the Polus group grew by USD 31 per ounce to USD 206 per ounce.

During 2005, the cost of production per ounce of gold by Polus grew for the following reasons:

- consolidation of the operating results of the acquired Yakut companies with a higher gold production cost;
- growth of consumables prices;
- deterioration of mining and geological conditions at the Olimpiada deposit; and
- RUR appreciation against USD.

The table below demonstrates the cost of production per ounce of gold and cash operating costs at Polus group for the year ended 31 December 2005 by business units.

(US dollars per ounce)

Business unit	Unit cost of production	Total cash costs
Polus	196	159
Lenzoloto	373	337
Yakut companies	534	457

Selling, general and administrative expenses

During 2005, selling, general and administrative expenses ("SG&A") of the group increased by USD 28 million (by 88%) to USD 60 million. The key growth factors for these expenses were as follows:

- growth of the cost of auditors', lawyers' and other professional services by USD 2.1 million (by 148%) in connection with the preparation for the spin-off of the gold mining assets from MMC Norilsk Nickel and creation of a separate company;
- growth of transportation costs by USD 2.6 million (347%) as compared to 2004 on account of travel costs connected with the establishment of the holding;
- growth of salary costs to USD 33.5 million by USD 13.8 million (70%) as compared to 2004. This growth is mainly connected with the start of active operations of the group's corporate center and LLC Lenskaya Gold Mining Company holding, as well as the consolidation of the SG&A expenses of the Yakut companies acquired by the group for a total of USD 1.4 million; and
- growth of tax payments by USD 1.4 million (by 41%) as compared to 2004, mainly on account of property tax increase due to the acquisition of property, plant and equipment.

Other net operating expenses

During 2005, the group's other operating expenses amounted to USD 25 million whereas in 2004 the group had USD 10 million of other operating income. Thus, the net change of operating results amounted to USD 35 million. The main reasons for this were as follows:

- recognition of the impairment of assets by USD 6 million due to the accrual of the asset decommissioning obligations at Matrosov Mine (as the operation of property, plant and equipment was terminated and their recoverable amount was equal to zero due to the liquidation of the mine, the obligation in the full amount of USD 6 million was expensed);
- write-off of the construction-in-progress projects by Lenzoloto totaling USD 5 million; and
- accrual of the provision for tax risks of USD 2 million, predominantly on account of the risk of partial non-recovery of value added tax, as opposed to the reversal of the respective provision in 2004 for USD 15 million.

Net profit for the year

Net profit for the year increased from USD 10 million in 2004 to USD 115 million in 2005.

Cash and cash equivalents

At 31 December 2005 cash and cash equivalents amounted to USD 28 million as compared to USD 13 million as at 31 December 2004.

Investments in securities and other financial assets

At 31 December 2005 investment in securities and other financial assets amounted to USD 2,234 million as compared to USD 397 million as at 31 December 2004. The increase by USD 1,837 million relates mainly to the acquisition of 100% in Jennington International Inc., the holder of 20% in Gold Fields, a South African gold mining company and the growth of market value of Gold Fields to USD 1,736 million as of 31 December 2005.

Property, plant and equipment

At 31 December 2005 the carrying value of property, plant and equipment amounted to USD 965 million as compared to USD 516 million as at 31 December 2004. The increase by USD 449 million (87%) was the result of:

- consolidation of property, plant and equipment of subsidiaries acquired in 2005, which provided for the growth of property, plant and equipment by an overall USD 424 million, including USD 327 million of mineral use rights;
- acquisition of property, plant and equipment for USD 79 million and commissioning of capital construction projects with a value of USD 20 million;
- changes of accounting policy in respect of geologic research and mine development work – transition from charging these costs to period expenses to capitalization until the moment when the respective deposit reaches commercial production quantities or expensing where there is no evidence of proved or probable reserves; this change in the accounting policy led to increase of property, plant and equipment by USD 32 million; and
- increase of the carrying value of property, plant and equipment on account of the revision of the asset decommissioning provision by USD 27 million.

The increase of property, plant and equipment was partially offset by the disposal of property, plant and equipment with a value of USD 21 million (including depreciation on disposal of USD 3.5 million), including on disposal of subsidiaries, effect of translation from the functional currency to the currency of presentation of USD 27 million and depreciation charges for 2005 of USD 53 million.

Short-term loans and borrowings (including current portion of long-term borrowings)

At 31 December 2005 short-term loans and borrowings amounted to USD 26 million as compared to USD 36 million as at 31 December 2004. The decrease in the debt was mainly due to the fact that in 2005 Matrosov Mine fully repaid its obligations on short-term notes totaling USD 23 million. In addition, during 2005 Lenzoloto group fully repaid the majority of its short-term loans totaling USD 6 million. This reduction was partially offset by the consolidation of the short-term payables of the acquired Yakut subsidiaries of USD 21 million.

Long-term borrowings and financial lease obligations

At 31 December 2005 long-term borrowings and financial lease obligations of the Polus group amounted to USD 5 million as compared to USD 9 million as at 31 December 2004. This reduction was the result of the repayment of long-term bank loans totaling USD 4 million.

Share capital and reserves

At 31 December 2005 capital and reserves amounted to USD 3,106 million (including minority interest of USD 30 million) as compared to USD 943 million (including minority interest of USD 44 million) as at 31 December 2004. The main reasons for the increase were as follows:

- issue of additional shares by Polus, which led to increase of the group's capital by USD 1,300 million;
- revaluation surplus on securities available for sale, of USD 819 million, including an interest in Gold fields, South Africa; and
- growth of the group's retained earnings by USD 107 million.

Net cash flows generated by operating activities

Net cash provided by operating activities was USD 52 million, which is USD 75 million less than in 2004. Decrease of net cash inflows was explained by the following factors:

- increase of the balance of cash costs in work in progress by USD 14 million. Cash invested in work in progress in 2005 was not yet charged against revenue received from subsequent sales of finished goods as at 31 December 2005, thus creating a timing difference;
- increase of cash operating costs by USD 40 million;
- increase of cash SG&A costs by USD 27 million; and
- increase of the balance of inventories (fuel, spares and consumables) by USD 24 million. This increase was mainly on account of acquisition of spares for property, plant and equipment purchased in 2005, the growth of purchase prices and increase of fuel and consumables use due to the growth of ore processed volumes.

This increase of cash operating costs was partially offset by revenue growth by USD 30 million.

Net cash flows used in investing activities

In the reviewed period cash was used in investing activities mainly to finance acquisition of subsidiaries, property, plant and equipment, securities and other financial assets.

Cash used in investing activities increased from USD 593 million in 2004 to USD 1,307 million in 2005 by USD 714 million. This increase was due mainly to the following:

- acquisition of 100% in Jennington International Inc, holding 20% of shares in Gold Fields, South Africa, for USD 945 million;
- increase of expenses for the acquisition of property, plant and equipment from USD 70 million in 2004 to USD 146 million in 2005 by USD 76 million; and
- this increase was partially offset by the decrease of expenses for the acquisition of subsidiaries to USD 153 million in 2005 by USD 117 million and decrease of amounts for the acquisition of promissory notes from USD 756 million in 2004 to USD 613 million in 2005.

Net cash flows generated by financing activities

The main source of cash for the Polus group in 2005 and 2004 included the net cash flows from financing activities. The most significant item of this was proceeds from the issue of shares. During 2005, the cash inflows from financing activities of the Polus group amounted to USD 1,270 million (2004: USD 471 million), including cash received through the issue of shares – USD 1,300 million (2004: USD 499 million).

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OVERVIEW OF HUMAN RESOURCES AND SOCIAL POLICIES

10

The key directions of the Group's activity in the area of personnel management and social policies in 2005¹ were linked to changes to personnel management mechanisms as part of the process of transition to the industry-based management:

- development and implementation of new personnel development technologies and social programs;
- improvement of the personnel motivation systems;
- development of social partnership and in-house communications;
- assisting in the development of the social sphere in the regions of the Group's operation.

••• Personnel development

The main focus of the corporate policy for personnel development is on facilitating the full realization of labour and creative potential of each employee, instilling the corporate unity feeling and loyalty to corporate interests.

Major instruments used for implementation of these policies include professional training of employees, selection, hiring and adaptation of young workers and specialists, building a pool of potential managers, development of target staff groups.

The Group's professional employee training system was highly praised at a national level in 2005. The Group won first prize at the Russian Organization of High Social Efficiency national competition in the Personnel Development category.

In 2005, 23.4 thousand employees of the Group's core enterprises located in the Norilsk industrial district (over 40% of the total number of employees of relevant enterprises) took part in different training events. Over 80% of the total training activities are delivered at the Group's in-house training center.

The reporting year saw the introduction of a new in-house distance learning system, which efficiently distributes throughout the entity timely updates to knowledge within the fast changing business environment. Videoconferences are widely used for training purposes. These allow the engagement of renowned scientists/advisors and other key specialists in the training process despite the long distances between the Group's sites.

The efficiency of the Group's staff professional training system was confirmed by the expert examination conducted for the purposes of designing and implementing an integrated quality and environmental management system, which proved that the Group's staff training initiatives comply with the requirements of ISO 9001:2000 and ISO 14001:2004 standards.

The Group implements ongoing programs of search, selection, hiring and adaptation of young employees. Young workers are hired under the Knowledge Exchange program which includes additional theoretical and practical training at designated training centers and subsequent appraisal, after which a decision is made regarding employment of a particular trainee. In total, 398 new employees were hired by the Group under this program during the reporting year.

College students and recent graduates interested in joining the Group are encouraged to take part in the Professional Start and Intern programs. In 2005, 419 students and graduates of 15 relevant Russian higher educational institutions took part in the above programs.

The Group has developed and successfully implemented a system of training a pool of potential managers capable of filling vacancies at the executive level. The most able employees are annually selected on a competitive basis to managerial pools at three levels: junior managers (foremen), middle managers (heads of sections/shops), top managers (directors/deputy directors of the Group's structural divisions). In 2005, 725 of more than 1,000 candidates employed by the Group's key Norilsk-located enterprises were selected to form a pool of potential managers and 102 of them were subsequently appointed to managerial positions.

Another key focus of the Group's personnel development activities are special programs for target staff groups formed according to appropriate criteria; these groups are seen as being of vital importance for the achievement of the Group's goals. 2005 saw the continuation of the target staff group projects (such as the Counsellors' Academy, Foreman's University, Leader Movement of Young Specialists, etc.). The total number of employees participating in the staff target group events was about 34,500.

¹ A more detailed description of the Group's performance in the area of personnel management and social policies in 2005, and in a number of other areas connected with sustained development (health, safety and environment, etc), is provided in the Social Report of MMC Norilsk Nickel for 2005.

••• Personnel motivation

Monetary incentives, which form the key element in the personnel motivation system, are based on a comprehensive compensation policy which defines personnel compensation mechanisms and covers salaries and various social and monetary benefits.

Salaries and wages are linked to performance and labor productivity. In determining the level of remuneration the Group adheres to a concept of offering a competitive salary within the local labor markets. This ensures the attraction and retention of highly motivated and professionally qualified personnel.

Labor costs of the Group's entities presented in the IFRS financial statements as part of cost of metals sold (mine and concentrating costs, smelting costs, electrolysis and refining costs) and selling, general and administrative expenses amounted to USD 965 million in 2005.

To increase the efficiency of labor costs, and taking into account changing production needs and external conditions, corporate remuneration and incentive systems are continuously being improved to ensure a closer link between individual and team performance and the level of their compensation.

During 2005, base rates and wages were increased at the Taimyr Peninsula entities and at OJSC Norilsk-Taimyr Energy Company (NTEC). Performance management instruments were further developed including employee bonuses paid from collective incentive funds and bonuses to company managers based on the achievement of the Key Performance Indicators; the Group continued to successfully implement labor agreements based on the system of grades and personnel efficiency assessment and ensuring the retention of key staff and increased motivation towards efficient performance.

Over the reporting period, an increase in labor productivity was achieved through the efforts of the Group's employees and management, allowing the Group to retain a leading position by labor remuneration among the largest Russian mining companies. The average salary of staff within the Group's as compared to 2004 increased by more than 11% in 2005 to USD 1,195 (RUR 33,800).

To motivate employees for long-term productive labor and ensure their social adaptation upon retirement from the Group, the compensation package includes a corporate pension paid to participants in the program Joint Corporate Pension. This pension is formed from joint contributions to a non-government pension fund by employees and the Group. The entitlement for the plan is determined on the basis of labor record. At the end of 2005, 2,630 employees of the Group were enrolled in the program, of which 310 had the corporate pensioner status.

In the reporting year the Taimyr Peninsula entities launched a new social program of beneficial loans to employees. Staff eligible for the program includes the best employees of the Group. Since its conception, 152 employees have enrolled in the program.

Timely and adequate moral incentives for labor achievements promote employee self-awareness of their involvement and significance in attaining corporate goals; they stimulate interest towards improving the performance of a separate division and the company as a whole.

In 2005, 5,246 of the Group's employees were awarded for their outstanding productivity, successful implementation of innovative projects and many years of conscientious work.

A significant motivation effect of the moral incentives is achieved by surrounding the celebrated employees with an atmosphere of honor and respect. Such distinguished employees are invited as honored guests to events held in labor collectives and set the pattern for the younger generation of staff. Celebrated employees are awarded the priority right to participate in professional development programs (various types of training, including abroad) and to receive additional social benefits and guarantees.

••• Social partnership

Relationships with employees are built in accordance with the social partnership system developed and continuously evolving within the Group.

The regulation of social and employment relations between employer and employees is mainly performed through collective agreements. The system of collective agreements has been expanded and enhanced by the adoption in 2005 of an agreement on the regulation of social and employment relations at the Group's entities in 2006-2008, setting the basic standard for the relations between employer and employees in the social and employment sphere for all the companies of the Group located in the cities of Norilsk and Dudinka.

Further improvement of the social partnership mechanisms is achieved through the development of direct dialog between employer and employees, ensuring direct communication and enabling the Group to promptly address urgent issues directly at the levels at which they emerge and to extend these mechanisms to all the entities of the Group. For these purposes the Corporate Social and Labor Council of the Group and a new body of stakeholder communication – the Corporate Forum of the Group's entities located in Norilsk and Dudinka – were established in 2005.

Various collective bodies have been created to unite and coordinate the efforts of management and employees to develop and implement effective solutions to issues vital to the Group's operation and development. For example, the Group operates labor safety commissions, with members selected on a parity basis. MMC Norilsk Nickel operates and continuously improves the system of in-house communications, one of the main tools of which is the institute of social and labour contact centres.

••• Recreational and labor environment improvement programs

The severe climate of the Far North and specific labor conditions within the Group's plants require special care to be given to employee health issues. For many years the Group's entities have been implementing special healthcare and sanatorium/resort treatment programs for employees and their family members.

Healthcare activities are mainly carried out at recreation centers owned by the Group. Healthcare and sanatorium/resort treatment programs for employees and their family members are jointly financed by the Group, the employees themselves and state social insurance programs. This provides for a more careful attitude of the part of employees towards their health and increases their responsibility to undergo timely preventive, recreational and medical procedures.

In 2005, the number of discount vouchers for sanatorium/resort treatment provided to employees of the Group's plants located in the Far North and to their family members was 36 per 100 employees.

Employee participation in recreational programs and improvement of sanatorium/resort treatments lead to a decrease of illness frequency and an increase of employees' individual performance. According to the previous experience, employees that underwent the required recreational and medical procedures in the Group's sanatoriums had an absence rate of 15%–30% less than other employees.

Under the special-purpose Social Amenities at Production Facilities program effective from 2003, the Group performs repairs and renewal of social and labor objects at its major entities. In 2005, the Group commissioned 4 repaired and reequipped factory canteens, repaired amenity rooms at 6 entities (cloakrooms, shower rooms, aid posts), reequipped canteens and lunchrooms at 5 entities, purchased 40 mobile makeshift modules accommodated specifically for rotating work schemes in the Far North and continued to equip the Group's gyms with trainers and sports equipment.

••• Development of corporate culture

Corporate holidays, cultural and sports events organized by the Group play an important role in the creation of employee corporate solidarity, loyalty and commitment: pride in the Group's achievements, as well as contributing to the intellectual and physical development of the employees. The Company Day celebrated annually is ranked especially high in the hierarchy of the Group's corporate events. The best employees of the Group are invited to take part in the celebration and those that have achieved outstanding performance are awarded with corporate prizes.

In 2005, the Group celebrated the 70th anniversary of the Norilsk Mining and Metallurgical Combine named after A.P. Zavenyagin from which the Polar Division was created. Main anniversary events were combined with the Metallurgist Day celebrations. Over 150,000 Group's employees – residents of Norilsk industrial district and invited guests – took part in these celebrations.

In recognition of its merits and in connection with the above celebration MMC Norilsk Nickel was awarded a Certificate of Honor issued by the Ministry of Industry and Energy of the Russian Federation.

As the majority of the Group's employees are young people, special attention is paid to the youth creativity development. The Group promotes the development of its Merry Norilsk Nickel Club, which includes over 300 young employees. Thousands of Norilsk residents watch the Group's various teams competing.

For the last five years, MMC Norilsk Nickel has organized a Children's Club for the children of the Group's employees. The Club's key goals include the demonstration of the principal distinctive features and advantages of the Group's main employment areas to the young generation, instilling pride for their parents' work and strengthening the children's involvement in the Group's business. The corporate children's creativity contest Road to Tomorrow has become a tradition. About 2,000 children took part in it in 2005. Following the contest, a mobile exhibition was organized around the majority of the Group's production sites. The Children's Club activities can be seen on the children's website: www.nickelca.ru.

Physical training and sports facilitation among the Group's employees, as well as the promotion of a healthy lifestyle and physical fitness as a way to increase labor potential and productivity play a significant role in strengthening the corporate culture. This trend is especially vital for the Group's employees living in the harsh weather conditions of the Far North. In 2005, almost all of the Group's employees participated in fitness and sports events held at the Group's entities. Every fourth employee takes regular sporting and physical exercises.

••• Socially responsible restructuring

In order to improve production efficiency and attain a leading position in the global mining industry, MMC Norilsk Nickel, like many other large Russian enterprises created during the Soviet era, implements a large-scale restructuring process, which provides for rationalization of employment, as well as optimization of age and professional structure of the staff. Of the utmost importance to the Group are the social consequences affecting both retiring employees and local communities. The adverse social consequences of restructuring are minimized primarily through the retraining of redundant employees and their transfer to jobs in other Group entities or external organizations located in the same area. In addition to retraining programs, the Group maintains compensation schemes based on specialized social techniques ensuring effective social adaptation and defending the interests of redundant target employee groups.

When implementing socially acceptable restructuring, the Group focused particularly on corporate pension plans, stimulating voluntary retirement of employees upon reaching the statutory age limit, namely:

- Six Pensions;
- Lifelong Professional Pension (for most distinguished employees);
- Additional Corporate Pension; and
- Additional Pension Payment (introduced in 2005).

Designed to foster personnel rotation, the Lump Sum Retirement Payment program was implemented encouraging the voluntary retirement of employees in all age categories. This program was primarily intended for employees that were made redundant due to the disposal of non-core businesses.

As a result of these social adaptation programs, in 2005 over 1,400 of retirement age employees retired from the Group and moved to areas with a better climate. This ensured more efficient personnel rotation due to internal staff mobility and recruitment of younger employees and professionals.

••• Local community assistance

After the changes in the system of housing and utility complex management and the transfer of the social sphere assets to the municipal authorities, the Group continues to provide assistance to the social infrastructure in Norilsk. It performs capital repairs of housing facilities and reconstructs social infrastructure facilities (such as pre-school institutions, the children's library, city hospital, etc). The Group strives to prevent the deterioration of the social infrastructure in the conditions of limited government financing. During 2005, the Group, in conjunction with the Administration of Norilsk city, continued its active efforts to improve the housing facility management model and increase the effectiveness and transparency of expenditure for the maintenance of the housing and social assets of the city. As part of the agreements with Norilsk Administration, the Group has made capital repairs to the gyms in schools and has supported social programs initiated by the Administration including those aimed at stabilizing social processes in the course of the city's utility complex reform.

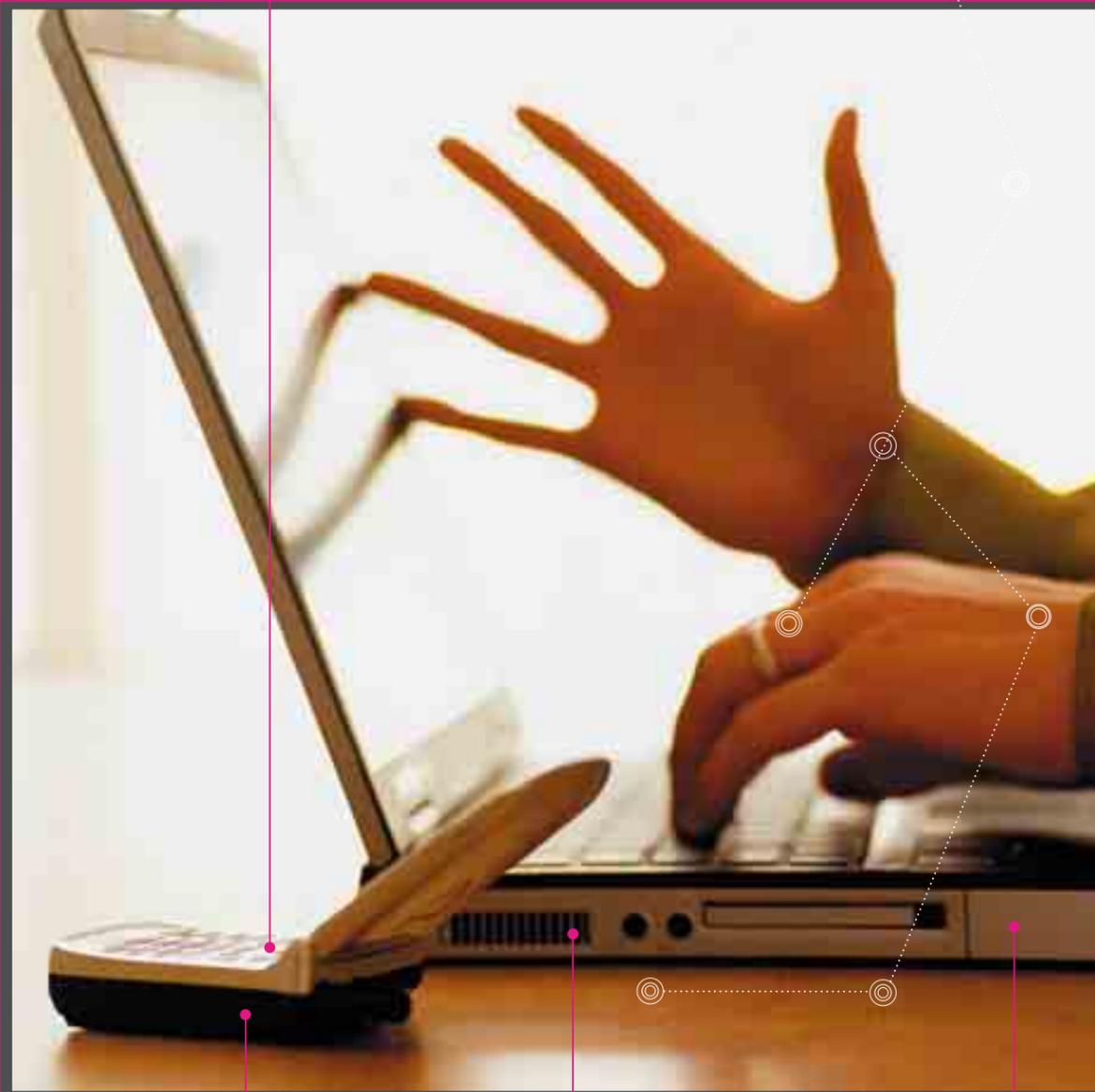
The Group provides extensive charitable support to the population in the areas of its operations on a systematic basis, in the framework of charitable programs, in close cooperation with regional government authorities, municipal authorities and public organizations.

In its charitable activities, the Group gives priority to work with young people and implements a number of programs aimed at the development of youths and children, which account for almost half of Norilsk's population. The program of sponsorship support to educational institutions is based on the Group's contacts with schools and kindergartens and is aimed at the creation of and improvement in conditions, which promote effective education and the development of the children's potential and their labor nurturing. The Group's employees are directly involved in on-going vocational guidance work with school students. The Group arranges meetings for school children with employee teams and excursions to the production entities. Staff from the Group also makes visits to schools to describe and explain the operations of the Group's entities.

The Group provides assistance to pensioners, war veterans, disabled persons, low-income families, children from large families, orphans and other socially vulnerable people to complement the benefits provided by the government's social security system. Over the last several years, the Group has been implementing in Norilsk a special program Social Support to Disabled Persons and Disability Prevention. In 2005, the Group sponsored the Norilsk orphanage and other specialized institutions for children.

Another direction of the Group's charitable activity is its participation in the development of the Taimyr Peninsula. The Group has a long-standing tradition of providing assistance and help to the Far North indigenous peoples inhabiting the Taimyr (Dolgan-Nenets) Autonomous District. The Group renders regular assistance to residential settlements of the Far North indigenous peoples, supports health care institutions, schools and kindergartens in the district, implements measures aimed at the preservation and restoration of the cultural traditions of the Far North peoples and the protection of the unique flora and fauna of Taimyr. The Group provides assistance to the indigenous settlements on a regular basis. The sponsorship programs are discussed and agreed upon with the heads of the settlements and regions and with the district administration.

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SHARE CAPITAL AND SHARE PRICES

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As of 31 December 2005, MMC Norilsk Nickel had an issued share capital of 213,905,884 ordinary shares with a par value of RUR 1 per share. Of them, 12,478,704 ordinary shares were held by the Company and 10,799,433 ordinary shares were bought back from shareholders in connection with the reorganization of MMC Norilsk Nickel in the form of spin-off of the gold mining assets.

••• Purchase of shares

In December 2004, the Company's Board of Directors made a decision to purchase up to 12,500,000 ordinary shares of MMC Norilsk Nickel at RUR 1,680 per share. Applications to sell shares were accepted by the Company from 15 December 2004 to 15 January 2005. The number of shares purchased by the Company from each shareholder who applied for sale of shares was determined on a pro rata basis. Shares were purchased from 16 January to 15 February 2005. As a result, the Company purchased 12,478,704 ordinary shares for a total of RUR 20,964.2 million. Shareholders received payment for the shares in February and March 2005.

••• Share buyback as a result of reorganization

The Extraordinary General Meeting of Shareholders of MMC Norilsk Nickel on 30 September 2005 agreed to reorganize the Company through spin-off. In accordance with the effective legislation, shareholders with voting rights who voted against the separation or did not take part in the voting were entitled to demand the buy-back of their shares by the Company.

Shareholders requests for the buyback of their shares were to be submitted from 1 October 2005 to 14 November 2005. A total of 407 requests were submitted. The shares were bought back at a ratio of 1.0 as the number of shares specified by the shareholders did not exceed the number of shares that the Company could buy back. The shares were bought back from 24 November 2005 to 14 December 2005. According to the purchase and sale agreements, a total of 10,799,433 registered ordinary shares were bought back from MMC Norilsk Nickel shareholders at RUR 1,855 per share. As a result, the Company bought back shares for a total of RUR 20,032.9 million from its shareholders.

••• Decrease in the share capital

On 16 December 2005, the Board of Directors decided to hold an Extraordinary General Meeting of Shareholders of MMC Norilsk Nickel on 17 February 2006 to discuss the reduction of share capital of the Company through the redemption of the ordinary shares purchased and bought back. On 17 February 2006, the shareholders decided by a majority vote to decrease the share capital of MMC Norilsk Nickel.

Following the redemption of the ordinary shares purchased by the Group in the period from January 2005 to February 2005 and of those bought back from shareholders in November 2005 to December 2005 due to the reorganization of MMC Norilsk Nickel in the form of spin-off of Polus, the issued share capital of the Company decreased by 23,278,137 ordinary shares to 190,627,747 ordinary shares with par value of RUR 1 each.

Changes to the Company's Charter regarding the decrease of the share capital were registered in the Unified State Register of Legal Entities on 17 March 2006.

••• Additional swap of shares of RAO Norilsk Nickel for shares of MMC Norilsk Nickel

In July 2005, the Company decided to conduct an additional swap of shares of RAO Norilsk Nickel for shares of MMC Norilsk Nickel for all shareholders of RAO Norilsk Nickel who did not exercise their right to perform this transaction earlier.

Share swap at a ratio of 1:1 began on 1 August 2005 and will end on 31 July 2006. As of 30 May 2006, it is estimated that a total of 201,452 shares have been swapped. Treasury stock of MMC Norilsk Nickel was used in the swap.

••• Listed shares

In Russia, MMC Norilsk Nickel shares are traded on the following exchanges under the following tickers:

Exchanges	Identifiable ticker
RTS – Moscow	GMKN classical market GMKNG exchange market
MICEX – Moscow	RU14GMKN0408 (4th issue) RU14GMKN0507 (5th issue)

In June 2001, the Company signed a depository agreement with The Bank of New York, under which the issue of Level-1 ADRs for MMC Norilsk Nickel shares was initiated. Custodial services for ADR transactions are rendered by ING Bank (Eurasia) ZAO. ADRs are traded abroad on the following exchanges:

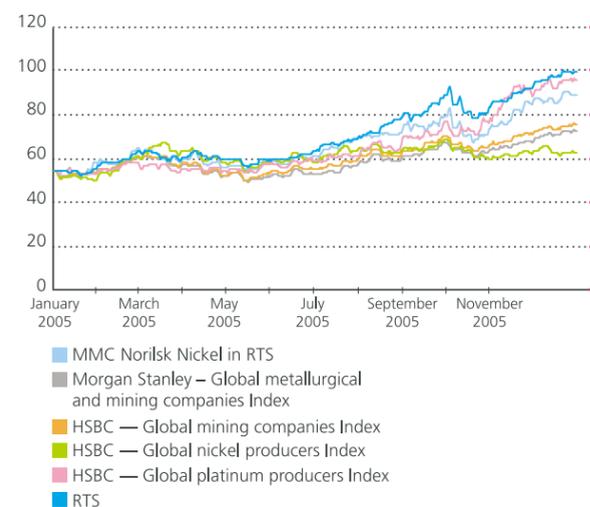
- over the counter ("OTC") in the United States (NILSY US);
- IOB, London Stock Exchange (MNOD LI); and
- Freiverkehr, Berlin-Bremen Stock Exchange (NNIA GR).

ADRs convert into ordinary shares of the Company at a 1:1 ratio. As of 31 December 2005, MMC Norilsk Nickel had a total 77.9 million ADRs outstanding.

The market capitalization of MMC Norilsk Nickel is used in the calculation of the key Russian stock indices, such as RTS, MICEX, Interfax, Moscow Times, AK&M, as well as the stock indices of the leading international investment institutions and stock exchanges, including the MSCI, CSFB, HSBC, The Bank of New York, and the Vienna Stock Exchange.

Performance of MMC Norilsk Nickel shares and selected mining indices

(MMC Norilsk Nickel shares in US dollars, indices adjusted to MMC Norilsk Nickel share price)



MMC Norilsk Nickel share price

(US dollars)

RTS share prices⁽¹⁾

	Minimum	Maximum	At the end of the period
2000	6.10	12.05	7.30
2001	6.50	20.85	17.02
2002	15.00	25.00	20.25
2003	20.25	66.00	65.15
2004	44.00	81.10	54.40
2005			
1st quarter	51.10	65.00	58.35
2nd quarter	53.55	63.60	60.60
3rd quarter	60.40	79.35	79.35
4th quarter	67.50	90.10	88.60

ADR prices at the London Stock Exchange

	Minimum	Maximum	At the end of the period
2001	10.90	17.05	17.00
2002	15.03	24.85	20.00
2003	19.80	26.70	66.50
2004	43.90	82.70	55.50
2005			
1st quarter	49.25	66.25	59.00
2nd quarter	53.50	63.20	61.27
3rd quarter	56.00	84.00	83.25
4th quarter	66.75	96.50	94.01

ADR price on electronic OTC section of Nasdaq

	Minimum	Maximum	At the end of the period
2001	10.71	17.50	17.25
2002	14.90	24.75	20.18
2003	20.05	26.60	67.25
2004	43.65	83.00	55.00
2005			
1st quarter	49.00	66.00	58.50
2nd quarter	53.70	63.00	61.00
3rd quarter	60.70	83.00	83.00
4th quarter	67.90	95.50	95.00

Note:

(1) Before the 4th quarter of 2001 – RAO Norilsk Nickel shares, after the 4th quarter 2001 – OJSC MMC Norilsk Nickel.

MMC Norilsk Nickel major shareholders⁽¹⁾

(Shareholders holding more than 1% of MMC Norilsk Nickel shares as of 15 May 2006)

Shareholder	Total number of shares million	% of the total number of issued shares
The Bank of New York International Nominees ⁽²⁾	47.5	24.9
Pharanco Holdings Co. Limited ⁽³⁾	22.9	12.0
Dimonsenco Holdings Co. Limited ⁽⁴⁾	22.9	12.0
Bektanco Holdings Co. Limited ^(3,5)	15.2	8.0
Rinsoco Trading Co. Limited ^(4,5)	15.2	8.0
CJSC HC Invest	14.1	7.4
Decoso Investments Limited ⁽³⁾	6.8	3.6
Confirmaro Trading Limited ⁽⁴⁾	6.8	3.6
Total major shareholders	151.4	79.5

Notes:

(1) The total number of shareholders in the Register included 71 legal entities (including 16 nominal holders) and 59,136 individuals.

(2) Excluding the ADRs held by Bektanco and Rinsoco.

(3) The beneficiary of these companies is Mr. V.O. Potanin.

(4) The beneficiary of these companies is Mr. M.D. Prokhorov.

(5) Including the shares converted into ADRs.

CORPORATE GOVERNANCE REPORT

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••• Board of Directors of MMC Norilsk Nickel⁽¹⁾**Andrey Alexandrovich Klishas**

Chairman of the Board of Directors since 2001

From 1999 to 2003 – Member of the Board of Directors, OJSC AKB Rosbank.

From 2000 to 2001 – Member of the Board of Directors, OJSC Sidanko.

From 2001 to 2002 – Member of the Board of Directors at OJSC Federal Contracting Corporation Roskhlleproduct.

Since 2001 – General Director and Chairman of the Management Board of CJSC Holding Company Interros.

Since 2002 – Member of the Board of Directors of CJSC APK Agros, OJSC Power Machines.

Since 2004 – Chairman of the Board of Directors of OJSC AKB Rosbank,

Member of the Board of Directors of CJSC Holding Company Interros.

Since 2006 – Member of the Board of Directors of OJSC Polyus Gold.

Mr. Klishas is 33.

**Andrey Evgenyevich Bugrov**

Member of the Board of Directors since 2002

From 1993 to 2002 – Representative of the Russian Federation in the World Bank Group, Executive director of OJSC AKB MBRD and CJSC AKB IFC.

From 2002 to 2003 – Chairman of the Board of Directors and President of AKB Rosbank, Member of the Board of Directors of OJSC Power Machines.

From 2002 to 2004 – Deputy Chairman of the Board of Directors of CJSC Holding Company Interros.

Since 2003 – Member of the Board of Directors of OJSC Russian Communal Systems, Director of AIG-Interros RCF Advisor,

Member of the Board of Directors of OJSC AKB Rosbank,

Chairman of the Board of Directors of OJSC Open Investments.

Since 2004 – Managing Director of CJSC Holding Company Interros,

Chairman of the Board of Directors of CJSC Prof-Media,

Member of the Board of Directors of RAO UES of Russia.

Mr. Bugrov is 54.

**Guy de Selliers**

Member of the Board of Directors since 2002

Since 1994 – Member of the Board of Directors of Solvay S.A.

Since 2001 – Member of the International Supervisory Council, Fortis Group, and Member of the Board of Directors of Wimm Bill Dann.

Since 2003 – Chairman of the Board of Directors of HB Advisors,

Member of the Board of Directors of OJSC Furniture Company Shatura.

Mr. de Selliers is 54.

**Vladimir Ivanovich Dolgikh**

Member of the Board of Directors since 2001

Pensioner

Since 1997 – Chairman of the Board, Krasnoyarskoe Zemliachestvo Society.

Mr. Dolgikh is 81.



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••• Management Board of OJSC MMC Norilsk Nickel⁽¹⁾



Ralph Tavakolian Morgan

Member of the Board of Directors since 2005
 From 1995 to 2004 – Project manager, Partner of the Moscow office of McKinsey&Co.
 From 2004 to 2005 – Deputy Chairman of the Management Board and Deputy General Director of MMC Norilsk Nickel.
 Since 2005 – Member of the Management Board and Deputy General Director of MMC Norilsk Nickel.
 Mr. Morgan is 37.



Mikhail Dmitrievich Prokhorov

Chairman of the Management Board and General Director since 2001
 From 1998 to 2000 – President and Chairman of the Management Board of Unexim bank.
 From 2000 to 2001 – President of OJSC AKB Rosbank.
 From 2000 to 2002 – Member of the Board of Directors of OJSC AKB Rosbank and CJSC AKB IFC.
 Since 2003 – Member of the Board of Directors of MMC Norilsk Nickel.
 Since 2006 – Chairman of the Board of Directors of OJSC Polyus Gold.
 Mr. Prokhorov is 41.



Mikhail Dmitrievich Prokhorov

Member of the Board of Directors since 2003
 From 1998 to 2000 – President and Chairman of the Management Board of Unexim bank.
 From 2000 to 2001 – President of OJSC AKB Rosbank.
 From 2000 to 2002 – Member of the Board of Directors of OJSC AKB Rosbank and CJSC AKB IFC.
 Since 2001 – General Director and Chairman of the Management Board of MMC Norilsk Nickel.
 Since 2006 – Chairman of the Board of Directors of OJSC Polyus Gold.
 Mr. Prokhorov is 41.



Igor Anatolyevich Komarov

Member of the Management Board and Deputy General Director since 2002
 From 1998 to 2000 – First Deputy Chairman of the Management Board of OJSC AKB National Reserve Bank.
 From 2000 to 2002 – Deputy Chairman of the Management Board of OJSC AKB Savings Bank of the Russian Federation.
 From 2002 to 2004 – Member of the Board of Directors, OJSC AKB Rosbank.
 Mr. Komarov is 42.



Ekaterina Mikhailovna Salnikova

Member of the Board of Directors since 2004
 From 1998 to 2001 – Member of the Board of Directors, OJSC Sidanko.
 From 2000 to 2004 – Member of the Board of Directors, CJSC Prof-Media.
 From 2000 to 2005 – Member of the Board of Directors of OJSC Power Machines.
 From 2001 to 2003 – Member of the Board of Directors, MMC Norilsk Nickel,
 Member of the Management Board of CJSC Holding Company Interros.
 From 2004 to 2005 – Member of the Board of Directors of CJSC AIC Agros.
 From 2004 to 2006 – Member of the Board of Directors of OJSC AKB Rosbank.
 Since 1998 – Director of Corporate Governance, CJSC Holding Company Interros.
 Since 2003 – Member of the Board of Directors of OJSC Open Investments.
 Since 2006 – Member of the Board of Directors of OJSC Polyus Gold.
 Ms. Salnikova is 48.



Yury Alexeevich Kotlyar

Member of the Management Board since 2001
 From 1997 to 2001 – First Deputy General Director of RAO Norilsk Nickel.
 From 1999 to 2003 – Member of the Board of Directors and
 Chairman of the Board of Directors of RAO Norilsk Nickel.
 From 2001 to 2002 – General Director of OJSC Gipronickel
 Since 2001 – General Director and Chairman of the Management Board of RAO Norilsk Nickel.
 Mr. Kotlyar is 67.



Kirill Lvovich Ugolnikov

Member of the Board of Directors since 2005
 From 1995 to 2000 – Deputy Head of the Russian Federation State Tax Service,
 First Deputy Minister for Taxes and Levies of the RF.
 Since 2000 – Member of the Board of Directors of CJSC Vneshyurcollegia,
 Member of the Board of Directors of AKB Investsberbank.
 Mr. Ugolnikov is 44.



Ralph Tavakolian Morgan

Member of the Management Board and Deputy General Director since 2004
 From 1995 to 2004 – Project manager, Partner of the Moscow office of McKinsey&Co.
 Since 2005 – Member of the Board of Directors of MMC Norilsk Nickel.
 Mr. Morgan is 37.



Heinz Schimmelbusch

Member of the Board of Directors since 2003
 Since 1994 – Chairman of the Board and CEO of Allied Resources Corporation (USA).
 Since 1997 – Executive Director, Partner and Founder of Safeguard International Fund (US).
 Since 1998 – President, CEO and Member of the Board of Directors, Metallurg Holdings, Inc.,
 Chairman of the Board of Directors, ALD Vacuum Technologies (Germany).
 Since 1999 – Member of the Board of Directors of Becancour Silicon Inc.
 Since 2001 – Chairman of the Supervisory Board of Pfal-Flugzeugwerke (Germany).
 Since 2003 – Chairman of the Board of Directors and CEO of Timminco Limited (Canada).
 Mr. Schimmelbusch is 61.



Denis Stanislavovich Morozov

Member of the Management Board and Deputy General Director since 2003
 From 1998 to 1999 – Director of the Commercial Banking Department of CJSC AKB IFC.
 From 1999 to 2001 – Head of the Corporate Capital, Shareholder and Investor Operations
 Department of RAO Norilsk Nickel.
 From 2001 to 2003 – Head of the Legal Department of MMC Norilsk Nickel.
 From 2002 to 2003 – Member of the Board of Directors of RAO Norilsk Nickel.
 From 2002 to 2005 – Member of the Board of Directors, CJSC Polus.
 Since 2006 – Member of the Board of Directors of OJSC Polyus Gold.
 Mr. Morozov is 33.

Note:

(1) The Board of Directors was elected by the Annual General Meeting of Shareholders of MMC Norilsk Nickel on 30 June 2005. The following directors were newly elected to the Board: R.T. Morgan and K.L. Ugolnikov, with the other 7 directors re-elected.



Jacques Iosifovich Rozenberg

Member of the Management Board and Deputy General Director since 2001
 From 1998 to 2000 – Deputy General Director of RAO Norilsk Nickel.
 From 1998 to 2003 – Member of the Board of Directors, OJSC Norilskgazprom.
 From 2001 to 2003 – Chairman of the Scientific and Technical Council of MMC Norilsk Nickel.
 Mr. Rozenberg is 62.



Viktor Evgenyevich Sprogis

Member of the Management Board and Deputy General Director since 2001
 From 2000 to 2001 – First Deputy General Director of OJSC Raznoimport.
 Since 2001 – Deputy General Director of MMC Norilsk Nickel.
 Mr. Sprogis is 44.



Maxim Valeryevich Finsky

Member of the Management Board and Deputy General Director since 2001
 From 2000 to 2002 – Member of the Board of Directors of AKB International Financial Company.
 From 2001 to 2002 – Chairman of the Board of Directors of OJSC Babaevsky Confectionery Concern.
 From 2002 to 2003 – Member of the Board of Directors of OJSC Murmansk Shipping Company.
 Since 2002 – Member of the Board of Directors of International Platinum Association.
 From 2004 to 2006 – Chairman of the Board of Directors of Metal Trade Overseas (Switzerland).
 Mr. Finsky is 40.



Dmitry Semenovich Cheskis

Member of the Management Board and Deputy General Director since 2003
 From 1996 to 2001 – Executive Director, LLC Okamet.
 From 2001 to 2003 – Head of the Domestic Market Department of MMC Norilsk Nickel.
 From 2002 to 2004 – Chairman of the Board of Directors, CJSC Normetimpex.
 From 2002 to 2005 – Chairman of the Board of Directors, LLC Norilsk Metals.
 Since 2003 – Chairman of the Board of Directors, OJSC Yenisey Shipping Company.
 Mr. Cheskis is 52.

Members of the Management Board and the Board of Directors – holding of MMC Norilsk Nickel shares at 31 December 2005

Full name and position	Number of shares	% in issued share capital
V.I. Dolgikh Member of the Board of Directors	479	0.0002
D.S. Morozov Member of the Management Board – Deputy General Director	7	0.000003
J.I. Rozenberg Member of the Management Board – Deputy General Director	897	0.0004
Total held by Members of the Management Board and the Board of Directors	1,383	0.000603

••• Declaration on Corporate Governance

In 2002, MMC Norilsk Nickel declared its intention to comply with the standards and recommendations set out in the Code of Corporate Governance of the FCSM (the "Code"), for which purpose internal documents of the Group were amended appropriately. The main activities aimed at improving corporate governance include:

- election of independent directors to the Board;
- approval of dividend policy;
- introduction of a Corporate Secretary;
- approval of the Regulation on insider information;
- establishment of the Audit Committee of the Board of Directors; and
- increased transparency/ new level of disclosure.

In accordance with the Methodical recommendations approved by the Ruling of the FCSM No. 03-849/r dated 30 April 2003, the Company prepared a report on compliance with the Code. The compliance report is disclosed in Appendix 1 of this Annual Report.

••• Board of Directors

In accordance with the requirements of the Federal Law On Joint Stock Companies, the Board of Directors of MMC Norilsk Nickel is elected by the Annual General Meeting of Shareholders for the duration of one year. The Board of Directors comprises of 9 directors.

The Annual General Meeting of Shareholders of MMC Norilsk Nickel held on 30 June 2005 elected a new Board of Directors, with the following 7 directors being re-elected:

- Andrey E. Bugrov;
- Vladimir I. Dolgikh;
- Andrey A. Klishas;
- Mikhail D. Prokhorov;
- Ekaterina M. Salnikova;
- Heinz Schimmelbusch; and
- Guy de Selliers.

Also the following two directors were newly elected to the Board:

- Ralph T. Morgan;
- Kirill L. Ugolnikov.

In accordance with global corporate governance practices and the recommendations of the Code, independent directors are elected to the Board of Directors of MMC Norilsk Nickel. In the reporting year four independent directors were elected to the Board of Directors:

- Vladimir I. Dolgikh;
- Heinz Schimmelbusch;
- Guy de Selliers; and
- Kirill L. Ugolnikov.

The Group uses the most conservative criteria to determine the independence of the members of its Board of Directors.

Note:

(1) The composition of the Management Board was approved by the Board of Directors in August 2005. The following directors were newly elected to the Board: V.E. Sprogis and D.S. Cheskis, with the other 7 directors reelected.

Attendance of the Directors in person at the Board Meetings held in 2005

Director	Number of meetings held ⁽¹⁾	Number of meetings attended
Andrey E. Bugrov	7	3
Vladimir I. Dolgikh	7	6
Ronald Freeman ⁽²⁾	3	0
Andrey A. Klishas	7	7
Ralph T. Morgan ⁽³⁾	4	4
Mikhail D. Prokhorov	7	5
Leonid B. Rozhetskin ⁽²⁾	3	1
Ekaterina M. Salnikova	7	6
Heinz Schimmelbusch	7	3
Guy de Selliers	7	5
Kirill L. Ugolnikov ⁽³⁾	4	3

Notes:

(1) Number of meetings of the Board of Directors held in person, which the director was eligible to attend.

(2) Was not elected to the Board of Directors at the Annual General Meeting of Shareholders on 30 June 2005.

(3) Elected to the Board of Directors at the Annual General Meeting of Shareholders on 30 June 2005.

In 2005, the Board of Directors held 7 meetings in person and 21 meetings in absentia.

In 2005, the Board of Directors of MMC Norilsk Nickel reviewed various issues related to the Group's financial statements, acquisitions/sales of assets, the Group's participation in the shareholders' capital of other companies and reorganization of MMC Norilsk Nickel. In compliance with the requirement of the current legislation in Russia, the Board of Directors reviewed interested party transactions. In compliance with FCSM Resolution No. 17/ps dated 31 May 2002, a list of interested party transactions approved by the Board of Directors in 2005 is disclosed in this Annual Report (see Appendix 2).

••• Audit Committee of the Board of Directors

In the reporting year the Audit Committee of the Board of Directors of MMC Norilsk Nickel (created in December 2004) began to implement its role of assisting the Board of Directors in supervising financial and operating activities by preliminary consideration of issues and the preparation of respective recommendations to the Board of Directors.

In accordance with international corporate governance practices, the Audit Committee may include only independent and non-executive members of the Board of Directors and only an independent director may be elected as its chair. In electing members of the Audit Committee, their education, professional qualifications, experience in the Committee's sphere of activities, financial and operational documentation expertise and other special knowledge necessary to the members of the Committee in the performance of the respective authorities are taken into account.

The first Audit Committee elected consisted of:

- Guy de Selliers – an independent director – Chairman;
- Andrey Bugrov – a non-executive director – Member; and
- Ekaterina Salnikova – a non-executive director – Member.

In accordance with the Audit Committee charter, the Committee was re-elected at the first meeting after the election of the new Board of Directors in June 2005. The newly elected Audit Committee consisted of:

- Guy de Selliers – an independent director – Chairman;
- Andrey Bugrov – a non-executive director – Member; and
- Kirill Ugolnikov – an independent director – Member.

During 2005, the Committee held 3 meetings and 2 conference calls, which considered various issues within its competence, in particular: financial statements, interaction of the Company with the external auditors, assessment of internal control efficiency, assistance in effective operation of internal controls, etc.

••• Corporate secretariat

On 11 August 2005, the Board of Directors approved the resignation of Mikhail Sosnovsky, the Secretary of MMC Norilsk Nickel, and appointed Pavel Sukholinsky to the position. In addition, Mr. Sukholinsky was charged with the responsibilities of the Secretary of the Company's Board of Directors.

••• Disclosures

The Company seeks to achieve maximum transparency of its operations and ensure equal and timely access to the information disclosed for its shareholders and investors.

Having received an appropriate approval of the Russian Government, MMC Norilsk Nickel started to disclose information on the physical volumes of the non-ferrous metals production, sales and reserves. The annual report for 2004 presented for the first time in history the results of gold reserves audit prepared by independent consultants in accordance with the JORC Code principles. In February 2006, the Group disclosed the results of the PGMs reserves audit.

Since financial year 2002, MMC Norilsk Nickel has been publishing its audited annual consolidated financial statements in accordance with IFRS and since 2004 – interim consolidated financial statements on a semi-annual basis. After the issue of financial statements teleconferences are held with analysts and investors.

Since the beginning of 2005, the Company has been disclosing consolidated quarterly production of nickel and copper in news releases published within 30 days after the end of the respective quarter. Since the third quarter 2005 these news releases also disclose quarterly production of palladium and platinum.

In the reporting year serious changes were made to the content of the corporate web site of MMC Norilsk Nickel (www.nornik.ru). The shareholders section was significantly extended with information useful and necessary for investors and shareholders in investment decision making.

The Group's efforts aimed at improving corporate governance and transparency did not remain unnoticed by the investment community:

- the Group won the competition of Russian Corporate Governance Leaders – 2005 in the category Company with the Best Annual Report. The competition was organized by the Association for Investor Rights Protection;
- the Annual Report for 2004 was the winner of:
 - the 8th annual competition of annual reports and corporate sites organized by the RTS stock exchange, in the nomination Best Level of Disclosure for Investors;
 - the annual competition of annual reports organized by Expert RA rating agency sponsored by PricewaterhouseCoopers, in the nomination Information Intensity.

••• Audit of annual RAS financial statements

Audit of the Group's 2005 RAS financial statements have been performed by Rosexpertiza.

••• Audit of IFRS consolidated annual financial statements

The consolidated annual financial statements of MMC Norilsk Nickel were prepared in accordance with the International Financial Reporting Standards ("IFRS"). Deloitte & Touche were appointed by management to perform an audit in accordance with the International Standards on Auditing of the consolidated annual financial statements for the year ended 31 December 2005.

••• Dividends

Considering the extraordinary performance of the Group reflecting sustained favorable metal prices in 2005, the Company continued the practice of interim dividend distribution.

Based on the Company's performance in 9 months of 2005, the Extraordinary General Meeting of Shareholders on 30 December 2005 approved distribution of interim dividends of RUR 43 (USD 1.49) per ordinary share. A total of RUR 8.7 billion was paid as dividends. The interim dividends were paid in February 2006.

The Board of Directors has also proposed to the Annual General Meeting of the Shareholders of the Company scheduled for 29 June 2006 to approve dividends for 2005 equal to RUR 18.9 billion or RUR 96.49 (USD 3.47) per one ordinary share of the Company.

Therefore, considering the dividends already paid for 9 months of 2005, additional dividends for 2005 will amount to RUR 10.2 billion, which is equivalent to RUR 53.49 (USD 1.98) per ordinary share.

The Board of Directors confirms that the dividend policy of the Company approved by the Board of Directors in 2002 remains unchanged. It provides for 20% to 25% of IFRS net income for the year to be paid as dividends.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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

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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
General Director

I. A. Komarov
Deputy General Director

Moscow
30 May 2006

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

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 CIS

Moscow
7 June 2006

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

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			
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

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

**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

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

**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

**MINING AND METALLURGICAL COMPANY NORILSK NICKEL
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**
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:

Shareholders	2005		2004	
	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).

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(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 val-

ue 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.

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(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 in which they arise. These contributions are expensed as incurred.

Defined benefit plans

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

- **Six pensions plan**, whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- **Lifelong professional pension plan**, whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- **Joint corporate pension plan**, whereby a retired employee receives a monthly allowance equal to 1/150th of total Starting and Counter capital for the rest of his/her life. Starting capital 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.

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(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.

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(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.

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

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(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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(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 2005 as assets and liabilities of a disposal group. Refer also to note 4.

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars million)

2004	Corporate and other	Taimyr peninsula	Kola peninsula	Severo-Eniseysk and Bodaibo 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.

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

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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

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005
(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

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

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

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

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

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

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

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	2005	2004		2005	2004
14. OTHER NET OPERATING EXPENSES			18. TAXATION		
Loss on disposal of property, plant and equipment	28	137	Current taxation	911	766
Foreign exchange loss	25	11	Deferred taxation	(73)	(124)
Change in provision for impairment of other non-current assets	15	72	Total	838	642
Change in provision for tax penalties	15	(41)			
Change in provision for impairment of capital construction-in-progress	10	19	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:		
Net operating profit from non-mining entities	(16)	(34)	Profit before taxation	3,116	2,507
Change in provision for impairment of receivables	(10)	3	Theoretical income tax at 24%	748	602
Other	(9)	(1)	Impact of specific tax rates	(20)	(15)
Total	58	166	Tax effect of permanent differences	103	111
15. FINANCE COSTS			Change in valuation allowance	7	(56)
Interest expense on borrowings	83	63	Income tax expense	838	642
Unwinding of discount on decommissioning obligations (refer to note 33)	12	4	The corporate income tax rates in other countries where the Group has a significant taxable presence vary from 8% to 39%.		
Total	95	67			
16. NET INCOME FROM INVESTMENTS					
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					
Maintenance of social sphere facilities	69	51			
Donations	49	51			
Other	6	(5)			
Total	124	97			

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(US dollars million)

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
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).

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars 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).

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 became 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

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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).

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:		
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:

Bank overdraft facilities	8	28
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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

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	2005	2004
32. EMPLOYEE BENEFIT OBLIGATIONS		
Non-current		
Lifelong professional pension plan	37	35
Joint corporate pension plan	24	19
Mothers' rights plan	2	4
Six pensions plan	1	3
	<u>64</u>	<u>61</u>
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
	<u>212</u>	<u>265</u>

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

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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:

	2005	2004
Pension fund of the Russian Federation	156	162
Stillwater Mining Company savings plan	5	4
Total	161	166

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	2005	2004		2005	2004
33. ENVIRONMENTAL OBLIGATIONS			Provision for land restoration		
Decommissioning obligations			Balance at beginning of the year	6	-
Balance at beginning of the year	149	60	Acquired on acquisition of subsidiary	3	-
New obligations raised (refer to note 19)	105	-	Charge to income statement	3	6
Change in estimate (refer to note 19)	39	82	Reclassified to non-current liabilities of disposal group	(8)	-
Acquired on acquisition of subsidiary	18	-	Effect of translation to presentation currency	(1)	-
Unwinding of discount on decommissioning obligations (refer to note 15)	12	4	Balance at end of the year	3	6
Reclassified to non-current liabilities of disposal group	(53)	-	Total environmental obligations	269	155
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.

34. SHORT-TERM BORROWINGS

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:

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

35. TRADE AND OTHER PAYABLES

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

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	2005	2004		2005	2004
36. TAXES PAYABLE			38. ACQUISITION OF SUBSIDIARIES		
Value added tax payable	60	82	Net assets acquired		
Income tax	38	31	Property, plant and equipment (refer to note 19)	437	261
Provision for fines and penalties	31	44	Capital construction-in-progress (refer to note 20)	8	19
Property tax	21	21	Inventories	15	28
Unified social tax	10	13	Trade and other receivables	13	12
Other	27	70	Other assets	12	52
Total	187	261	Loans and borrowings	(37)	(68)
			Trade and other payables	(53)	(54)
			Deferred taxation (refer to note 31)	(89)	(44)
37. RECONCILIATION OF PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATIONS			Net assets at date of acquisition	306	206
Profit for the year	2,352	1,857	Decrease in minority interest due to increase of investments in subsidiaries by the Group	18	18
Adjustments for:			Less: Minority interest	(1)	(48)
Income tax expense	889	696	Groups' share of net assets acquired	323	176
Amortisation and depreciation	578	540	Add: Goodwill on acquisition	14	115
Interest expense	110	72	Less: Pre-acquisition amount invested in subsidiary	(9)	-
Impairment of goodwill on acquisition	-	115	Total consideration	328	291
Change in provision for impairment of capital construction-in-progress	21	19	Satisfied by re-issuance of treasury shares	(12)	-
Change in impairment provision	(9)	5	Satisfied by cash	(176)	(291)
Change in provision for obsolete inventory	15	(71)	Deferred cash consideration	(140)	-
Change in provision for impairment of other non-current assets	(16)	72	Net cash outflow arising on acquisition:		
Change in provision for tax penalties	17	(56)	Cash consideration	(176)	(291)
Loss on disposal of property, plant and equipment	33	140	Cash and cash equivalents acquired	1	2
(Income)/loss from associates	(2)	32	Net cash outflow on acquisition of subsidiaries	(175)	(289)
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			

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	2005	2004		2005	2004
Holdings in the following companies were acquired:					
Russian gold mining companies			40. DIVIDENDS		
OJSC "Aldanzoloto GRK"	99.2%	–	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	–
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya"	50.0%	–			
OJSC "Yakutskaya Gornaya Kompaniya"	100.0%	–	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	–
OJSC "Pervenets"	74.0%	–			
OJSC "Lenzoloto"	11.2%	57.0%			
OJSC "Matrosov Mine"	30.3%	57.1%			
OJSC "Tonoda"	–	100.0%			
Other acquisitions					
LLC "Terminal"	100.0%	–	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
LLC "Gornaya Leasingovaya Kompaniya"	80.1%	–			
CJSC "Kraus-M"	–	40.0%			
39. DISPOSAL OF SUBSIDIARIES			Итого	492	308
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:

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%

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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.

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).

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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".

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.

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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.

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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.

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47. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries by country of incorporation	Nature of business	Shares held '000		% held	
		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 "Norilskiy 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 "Gornometallurgicheskoy 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	100.0	50.5
OJSC "Aldanzoloto GRK" ¹	Mining	88,021,708	–	99.2	–
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya" ¹	Mining	250	–	50.0	–
OJSC "Yakutskaya Gornaya Kompaniya" ¹	Mining	735	–	100.0	–
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

¹ Acquired in 2005 (refer to note 38)

² Disposed of in 2005 (refer to note 39)

³ Founded in 2005

GOLD MINING COMPANY POLUS

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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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

GOLD MINING COMPANY POLUS

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 Closed Joint Stock Company "Gold Mining Company Polus" 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 shareholder's equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management, within its competencies, is also responsible for:

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

The consolidated annual financial statements for the year ended 31 December 2005 were approved on 5 June 2006 by:

E. I. Ivanov
President

A. M. Osenmuk
Vice-President,
Chief Financial Officer

Moscow
5 June 2006

REPORT OF THE INDEPENDENT AUDITORS

To the management of Closed Joint Stock Company "Gold Mining Company Polus"

We have audited the consolidated annual financial statements for the year ended 31 December 2005 of Closed Joint Stock Company "Gold Mining Company Polus" and its subsidiaries (the "Group"), set out on pages 3-45. 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 CIS

Moscow
5 June 2006

GOLD MINING COMPANY POLUS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

	Notes	2005	2004
Sales		473,184	441,750
Cost of sales	4	265,714	234,944
Gross profit		207,470	206,806
Selling, general and administrative expenses	8	59,653	31,932
Other net operating expenses/(income)	9	25,155	(9,571)
Operating profit		122,662	184,445
Impairment of goodwill on acquisition	33	–	114,639
Finance costs	10	3,586	10,573
Net income from investments	11	(52,012)	(16,544)
Other non-operating expenses	12	4,423	4,205
Profit before taxation		166,665	71,572
Taxation	13	51,724	61,639
Profit for the year		114,941	9,933
Attributable to:			
Shareholder of the parent company		115,397	15,050
Minority interest	24	(456)	(5,117)
		114,941	9,933
Basic and diluted earnings per share			
Basic	14	467	110
Diluted	14	314	59

GOLD MINING COMPANY POLUS

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

(US dollars thousand)

	Notes	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	15	965,413	515,591
Capital construction-in-progress	16	106,966	62,425
Investments in associates	17	326	9,357
Investments in securities and other financial assets	18	3,744	3,475
Other non-current assets	21	8,899	–
		1,085,348	590,848
Current assets			
Inventories	19	123,616	70,046
Advances to suppliers and other receivables	20	25,409	12,315
Other current assets	21	79,775	58,224
Investments in securities and other financial assets	18	2,230,256	393,842
Cash and cash equivalents	22	28,408	13,015
		2,487,464	547,442
Total assets		3,572,812	1,138,290
SHAREHOLDER'S EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	23	5	3
Share premium		1,777,027	523,645
Investments revaluation reserve		816,709	–
Accumulated profits		482,669	375,849
		3,076,410	899,497
Equity attributable to shareholder of the parent company	24	29,632	43,970
Minority interest			
Non-current liabilities			
Deferred tax liabilities ^a	25	161,768	88,754
Environmental obligations	26	60,828	10,480
Obligations under finance lease	27	4,025	3,783
Other long-term liabilities	28	1,246	5,273
		227,867	108,290
Current liabilities			
Current portion of obligations under finance lease	27	2,844	1,045
Contingent consideration for acquisition of subsidiaries	33	140,000	–
Short-term loans and borrowings	29	23,243	35,112
Trade and other payables	30	49,643	35,864
Taxes payable	31	23,173	14,512
		238,903	86,533
Total shareholder's equity and liabilities		3,572,812	1,138,290

GOLD MINING COMPANY POLUS

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

	Notes	2005	2004
Operating activities			
Cash flows from operations	32	99,587	188,807
Interest paid		(2,438)	(11,839)
Taxation paid		(45,600)	(49,775)
		51,549	127,193
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	33	(152,929)	(270,602)
Proceeds from disposal of subsidiaries, net of cash disposed of	34	(107)	–
Purchase of property, plant and equipment		(145,972)	(70,493)
Proceeds from sale of property, plant and equipment		2,876	328
Purchase of shares of Gold Fields Ltd.		(944,940)	–
Dividends received		6,062	–
Purchase of promissory notes and other financial assets		(613,452)	(756,115)
Proceeds from sale of promissory notes and other financial assets		541,517	503,918
		(1,306,945)	(592,964)
Financing activities			
Proceeds from short-term loans and borrowings		5,041	171,563
Repayments of short-term loans and borrowings		(32,401)	(196,485)
Repayments of long-term loans and borrowings		(305)	(1,485)
Repayments of finance lease obligations		(2,234)	(1,117)
Proceeds from shares issuance	23	1,299,745	498,819
		1,269,846	471,295
Effect of translation to presentation currency for the year		943	3,865
Net increase in cash and cash equivalents		15,393	9,389
Cash and cash equivalents at beginning of the year		13,015	3,626
Cash and cash equivalents at end of the year	22	28,408	13,015

GOLD MINING COMPANY POLUS

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

	Notes	Share capital	Share premium	Investments revaluation reserve	Accumulated profits	Equity attributable to shareholder of the parent company	Minority interest	Total
Balance at 31 December 2003		2	–	–	339,369	339,371	–	339,371
Profit for the year – as restated	39	–	–	–	15,050	15,050	(5,117)	9,933
Minority interest in subsidiaries acquired	24	–	–	–	–	–	48,416	48,416
Ordinary shares issued	23	1	498,818	–	–	498,819	–	498,819
Effect of translation to presentation currency for the year		–	24,827	–	21,430	46,257	671	46,928
Balance at 31 December 2004 – as restated	39	3	523,645	–	375,849	899,497	43,970	943,467
Profit for the year		–	–	–	115,397	115,397	(456)	114,941
Ordinary shares issued	23	2	1,299,743	–	–	1,299,745	–	1,299,745
Minority interest in subsidiaries acquired	24	–	–	–	–	–	(5,390)	(5,390)
Net decrease in minority interest due to increase of Group's share in subsidiaries	24	–	–	–	7,389	7,389	(7,389)	–
Increase in fair value of available-for-sale investments		–	–	819,080	–	819,080	–	819,080
Transfer to profit on sale of available-for-sale investments		–	–	(1,820)	–	(1,820)	–	(1,820)
Deferred tax arising on revaluation of available-for-sale investments		–	–	(551)	–	(551)	–	(551)
Effect of translation to presentation currency for the year		–	(46,361)	–	(15,966)	(62,327)	(1,103)	(63,430)
Balance at 31 December 2005	5	5	1,777,027	816,709	482,669	3,076,410	29,632	3,106,042

**GOLD MINING COMPANY POLUS
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**
1. GENERAL**Organisation**

Closed Joint Stock Company "Gold Mining Company Polus" (the "Company") was incorporated in Severo-Eniseisk, Krasnoyarsk region, Russian Federation, on 30 September 1999. During 2004 the Company acquired a controlling shareholding in Open Joint Stock Company "Lenzoloto" and Open Joint Stock Company "Matrosov Mine" and incorporated a wholly owned subsidiary Limited Liability Company "Lenskaya Zolotorudnaya Company". During 2005 the Company acquired controlling shareholding in Open Joint Stock Company "Aldanzoloto GRK", Open Joint Stock Company "Yakutsk Mine Company" and obtained control over Open Joint Stock Company "South Verkhoyansk Mining Company". The principal activities of the Company and its subsidiaries (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research and exploration works, primarily at the Natalka field located in the Magadan region. Further details regarding the nature of the business and structure of the Group are presented in note 41.

At 31 December 2005 the Company was a wholly owned subsidiary of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" ("MMC Norilsk Nickel"). MMC Norilsk Nickel together with its subsidiaries comprises the Norilsk Nickel Group. After the year end there was a change in the shareholding structure of the Group (refer to note 40).

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"). IFRS include standards and interpretations approved by International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). In the absence of specific IFRS guidance for the extractive industries, the Group has developed accounting policies in accordance with practices in the mining industry insofar they do not conflict with IFRS principles.

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

These 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**

In the current reporting period the Group has adopted all the new and revised standards and interpretations issued by IASB and IFRIC that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

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.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 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 Amendment "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- IAS 39 Amendment "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 Group's significant 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 Company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

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

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted from the date significant influence commenced until the date that significant influence effectively ceased, except when the investment is classified as held for sale, which is more fully described in note 2 (s).

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 reduced to zero. 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 such 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 ore resources is amortised on a systematic basis to recognize the depletion of the resources over the lesser of 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 in the period during which the circumstances are identified and is not subsequently reversed.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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 consolidated income statement immediately

(b) Functional and presentation currency

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

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

The translation from RUR (functional currency) into USD (presentation currency) is made using exchange rates as quoted by the Central Bank of the Russian Federation, as follows:

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

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

(c) Foreign currency transactions and balances

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

(d) Property, plant and equipment

Property, plant and equipment are classified into the following categories:

- buildings, structures and utilities;
- machinery, equipment and transport;
- exploration and evaluation assets;
- mineral rights, mineral resources and ore reserves; and
- others.

Buildings, structures, utilities, machinery, equipment and transport

Buildings, structures, utilities, machinery, equipment and transport consist of mining and non-mining assets.

Mining assets are amortised on a straight-line basis over the life of mine of 7 to 20 years, which is estimated based on proven and probable ore reserves.

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

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

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

Exploration and evaluation assets

Exploration and evaluation expenditures are capitalised as exploration and evaluation assets when it is expected that expenditure related to an area of interest will be recouped by future exploitation, sale, or at the reporting date the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

Exploration and evaluation assets are transferred to mining property, plant and equipment when a mine, related to an area of interest, reaches commercial 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 using the life of mine method based on estimated proven and probable ore reserves. Mineral resources and ore reserves are estimated in accordance with the JORC code or using Russian Resource Reporting Code for alluvial gold reserves.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

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

Leased assets

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

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

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

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

(e) Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are placed into commercial production.

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.

Mine development costs include expenditure incurred in:

- acquiring mineral rights and exploration licenses;
- developing new mining operations.

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

(f) Impairment

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) Deferred expenditures

Certain Group's production facilities are located in regions with specific weather conditions. Consequently, surface (alluvial) mining operations are subject to seasonality and gold at these locations is only mined during certain months of the year. Costs incurred in preparation of future seasons are deferred. Such expenditures include stripping and excavation costs and mine specific administration costs.

(h) Inventories**Refined gold**

Gold is measured at the lower of net production cost on the weighted average basis and net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand.

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

By-products, i.e. 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.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005****(i) Financial instruments**

Financial instruments recognised on the Group's balance sheet mainly include investments, advances to suppliers and other receivables, cash and cash equivalents, trade and other payables and borrowings. Financial instruments are initially measured at fair value, 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 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 intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost less any allowance for impairment. Amortisation of the 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 the 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 the 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.

Advances to suppliers and other receivables

Advances to suppliers and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate provisions for estimated irrecoverable amounts, calculated as the difference between the carrying amount of receivables 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 receivables are 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.

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.

Borrowings

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

(j) Interest on borrowings

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

Other interest is expensed in the income statement as and when incurred.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(k) Provisions

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

(l) Employee benefit obligations

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

The Group contributes to the Pension fund of the Russian Federation, Medical and Social Insurance funds on behalf of all its employees. These contributions are recognised in the income statement as incurred.

(m) Taxation

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

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

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

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

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

(n) Revenue recognition

Revenue consists of the sale of refined gold and is recognised when the risks and rewards of ownership are transferred to the buyer. Gold sales revenue represents the net invoiced value for gold supplied to customers. Revenues from the sale of by-products are netted-off against production costs.

(o) Operating leases

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.

(p) Dividends declared

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

Accumulated profits legally distributable by the Company 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.

(q) Segmental information

The Group predominantly operates in a single business segment, being mining and refining of gold. The Group's production facilities are all based in the Russian Federation. Therefore, business activities are subject to the same risks and returns, and are addressed in the consolidated financial statements as one reportable segment.

(r) 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.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(s) Assets held for sale

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the process of applying accounting policies, the Group makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgments which are based on historical experience, current and expected economic conditions, and all other available information. Due to the inherent uncertainty in making those estimated and assumptions, actual results reported in the future periods could differ from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Held-to-maturity investments

The Group follows the IAS 39 "Financial Instruments: Recognition and Measurement" guidance on classifying promissory notes with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold these promissory notes to maturity.

If the Group fails to keep these promissory notes to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Useful economic lives of property, plant and equipment

Management assesses the useful economic lives of property, plant and equipment considering: the current technical condition of assets, the volume of remaining recoverable ore reserves or the remaining mining lease period and potential changes in technology and demand.

Exploration and evaluation assets

Management judgment is involved in determination of whether the expenditures which are capitalized as exploration and evaluation assets will be recouped by future exploitation or sale. Determining this, management estimate the possibility of finding recoverable ore reserves related to particular area of interest unless evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

Taxation

Judgments are required in determining current income tax liabilities. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

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 recognises management's best estimate for asset retirement obligations in the period in which they will be incurred. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

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 judgement and estimates of the outcome of future events.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

Investment in shares of Gold Fields Ltd.

The Group didn't exercise significant influence over its 20% investment in Gold Fields Ltd. and determined that the applicable IFRS classification was as an investment in securities available-for-sale.

Acquisition of OJSC "Aldanzoloto GRK", OJSC "South-Verkhoyansk Mining Company", OJSC "Yakut Mining Company"

The fair values to be assigned to the identifiable assets and liabilities of companies acquired in 2005 has been determined provisionally at 31 December 2005. Management judgement was involved in determining the provisional values. The initial accounting will be completed and adjustments to the acquiree's identifiable assets and liabilities will be recognized within twelve months from the acquisition date.

4. COST OF SALES

	2005	2004
Cash operating costs	232,597	193,258
On-mine costs (refer to note 5)	154,996	129,346
Smelting and concentrating costs (refer to note 6)	44,792	35,195
Refining costs	3,114	2,601
Tax on mining	29,695	26,116

Amortisation and depreciation of operating assets (refer to note 7)	41,912	40,903
Provision for land rehabilitation	2,088	2,532
Increase in metal inventories	(10,883)	(1,749)

Total **265,714** **234,944**

5. ON-MINE COSTS

Consumables and spares	73,718	59,576
Labour	58,049	53,693
Utilities	14,090	11,828
Sundry on-mine costs	9,139	4,249

Total (refer to note 4) **154,996** **129,346**

6. SMELTING AND CONCENTRATING COSTS

Consumables and spares	34,325	23,640
Labour	9,432	10,155
Utilities	398	691
Sundry smelting and concentrating costs	637	709

Total (refer to note 4) **44,792** **35,195**

7. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2005	2004
Mining	29,180	20,715
Smelting and concentrating	12,732	20,188

Total (refer to note 4) **41,912** **40,903**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Salaries	33,494	19,661
Taxes other than mining and income taxes	4,663	3,307
Professional services	3,600	1,452
Transportation expenses	3,335	746
Repair and maintenance	3,332	677
Depreciation	2,332	1,565
Research and development	1,886	752
Rent expense	1,794	1,398
Bank charges	973	107
Insurance	443	148
Other	3,801	2,119

Total **59,653** **31,932**

9. OTHER NET OPERATING EXPENSES/(INCOME)

Change in provision for impairment of property, plant and equipment and assets under construction	11,613	-
Loss on disposal of property, plant and equipment and assets under construction	4,848	3,164
Cost of liquidation of obsolete equipment	2,421	3,136
Net operating loss/(profit) from non-mining activities	2,400	(2,817)
Change in provision for tax fines and penalties	1,688	(14,815)
Change in provision for impairment of value added tax recoverable	1,340	-
Change in provision for impairment of advances to suppliers and other receivables	954	2,535
Other	(109)	(774)

Total **25,155** **(9,571)**

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

10. FINANCE COSTS

	2005	2004
Interest expense on borrowings	2,744	10,146
Unwinding of discount on decommissioning obligations (refer to note 26)	842	427

Total **3,586** **10,573**

11. NET INCOME FROM INVESTMENTS

Interest income on promissory notes	(38,652)	(16,803)
Dividends received	(6,062)	-
Income accrued on deposits	(4,731)	-
(Gain)/loss on disposal of investments and other financial assets	(2,607)	209
Share of post-acquisition losses of associates (refer to note 17)	40	50

Total **(52,012)** **(16,544)**

12. OTHER NON-OPERATING EXPENSES

Maintenance of social infrastructure	406	2,120
Donations	1,199	945
Other	2,818	1,140

Total **4,423** **4,205**

13. TAXATION

Current taxation	60,425	52,099
Deferred taxation (refer to note 25)	(8,701)	9,540

Itoro **51,724** **61,639**

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

Russian Federation	24%	24%
British Virgin Islands	0%	-

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

Profit before taxation **166,665** **71,572**

	2005	2004
Theoretical income tax at 24%	40,000	17,177
Impact of specific tax rates	(1,383)	-
Tax effect of provision for tax fines and penalties	406	(3,556)
Tax effect of non-deductible expenses and other permanent differences	7,041	9,186
Impairment of goodwill	-	27,417
Taxable losses of subsidiaries not carried forward	5,660	11,415
Income tax expense	51,724	61,639

14. BASIC AND DILUTED EARNINGS PER SHARE

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

Profit attributable to shareholder of the parent company for the year 115,397 15,050

Weighted average number of ordinary shares for the purposes of basic earnings per share 247 137

Possible dilution effect of convertible preference shares (refer to note 23) 120 120

Weighted average number of ordinary shares for the purposes of diluted earnings per share 367 257

Earnings per share

Basic 467 110
Diluted 314 59

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

15. PROPERTY, PLANT AND EQUIPMENT

	Build-ings, struc-tures and utili-ties	Machi-nery, equip-ment and trans-port	Explo-ration and evalu-ation assets	Mineral rights	Other	Total
Cost						
Balance at 31 December 2003	124,935	114,969	–	–	597	240,501
Additions	1,049	25,792	13,470	–	2,459	42,770
Acquired on acquisition of subsidiaries (refer to note 33)	35,037	79,082	–	144,814	1,048	259,981
Transfers from capital construction-in-progress (refer to note 16))	23,918	–	–	–	–	23,918
Disposals	(92)	(2,291)	–	–	(114)	(2,497)
Effect of translation to presentation currency for the year	9,496	9,913	517	3,555	153	23,634
Balance at 31 December 2004	194,343	227,465	13,987	148,369	4,143	588,307
Additions	–	44,762	32,463	–	2,137	79,362
Acquired on acquisition of subsidiaries (refer to note 33)	58,405	37,324	–	327,405	1,045	424,179
Transfers from capital construction-in-progress (refer to note 16)	20,118	–	–	–	–	20,118
Disposals	(1,003)	(4,342)	–	–	(733)	(6,078)
Disposed on disposal of a subsidiary (refer to note 34)	(23)	(9,534)	–	(5,681)	(87)	(15,325)
Decommissioning assets raised	17,570	9,063	–	–	–	26,633
Provision for impairment	(5,572)	–	–	(687)	–	(6,259)
Effect of translation to presentation currency for the year	(7,872)	(8,955)	(1,062)	(8,849)	(184)	(26,922)
Balance at 31 December 2005	275,966	295,783	45,388	460,557	6,321	1,084,015
Accumulated amortisation and depreciation						
Balance at 31 December 2003	(12,533)	(11,521)	–	–	(87)	(24,141)
Amortisation and depreciation charge	(17,236)	(24,898)	–	(3,200)	(362)	(45,696)
Eliminated on disposals	3	310	–	–	34	347
Effect of translation to presentation currency for the year	(1,434)	(1,652)	–	(123)	(17)	(3,226)
Balance at 31 December 2004	(31,200)	(37,761)	–	(3,323)	(432)	(72,716)
Amortisation and depreciation charge	(13,408)	(30,231)	–	(8,531)	(645)	(52,815)
Eliminated on disposals	60	670	–	–	37	767
Disposed on disposal of a subsidiary (refer to note 34)	–	2,008	–	710	15	2,733
Effect of translation to presentation currency for the year	1,348	1,809	–	246	26	3,429
Balance at 31 December 2005	(43,200)	(63,505)	–	(10,898)	(999)	(118,602)
Net book value						
31 December 2004	163,143	189,704	13,987	145,046	3,711	515,591
31 December 2005	232,766	232,278	45,388	449,659	5,322	965,413

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

The Group leases production equipment under a number of finance lease agreements. At the end of the lease term the Group takes automatic ownership of the assets. At 31 December 2005 the carrying amount of the Group's fixtures and equipment included USD 3,697 thousand (2004: USD 6,875 thousand) in respect of assets held under finance leases (refer to note 27).

At 31 December 2005 the Group carried out a review of the recoverable amount of its property, plant and equipment. The review resulted in the provision for impairment in the amount of USD 6,259 thousand. This provision mainly related to the old production plant at OJSC "Matrosov mine".

16. CAPITAL CONSTRUCTION-IN-PROGRESS

	2005	2004
Balance at beginning of the year	62,425	31,011
Additions	68,380	34,473
Acquired on acquisition of subsidiaries (refer to note 33)	7,165	19,389
Transfers to property, plant and equipment (refer to note 15)	(20,118)	(23,918)
Disposals	(2,413)	(1,342)
Disposed on disposal of a subsidiary (refer to note 34)	(42)	–
Provision for impairment	(5,354)	–
Effect of translation to presentation currency for the year	(3,077)	2,812
Balance at end of the year	106,966	62,425

Leased assets with a carrying value of USD 3,409 thousand (2004: nil) were not received and placed into operation at 31 December 2005, and are included in construction-in-progress.

At 31 December 2005 the Group carried out a review of the recoverable amount of its construction-in-progress. The review resulted in the provision for impairment in the amount of USD 5,354 thousand. This provision related to assets under construction at OJSC "Lenzoloto".

17. INVESTMENTS IN ASSOCIATES

Balance at beginning of the year	9,357	–
Acquired during the year	–	9,149
Change in classification due to increase in shareholding (refer to note 33)	(8,856)	–
Share of post-acquisition losses (refer to note 11)	(40)	(50)
Effect of translation to presentation currency for the year	(135)	258
Balance at end of the year	326	9,357

All of the Group's associates are registered in the Russian Federation.

Details of the Group's associates are as follows:

Name of associate	Principal activity	Date acquired	Share-holding		
OJSC "Pervenets"	Gold mining	6 April 2004	26.0%	–	9,018
LLC "Kvartseveyeologii"	Quartz mining	6 April 2004	38.3%	326	339
				326	9,357

At 31 December 2004 OJSC "Lenzoloto", a 57.0% subsidiary of the Group, held a 26.0% investment in OJSC "Pervenets". On 10 February 2005 the Group acquired an additional 74.0% interest in OJSC "Pervenets". Accordingly the company's financial results were fully consolidated and the investment was eliminated from investments in associates.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

	2005	2004
Summarised financial information in respect of the Group's associates is set out below:		
Total assets	944	51,592
Total liabilities	112	15,320
Revenue	–	8
Loss for the year	(156)	(208)

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS**Non-current**

Equity investments available-for-sale	3,339	1,462
Loans advanced	347	360
Other	58	1,653

Total non-current**3,744 3,475****Current**

Investment in Gold Fields Ltd.	1,735,987	–
Promissory notes receivable	314,189	393,738
Investment deposit in Rosbank	172,984	–
Deposits	6,997	–
Other	99	104

Total current**2,230,256 393,842**

Investment in Gold Fields Ltd. (South Africa) was acquired from MMC Norilsk Nickel, parent company, in May 2005 for USD 944,940 thousand. In March 2006 it was sold to third parties (refer to note 40).

Short-term promissory notes are purchased from the shareholder and bear interest of 10.4% per annum (refer to note 35).

The investment deposit in Rosbank, a party related, by means of common ownership and control, represents the amount managed by the bank on behalf of the Group and primarily consists of promissory notes. The principal amount of this deposit of USD 168,331 thousand is guaranteed by the bank. Income on this deposit is accrued as interest and is not guaranteed by the bank. Accrued income is capitalized into the principal amount of deposit.

19. INVENTORIES

	2005	2004
Refined gold at net production cost	1,306	2,445
Work-in-process at production cost	30,470	11,070

Total metal inventories**31,776 13,515**

Stores and materials at cost	92,472	57,104
Less: Provision for obsolescence	(632)	(573)

Total**123,616 70,046****20. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES**

Advances to suppliers	17,077	7,514
Other receivables from non-mining activities	16,047	12,252

33,124 19,766

Less: Provision for impairment of advances to suppliers and other receivables	(7,715)	(7,451)
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Total**25,409 12,315****21. OTHER ASSETS****Non-current**

Value added tax recoverable	10,239	–
Less: Provision for impairment of value added tax recoverable	(1,340)	–

Total non-current assets**8,899 –****Current**

Value added tax recoverable	64,392	40,476
Deferred expenditures	11,683	14,507
Income tax prepaid	1,434	1,183
Other taxes prepaid	2,266	2,058

Total current assets**79,775 58,224**

Deferred expenditures mostly comprise excavation costs, general production costs and mine specific administration costs associated with preparation for the seasons in which the alluvial operations undertake mining activities.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

22. CASH AND CASH EQUIVALENTS

	2005	2004
Current bank accounts		
– RUR	18,376	8,905
– foreign currency	3,849	38
Bank deposit	5,681	–
Cash in hand	296	117
Letters of credit	174	3,308
Other cash and cash equivalents	32	647

Total**28,408 13,015****23. SHARE CAPITAL****Authorised**

1,123 ordinary shares at par value of RUR 400 each	16	16
120 preference shares at par value of RUR 100 each	–	–

Total**16 16****Issued and fully paid**

31 December 2005: 299 ordinary shares at par value of RUR 400 each	5	–
31 December 2004: 173 ordinary shares at par value of RUR 400 each	–	3
120 preference shares at par value of RUR 100 each	–	–

Total**5 3**

During 2004 the Company issued 50 additional ordinary shares for total proceeds of RUR 14,530,498 thousand (USD 498,819 thousand). In 2005 the Company issued 126 additional ordinary shares for total proceeds of RUR 36,616,855 thousand (USD 1,299,745 thousand).

Preference shares are freely convertible into ordinary shares.

24. MINORITY INTEREST

	2005	2004
Balance at beginning of the year	43,970	–
Minority interest in subsidiaries acquired (refer to note 33)	(5,390)	48,416
Minority interest in net loss of subsidiaries for the year	(456)	(5,117)
Net decrease in minority interest due to increase of Group's share in subsidiaries (refer to comments below)	(7,389)	–
Effect of translation to presentation currency for the year	(1,103)	671

Balance at end of the year**29,632 43,970**

In March 2005 six subsidiaries of OJSC "Lenzoloto", a 57.0% subsidiary of the Group, were sold to LLC "Lenskaya Zolotorudnaya Company", a 100.0% subsidiary of the Group. This transaction resulted in a decrease in minority interest and an increase in equity attributable to shareholder of the Company of USD 11,136 thousand.

In April 2005 26.0% share of OJSC "Lenzoloto" in OJSC "Pervenets" was sold to LLC "Lenskaya Zolotorudnaya Company". This transaction resulted in a decrease in minority interest and increase in equity attributable to shareholder of the Company in the amount of USD 3,938 thousand.

During April-May 2005 OJSC "Matrosov Mine", a subsidiary of the Group, issued additional ordinary shares that were acquired by the Group. Prior to this transaction all losses of the company applicable to minority interest were allocated against the interest of the shareholder of the Company. As a result of the transaction minority interest in the increased net assets of OJSC "Matrosov Mine" of USD 7,685 thousand was recognised.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

	2005	2004		2005	2004
25. DEFERRED TAX LIABILITIES			26. ENVIRONMENTAL OBLIGATIONS		
The movement in the Group's deferred taxation position for the year was as follows:			Decommissioning obligations		
Net liability at beginning of the year	88,754	31,813	Balance at beginning of the year	7,851	6,978
Recognised in the income statement for the year (refer to note 13)	(8,701)	9,540	Acquired on acquisition of subsidiaries	18,232	–
Change in deferred tax liability arising on revaluation of available-for-sale investments	551	–	Obligations raised during the period (refer to note 15)	26,633	–
Change in deferred tax liability due to acquisition of subsidiaries (refer to note 33)	86,363	44,046	Unwinding of discount on decommissioning obligation (refer to note 10)	842	427
Change in deferred tax liability due to disposal of a subsidiary (refer to note 34)	(1,193)	–	Effect of translation to presentation currency for the year	(486)	446
Effect of translation to presentation currency for the year	(4,006)	3,355	Balance at end of the year	53,072	7,851
Net liability at end of the year	161,768	88,754	Provision for land restoration		
Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:			Balance at beginning of the year	2,629	–
Property, plant and equipment	165,006	87,528	Acquired on acquisition of subsidiaries	3,170	–
Investments valuation	551	–	Obligations raised during the period	1,855	–
Inventory valuation	122	(291)	Charge to income statement	233	2,532
Accrued operating expenses	(2,301)	3,121	Effect of translation to presentation currency for the year	(131)	97
Provision for impairment of advances to suppliers and other receivables	(1,610)	(1,604)	Balance at end of the year	7,756	2,629
Total	161,768	88,754	During 2004 the Group performed an estimate of land restoration costs. The provision, discounted to net present value, relates exclusively to mining operations.		
			Total environmental obligations	60,828	10,480

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

27. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
Amounts payable under finance leases:	7,930	5,826	6,869	4,828
Within one year (shown under current liabilities)	3,279	1,383	2,844	1,045
In the second to fifth years inclusive (shown under non-current liabilities)	4,651	4,443	4,025	3,783
Less: future finance charges	(1,061)	(998)	–	–
Present value of lease obligations	6,869	4,828	6,869	4,828

The fair value of lease obligations is estimated by discounting the future contractual cash flows using the market interest rates available to the Group for other borrowings. Assets subject to finance leases are included in property, plant and equipment and in construction-in-progress.

The average lease term is 3.5 years. For the year ended 31 December 2005, the average effective borrowing rate was 12.0% (2004: 9.5%). All leases are on a fixed repayment basis. All lease obligations are denominated in USD.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

28. OTHER LONG-TERM LIABILITIES

	2005	2004
Long-term taxes payable	774	819
Long-term loans and borrowings	–	3,538
Other payables	472	916
Total	1,246	5,273

Long-term taxes payable represent a restructured liability to the State budget accumulated by subsidiaries of the Group over several years.

Included in long-term borrowings at 31 December 2004 was a USD-denominated loan from Gasprombank at 6.0% per annum.

29. SHORT-TERM LOANS AND BORROWINGS

	2005	2004
RUR-denominated promissory notes	11,644	–
USD-denominated short-term loans and borrowings	9,457	4,860
RUR-denominated short-term loans and borrowings	2,142	30,252
Total	23,243	35,112

The interest rates on short-term loans and borrowings vary as follows:

RUR-denominated promissory notes	14%	–
USD-denominated short-term loans and borrowings	8%–16.5%	6%–10%
RUR-denominated short-term loans and borrowings	14%–15.5%	10%–20%

Short-term loans and borrowings are secured by:

Property, plant and equipment	–	4,142
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GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

	2005	2004		2005	2004
30. TRADE AND OTHER PAYABLES			32. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS		
Trade accounts payable	12,304	10,000	Profit before taxation	166,665	71,572
Accrued annual leave	9,907	3,108	Adjustments for:		
Interest payable	6,745	1,744	Impairment of goodwill on acquisition	–	114,639
Wages and salaries	5,192	7,888	Amortisation and depreciation	52,815	45,696
Payables for production equipment	372	7,296	Interest expense on borrowings	2,744	10,146
Other creditors	15,123	5,828	Loss on disposal of property, plant and equipment and assets under construction	4,848	3,164
Total	49,643	35,864	Change in provision for impairment of advances to suppliers and other receivables	954	2,535
31. TAXES PAYABLE			Provision for land rehabilitation	2,088	2,532
Value added tax	5,212	4,058	Unwinding of discount on decommissioning obligations	842	427
Income tax	8,283	2,157	Change in provision for obsolete inventory	80	355
Social taxes	3,116	3,043	Gain on disposal of a subsidiary	(844)	–
Tax on mining	3,185	–	Share of post-acquisition losses of associates	40	50
Property tax	872	566	Change in provision for impairment of property, plant and equipment and assets under construction	11,613	–
Other taxes	2,505	4,688	Change in provision for impairment of value added tax recoverable	1,340	–
Total	23,173	14,512	Change in provision for tax fines and penalties	1,688	(14,815)
Amount recognised in the income statement in respect of contribution to Pension fund of the Russian Federation for the year ended 31 December 2005 was USD 14,871 thousand (2004: USD 15,105 thousand).			Interest income on promissory notes	(38,652)	(16,803)
			Income accrued on deposits	(4,731)	–
			Dividends received	(6,062)	–
			(Gain)/loss on disposal of investments and other financial assets	(2,607)	209
			Other	(1,787)	(1,310)
			Operating profit before working capital changes	191,034	218,397
			Increase in inventories	(44,302)	(12,774)
			(Increase)/decrease in advances to suppliers and other receivables	(4,361)	6,835
			Increase in other current assets, excluding income tax prepaid	(29,592)	(11,496)
			Decrease in trade and other payables	(6,881)	(4,532)
			Decrease in taxes payable, excluding income tax	(6,311)	(7,623)
			Cash flows from operations	99,587	188,807

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

	2005	2004		2005	2004
33. ACQUISITION OF SUBSIDIARIES			OJSC "Aldanzoloto GRK", OJSC "South-Verkhoyansk Mining Company", OJSC "Yakut Mining Company"		
Net assets acquired			In September 2005, 99.2% of issued ordinary shares of OJSC "Aldanzoloto GRK", 50.0% of the issued ordinary shares of OJSC "South-Verkhoyansk Mining Company", and 100.0% of the issued ordinary shares of OJSC "Yakut Mining Company" were acquired by the Group for an estimated consideration of USD 255,000 thousand, of which USD 115,000 thousand was satisfied by cash.		
Property, plant and equipment (refer to note 15)	424,179	259,981	The remaining part of the estimated consideration, being USD 140,000 thousand, is contingent upon negotiations related to financial terms of the acquisition and of the results of these entities at the acquisition date and was still in negotiation with the buyer as of the date of issuance of these consolidated annual financial statements.		
Capital construction-in-progress (refer to note 16)	7,165	19,389	The acquired companies contributed USD 13,302 thousand revenue and USD 2,020 thousand loss before taxation, USD 457 thousand revenue and USD 4,621 thousand loss before taxation, respectively, from the date control was obtained to 31 December 2005.		
Inventories	14,682	28,171			
Trade and other receivables	7,785	12,493			
Cash and cash equivalents	537	2,369			
Other current assets	10,428	49,705			
Loans and borrowings	(29,835)	(67,679)			
Trade and other payables	(51,646)	(53,635)			
Deferred taxation (refer to note 25)	(86,363)	(44,046)			
Net assets at date of acquisition	296,932	206,748			
Minority interest (refer to note 24)	5,390	(48,416)			
Groups' share of net assets acquired	302,322	158,332			
Less: Carrying value of investment in subsidiary before acquiring control (refer to note 17)	(8,856)	–			
Add: Goodwill on acquisition that was fully impaired (refer to comment below)	–	114,639			
Total consideration	293,466	272,971			
Contingent consideration (refer to comments below)	(140,000)	–			
Satisfied by cash	(153,466)	(272,971)			
Net cash outflow arising on acquisition:					
Cash consideration	(153,466)	(272,971)			
Cash and cash equivalents acquired	537	2,369			
Net cash outflow on acquisition of subsidiaries	(152,929)	(270,602)			

OJSC "Aldanzoloto GRK", OJSC "South-Verkhoyansk Mining Company", OJSC "Yakut Mining Company"

In September 2005, 99.2% of issued ordinary shares of OJSC "Aldanzoloto GRK", 50.0% of the issued ordinary shares of OJSC "South-Verkhoyansk Mining Company", and 100.0% of the issued ordinary shares of OJSC "Yakut Mining Company" were acquired by the Group for an estimated consideration of USD 255,000 thousand, of which USD 115,000 thousand was satisfied by cash.

The remaining part of the estimated consideration, being USD 140,000 thousand, is contingent upon negotiations related to financial terms of the acquisition and of the results of these entities at the acquisition date and was still in negotiation with the buyer as of the date of issuance of these consolidated annual financial statements.

The acquired companies contributed USD 13,302 thousand revenue and USD 2,020 thousand loss before taxation, USD 457 thousand revenue and USD 4,621 thousand loss before taxation, respectively, from the date control was obtained to 31 December 2005.

OJSC "Sibzolorazvedka"

On 3 November 2005, the Group acquired 100.0% of the issued share capital of OJSC "Sibzolorazvedka" for a cash consideration of USD 593 thousand.

OJSC "Sibzolorazvedka" contributed USD 45 thousand revenue and USD 69 thousand loss before taxation from the date control was obtained to 31 December 2005.

OJSC "Pervenets"

On 10 February 2005, the Group acquired 74.0% of the issued share capital of OJSC "Pervenets" for a cash consideration of USD 25,816 thousand.

OJSC "Pervenets" contributed USD nil revenue and USD 1,301 thousand loss before taxation from the date control was obtained to 31 December 2005.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

CJSC "Tonoda"

On 9 December 2004, the Group acquired 100.0% of the issued share capital of CJSC "Tonoda" for a cash consideration of USD 28,276 thousand.

OJSC "Lenzoloto"

On 6 April 2004, the Group acquired 50.5% of the issued share capital of OJSC "Lenzoloto" for a cash consideration of USD 179,307 thousand. During July 2004 the Group increased its investment in OJSC "Lenzoloto" to 57.0% for an additional cash consideration of USD 11,711 thousand.

As of 31 December 2004 the Group reviewed the carrying value of goodwill arising on the acquisition of OJSC "Lenzoloto" and wrote it off in the 2004 financial year.

In July 2005 an additional 5.6% of issued ordinary shares of OJSC "Lenzoloto" were acquired by the Group, for USD 3,000 thousand.

In December 2005 the Group further increased its investment in OJSC "Lenzoloto" to 68.2% for a cash consideration of USD 4,636 thousand.

OJSC "Matrosov Mine"

On 6 April 2004, the Group acquired 38.0% of the issued share capital of OJSC "Matrosov Mine" for a cash consideration of USD 35,618 thousand. During May and July 2004 the Group increased its investment in OJSC "Matrosov Mine" to 57.1% for a cash consideration of USD 18,059 thousand, bringing the Group's total investment in OJSC "Matrosov Mine" to USD 53,677 thousand.

During April-May 2005, the Group acquired 100% of additional shares issued by OJSC "Matrosov Mine", bringing its total share in the company to 87.4%. On 31 May 2005, the Group further increased its investment in OJSC "Matrosov Mine" to 88.4% for a cash consideration of USD 4,265 thousand.

34. DISPOSAL OF A SUBSIDIARY**Net assets disposed of**

	2005	2004
Property, plant and equipment (refer to note 15)	12,592	–
Capital construction-in-progress (refer to note 16)	42	–
Investments in securities and other financial assets	501	–
Trade and other receivables	319	–
Cash and cash equivalents	107	–
Inventories	1,970	–
Other current assets	5,987	–
Trade and other payables	(22,362)	–

Net assets at date of disposal (844) –

Group's share of assets disposed of

Less: Gain on disposal 844 –

Proceeds from disposal of subsidiaries

Less: Cash and cash equivalents disposed of (107) –

Net cash outflow from disposal of subsidiaries

(107) –

In June 2005 CJSC "Nedra Bodaybo", a gold mining subsidiary, was disposed of for a cash consideration of less than USD 1 thousand.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

35. RELATED PARTIES

Related parties are considered to include the parent company, associates, entities under common ownership and control with the Group and 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. Material transactions with related parties not dealt with elsewhere in the consolidated annual financial statements were as follows:

Transactions and balances with related parties

	Sale of goods	Purchase of goods and services	Interest received	Interest paid	Promissory notes receivable	Trade receivables	Cash deposits	Short-term investments	Short-term loans and borrowings	Trade payables	Lease liability
2005											
By the Company	145,185	31,427	42,235	–	310,484	449	15,804	172,984	–	1,769	–
By subsidiaries of the Group	101,311	–	924	1,401	3,696	525	10,955	–	417	6,028	6,869
Total	246,496	31,427	43,159	1,401	314,180	974	26,759	172,984	417	7,797	6,869
2004											
By the Company	333,705	3,928	15,290	5,192	393,738	273	1,223	–	–	–	–
By subsidiaries of the Group	63,716	–	–	815	–	1,824	1,675	–	28,082	3,836	–
Total	397,421	3,928	15,290	6,007	393,738	2,097	2,898	–	28,082	3,836	–

Compensation of key management personnel

The remuneration of key management personnel of the Group for the year ended 31 December 2005 amounted to USD 8,782 thousand (2004: USD 5,914 thousand).

36. CONTINGENCIES**Insurance**

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

Litigation

Unresolved tax litigation at 31 December 2005 amounted to approximately USD 4,845 thousand. Management has assessed the unfavourable outcome of such litigation as possible.

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

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

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

In terms of Russian tax legislation, authorities have a period of up to six 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 2,968 thousand.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could 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 of environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the term of the 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 the Russian economy depends on the effectiveness of the Government economic policies and the continued development of the legal and political systems.

37. RISK MANAGEMENT ACTIVITIES

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

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 gold.

The Group does not enter into any forward or hedging contracts or other financial instruments to offset its commodity price risk.

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.

The Group does not enter into foreign currency derivative transactions to offset its currency risk.

Liquidity risk

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

The Group's liquidity position is carefully monitored and managed. The Group makes use of a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

Interest rate risk

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

The Group does not enter into interest rate swap arrangements to manage its interest rate risk.

GOLD MINING COMPANY POLUS**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

(US dollars thousand)

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group.

Although the Group sells a significant portion of its gold production to a related party and has the only one other customer, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market in the Russian Federation. Payment terms with the Group's customers are such that credit risk is minimal.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Investments in associates (refer to note 17)	326	326	9,357	9,357
Investments in securities and other financial assets (refer to note 18)	2,234,000	2,234,000	397,317	397,317
Advances to suppliers and other receivables (refer to note 20)	25,409	25,409	12,315	12,315
Other assets (refer to note 21)	88,674	88,674	58,224	58,224
Cash and cash equivalents (refer to note 22)	28,408	28,408	13,015	13,015
Obligations under finance lease (refer to note 27)	6,869	6,869	4,828	4,828
Contingent consideration for acquisition of subsidiaries	140,000	140,000	–	–
Other long-term liabilities (refer to note 28)	1,246	1,246	5,273	5,273
Short-term borrowings (refer to note 29)	23,243	23,243	35,112	35,112
Trade accounts and other payables (refer to note 30)	49,643	49,643	35,864	35,864
Taxes payable (refer to note 31)	23,173	23,173	14,512	14,512

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

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

Advances to suppliers 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 borrowings are market related. Consequently the carrying values of these financial instruments approximate their fair values.

The fair value of lease obligations is estimated by discounting the future contractual cash flows using the market interest rates available to the Group for other borrowings.

Long-term taxes payable have been discounted using the discount rate applicable for borrowings.

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

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

39. CHANGES IN ACCOUNTING POLICY

Subsequent to issuing of the Group's consolidated annual financial statements for the year ended 31 December 2004, management made the decision to change accounting policy for research and exploration expenditure of the Group. The reason for the change in the Group's accounting policy is to make it consistent with the substance and the way the Group manages its research, exploration and evaluation activities. The Group considers that the change results in the financial statements providing reliable and more relevant information about the effects of research, exploration and evaluation activities on the Group's financial position, financial performance and cash flows.

In accordance with the new Group's accounting policy certain research and exploration expenditure previously recognised in the Group's income statement was capitalised. Consolidated financial statements for the year ended 31 December 2004 were adjusted to include the effect of changes in accounting policy.

Profit attributable to shareholder of the parent company for the year ended 31 December 2004 – as previously reported

8,059**Property, plant and equipment**

Adjustment to carrying value of exploration assets (refer to note 15) 9,757

Deferred taxation

Additional deferred tax liabilities attributable to property, plant and equipment (refer to note 25) (2,342)

Minority interest

Adjustment to profit attributable to minority shareholders (424)

Profit attributable to shareholder of the parent company for the year ended 31 December 2004 – as restated

15,050

Increase of earnings per share for the year ended 31 December 2004 as a result of change in accounting policy

– Basic 51
– Diluted 28

40. 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 of MMC Norilsk Nickel, on 17 March 2006 a new company OJSC "Polyus Gold" was incorporated in the Russian Federation. Shareholder contributed into the new company 100.0% of CJSC "Gold Mining Company Polus" shares and cash in the amount of USD 360,197 thousand.

Sale of investment in Gold Fields Ltd.

In March 2006 the Group sold its whole stake of 98,467,758 ordinary shares in Gold Fields Ltd. at a price of USD 20.50 per share. Net proceeds from the sale amounted to USD 1,926,852 thousand.

GOLD MINING COMPANY POLUS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(US dollars thousand)

41. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Nature of business	Shares held		Effective % held	
		2005	2004	2005	2004
OJSC "Lenzoloto"	Market agent	931,035	847,535	68.2	57.0
LLC "Lenskaya Zolotorudnaya Company"	Market agent	–	–	100.0	100.0
OJSC "Matrosov Mine"	Mining (development stage)	232,747	43,929	88.4	57.1
"Jenington International Inc."	Market agent	1,000,000	–	100.0	–
CJSC "Tonoda"	Mining (development stage)	9,100	9,100	100.0 ¹	100.0 ¹
OJSC "Pervenets"	Mining	100	–	100.0 ¹	–
CJSC "Lensib"	Mining	610	610	41.6 ¹	34.8 ¹
CJSC "Svetliy"	Mining	840	840	57.3 ¹	47.9 ¹
CJSC "Marakan"	Mining	840	840	57.3 ¹	47.9 ¹
CJSC "Nadezhdinskoe"	Mining	840	840	57.3 ¹	47.9 ¹
CJSC "Dalnaya Taiga"	Mining	820	820	55.9 ¹	46.7 ¹
CJSC "Sevzoto"	Mining	650	650	44.3 ¹	37.0 ¹
CJSC "Charazoto"	Mining	640	640	43.6 ¹	36.5 ¹
CJSC "Nedra Bodaybo"	Mining	–	1,071	–	29.1 ¹
CJSC "GRK Sukhoy Log"	Mining	100	100	100.0 ¹	57.0 ¹
CJSC "Vitimenergo"	Electricity production	355,679	355,679	100.0 ¹	57.0 ¹
LLC "Lengeo"	Geological research	–	–	100.0 ¹	57.0 ¹
LLC "Vitimservice"	Procurement services	–	–	100.0 ¹	57.0 ¹
LLC "Lenrem"	Repair services	–	–	68.2 ¹	57.0 ¹
LLC "LZDT"	Transportation	–	–	100.0 ¹	57.0 ¹
OJSC "Aldanzoloto GRK"	Mining	88,021,708,092	–	99.2	–
OJSC "Uzhno-Verkhoyanskaya GK"	Mining (development stage)	250,000	–	50.0	–
OJSC "Yakutskaya GK"	Mining (development stage)	735,000	–	100.0	–
OJSC "Sibzolotorazvedka"	Geological research	1,500	–	100.0	–

1 Effective % held through other Group subsidiaries

Ni

Co



Ni

Cu

INFORMATION FOR SHAREHOLDERS

15

••• Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on 13:00, 29 June 2006 (Moscow time) in Moscow at 49 Leningradsky prospect. Registration of the participants of the Annual General Meeting of Shareholders of MMC Norilsk Nickel will start at 9:00, 29 June 2006 (Moscow time).

••• Register holder of the Company is CJSC National Registration Company

CJSC National Registration Company operates under FCSM License No. 10-000-1-00252 dated 6 September 2002, effective indefinitely.

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The Internet site of MMC Norilsk Nickel is www.nornik.ru.

Appendix 1

Report on compliance with the Corporate Governance Code of the Federal Commission for the Securities Market⁽¹⁾

N	Provision of the Code of Corporate Governance	Complied/ Not complied ⁽²⁾	Notes
General Meeting of Shareholders			
1.	Not less than 30 days prior notice of the General Meeting given to shareholders regardless of the issues on the agenda unless legislation provides for a longer notice.	Complied	<p>According to Clause 7 of the Regulation on the General Meeting, "Notice of the meeting shall be given to shareholders in the manner and in time determined by the Federal law and the Company's Charter".</p> <p>According to the Charter, Clause 5.4, Para. 1, "Notice of the General Meeting shall be published in Izvestia newspaper, in Rossiyskaya Gazeta newspaper and in Taimyr newspaper not later than 30 days prior to the General Meeting. If a General Meeting is held by vote in absentia, notice of the Meeting shall be given in the above publications at least 30 days prior to the deadline for the collection of ballots".</p>
2.	Access of the shareholders to the list of persons entitled to attend the General Meeting, starting from the date of announcement of the General Meeting until the closing of the General Meeting held in person, and in the case of a General Meeting held by correspondence – until the deadline for the collection of voting ballots.	Complied	In accordance with Article 51 of the Federal Law On Joint Stock Companies, Clause 12 of the Regulation on the General Meeting stipulates that the "access to the list of persons authorized to participate in the Meeting shall be made available by the Company at the request of persons included in such list and having at least 1 percent of votes".
3.	Access of the shareholders to information (materials) to be provided during the preparation for the General Meeting through electronic media, including the Internet.	Complied	The shareholders have access to such materials 20 days before the date of the General Meeting at shareholder assistance offices – CJSC NRC, and at the Company (including through electronic media and the web).
4.	Possibility for a shareholder to put an issue on the agenda of the General Meeting or require a General Meeting to be called without presenting an extract from the shareholder register where title to shares is recorded in the shareholder register system and by presenting only a statement from the depot account where title to shares is recorded in a depot account.	Complied	When collecting proposals for the agenda of the General Meeting, including those regarding the candidates to the Board of Directors, the Company requests confirmation from the shareholder register on its own.

5. The Charter or internal By-laws of the company contain a requirement on obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the audit commission and the external auditor of the company at the General Meeting.	Not complied	Such persons are usually present at the General Meetings held by the Company; however, the Charter and By-laws have no provisions stipulating their responsibility to be present at the General Meetings.
6. Obligatory presence of the nominees for the positions of members of the Board of Directors, the General Director, members of the Management Board, members of the audit commission and external auditor during consideration by the General Meeting of their election and appointment.	Complied	<p>According to Article 29 of the Company's Regulation on the General Meeting, "if the agenda of the Meeting includes election of the directors and/or approval of the auditor, the persons included in the list of nominees for director voting and/or authorized representatives of the auditors (auditor) proposed for approval by the Meeting should be necessarily invited to the Meeting".</p> <p>According to Clause 6.3.3.9 of the Charter, formation and termination of authorities of the executive bodies of the Company are included in the competence of the Board of Directors.</p>
7. By-laws of the company establish a registration procedure for the participants in the General Meeting.	Complied	According to Clause 19 of the Company's Regulation on the General Meeting, "the Registrar of the Company exercising the functions of the Counting Commission verifies the authorities and registers persons participating in the Meeting..." and the time of the start of the registration is determined by the Board of Directors (Regulation on the General Meeting, Clause 4).

Board of Directors

8. The company's charter provides for the authority of the Board of Directors to approve annual financial and operating plans.	Complied	Charter of the Company, Clause 6.3.3.1.
9. The company has a risk management procedure approved by the Board of Directors.	Complied	<p>According to Clause 6.3.3.34 of the Charter, the competence of the Board of Directors includes "Identification of main risks related to Company operations and implementation of measures and procedures to control such risks".</p> <p>The Company has a Financial Risk Management Policy in place, which was approved by the Board of Directors (Protocol No. GMK/15-pr-sd of 1 June 2004).</p>
10. The company's charter provides for the right of the Board of Directors to take a decision on suspending the authorities of the General Director appointed by the General Meeting.	Complied	Charter of the Company, Clause 6.3.3.9.

11. The company's charter provides for the right of the Board of Directors to establish requirements to the qualifications and the level of compensation of the General Director, members of the Management Board and managers of the key structural divisions of the company.	Complied	Charter of the Company, Clauses 6.3.3.9, 6.3.3.30, 6.3.3.31. The Board of Directors has such authorities in respect of the General Director, members of the Management Board, staff of the Internal audit service and the Corporate Secretary.
12. The company's charter provides for the right of the Board of Directors to approve the terms of the contracts with the General Director and members of the Management Board.	Complied	Charter, Clause 6.3.3.9.
13. The Charter and By-laws of the company contain a requirement that votes of the members of the Board of Directors who act as the General Director and members of the Management Board should not be taken into account when the terms of the contracts with the General Director (managing entity, manager) and members of the Management Board are approved.	Complied	Charter, Clause 6.2.5.
14. The Board of Directors includes at least 3 independent directors meeting the requirements of the Code of Corporate Conduct.	Complied	The Board includes 4 independent directors.
15. There are no persons on the Board of Directors recognized guilty of committing offences in the sphere of economic activity; against the government, against the interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Complied	According to Clause 5.3 of the Charter, proposals made by shareholders regarding candidates to the Board of Directors should include, among other, the following information on such candidates: • prior convictions for crimes in the economic sphere and crimes against the government.
16. There are no persons on the Board of Directors who serve as members, the General Director (manager), members of the management body or employees of any competitor of the company.	Complied	Regulation on the Board of Directors, Clause 1.5.
17. The company's charter contains a requirement that the Board of Directors be elected by cumulative vote.	Complied	According to Clause 6.1.2 of the Charter, "members of the Board of Directors shall be elected by the Annual Meeting in the manner contemplated by the Federal Law". In accordance with Par. Clause 4 of Article 66 of the Law On Joint Stock Companies members of the Board of Directors are elected by cumulative vote.

18. By-laws of the company include the obligation of the members of the Board of Directors to refrain from any actions that will or may potentially lead to a conflict of interests with the company, and in the case of such conflict, their obligation to disclose information on such conflict to the Board of Directors.	Complied	Regulation on the Board of Directors, Clause 4.1.
19. By-laws of the company provide for the obligation of the members of the Board of Directors to notify the Board of Directors in writing of their intention to perform any transactions and disclose information on any transactions performed with securities of the company or subsidiaries (associates) of the company.	Complied	Regulation on the Board of Directors, Clause 4.1.
20. By-laws of the company contain a requirement that a meeting of the Board of Directors should be held at least once in six weeks.	Complied	Charter, Clause 6.2.2. Regulation on the Board of Directors, Clause 3.1.
21. Meetings of the Board of Directors of the company were held at least once in six weeks in the year for which the annual report is presented.	Complied	In 2005, the Board held 28 meetings, including voting by ballot at least once in every six weeks.
22. By-laws of the company establish a procedure for the conducting of the meetings of the Board of Directors.	Complied	Regulation on the Board of Directors, section 3 Meetings of the Board of Directors of the Company.
23. By-laws of the company include a provision on the need to have approval of the Board of Directors for the company's transactions amounting to 10 and more percent of the company's assets value other than transactions performed in the ordinary course of business.	Complied	According to Clause 6.3.3.33. of the Charter, the Board of Directors decides on any transactions for an amount of 2 (two) and more percent of the carrying value of the Company's assets.
24. By-laws of the company provide for the right of the members of the Board of Directors to receive information necessary for the performance of their functions from the executive bodies and managers of the key structural divisions and liability of the latter for non-provision of such information.	Complied	Regulation on the Board of Directors, Clause 1.6. Meantime, By-laws of the Company have no provisions establishing liability for failure to provide such information.
25. There is a strategic planning committee of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the personnel and compensation committee).	Not complied	According to the Company's Charter, the competence of the Board of Directors includes "identification of priorities in the operations of the Company, the vision and strategy for the development of the Company and approaches to their implementation". The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors.

26. There is a committee (Audit Committee) of the Board of Directors that recommends an external auditor to the Board of Directors and communicates with the external auditor and the internal audit commission of the company.	Complied	<p>The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees including members of the Board of Directors.</p> <p>On 8 October 2004, the Board of Directors approved the Regulation on the Audit Committee of the Board of Directors of MMC Norilsk Nickel.</p> <p>On 30 June 2005, the Board of Directors elected the following persons to the Committee:</p> <ul style="list-style-type: none"> • independent member of the Board of Directors Guy de Selliers (Chairman); • non-executive member of the Board of Directors A.E. Bugrov; • independent member of the Board of Directors K.L. Ugolnikov. <p>In accordance with Clause 2.3 of the Regulation on the Audit Committee of the Board of Directors, the following matters (along with other powers) fall within the Committee's competence:</p> <ul style="list-style-type: none"> • preparation of recommendations for selection of an independent auditor for the Board of Directors; • interaction with the Company's Auditing Commission.
27. The Audit Committee includes only independent and non-executive directors.	Complied	<p>In accordance with Clause 3.2 of the Regulation on the Audit Committee of the Board of Directors, "the Audit Committee may include only independent (meeting independence criteria set out in Clause 6.2.8 of the Company's Charter) and non-executive (those who are not the sole executive body of the Company and/or members of the collective executive body of the Company) members of the Board of Directors".</p>
28. The Audit Committee is chaired by an independent director.	Complied	<p>In accordance with Clause 3.4 of the Regulation on the Audit Committee of the Board of Directors, "the Audit Committee may be chaired only by an independent member of the Board of Directors".</p> <p>On 30 June 2005, the Board of Directors elected Mr. Guy de Selliers, an independent director, the Chairman of the Audit Committee of the Board of Directors.</p>

29. By-laws of the joint stock company provide for the access of all the members of the Audit Committee to any documents and information of the company subject to non-disclosure of confidential information.	Complied	<p>Regulation on the Board of Directors (Clauses 1.6 and 1.5) provide for the right of all directors to "obtain any information relating to the activities of the Company from any divisions and functions of the Company" and the responsibility of the directors "not to disclose confidential information that became known to them about the activities of the Company and not to disclose insider information".</p> <p>Regulation on the Audit Committee of the Board of Directors (Clause 6.2) provides for the right of members of the Committee "to request information and documents pertaining to matters within the competence of the Committee from the Board of Directors, the Management Board, the General Director, the Revision commission and auditor of the Company".</p>
30. There is a committee (nomination and compensation committee) of the Board of Directors that is responsible for the determination of the criteria for the selection of candidates to the Board of Directors and development of the company's compensation policies.	Not complied	<p>The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors including members of the Board of Directors.</p> <p>The Company does not have a Nomination and Compensation Committee of the Board of Directors.</p>
31. The personnel and compensation committee is headed by an independent director.	Not applicable	<p>The Company does not have a Nomination and Compensation Committee of the Board of Directors.</p> <p>Meantime, in accordance with Clause 1.8 of the Regulation on the Board of Directors, "... Committees of the Board of Directors shall be chaired by members of the Board of Directors that are not members of the executive bodies of the Company and they shall include independent directors".</p>
32. There are no executives of the company on the personnel and compensation committee	Not applicable	<p>The Company does not have a Nomination and Compensation Committee of the Board of Directors.</p>
33. There is a risk committee of the Board of Directors or functions of such committee are assigned to some other body (other than the Audit Committee or the personnel and compensation committee).	Not complied	<p>The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors including members of the Board of Directors.</p> <p>The Company does not have a risk committee of the Board of Directors.</p>

34. There is a committee for the settlement of corporate conflicts of the Board of Directors or functions of such committee are assigned to some other body (other than the Audit Committee or the personnel and compensation committee).	Not complied	The Charter (Clause 6.3.3.38) and Regulation on the Board of Directors (Clause 1.8) provide for possible creation of committees of the Board of Directors including members of the Board of Directors. The Company does not have a committee of the Board of Directors for the settlement of corporate conflicts.
35. There are no executives of the company on the committee for the settlement of corporate conflicts.	Not applicable	The Company does not have a committee of the Board of Directors for the settlement of corporate conflicts.
36. The committee for the settlement of corporate conflicts is headed by an independent director.	Not applicable	The Company does not have a committee of the Board of Directors for the settlement of corporate conflicts. Meantime, in accordance with Clause 1.8 of the Regulation on the Board of Directors, "... Committees of the Board of Directors shall be chaired by members of the Board of Directors that are not members of the executive bodies of the Company and they shall include independent directors".
37. The company has internal By-laws approved by the Board of Directors providing for the procedure of formation and operation of the committees of the Board of Directors.	Complied	The Audit Committee formation and operation procedures are set out in the Regulation on the Audit Committee of the Board of Directors approved by the Board of Directors (Protocol No. GMK/32-pr-sd of 8 October 2004).
38. The company's charter provides for a procedure to determine the quorum of the board that would ensure obligatory participation of independent directors at the board meetings.	Complied	Charter, Clause 6.2.8.
Executive bodies		
39. The company has a collective executive body (Management Board).	Complied	Charter of the Company, section 7 Executive Bodies of the Company.
40. The Charter or By-laws of the company contain provisions on the need to have approval of the Management Board for real estate transactions and loans received by the company unless such transactions are major deals or are performed in the ordinary course of business.	Complied	Charter, clauses 7.8.3., 7.8.6, 6.3.3.33.

41. The By-laws of the company establish procedures for the approval of transactions which are outside the scope of the company's financial and operational plan.	Not complied	Virtually all operations outside the scope of the Company's financial and operational plan are considered by the Company's Board of Directors. In accordance with clause 6.3.3.33 of the Company's charter, the competence of the Company's Board of Directors includes decisions on transactions in the amount of 2% (two) or more of the book value of the Company's assets according to the accounting data at the latest reporting date.
42. There are no persons in the executive bodies who serve as members, the General Director (manager), members of the management body or employees of any competitor of the company.	Complied	The recommendation is complied; however, the Charter and By-laws of the Company contain no provisions that would require compliance with the limitations established by the recommendations from the members of the Company's executive bodies.
43. There are no persons in the management bodies recognized guilty of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subject to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market. If the functions of the sole executive body are performed by a managing entity or a manager – whether the General Director and members of the Management Board of the managing entity or manager meet the requirements established for the General Director and members of the Management Board of the company.	Complied	The recommendation is complied; however, the Charter and By-laws of the Company contain no provisions that would require compliance with the limitations established by the recommendations from the members of the Company's executive bodies.
44. The Charter or By-laws of the company contain a prohibition for the managing entity (manager) to perform similar functions for a competitor or have any other property relations with the company other than the provision of management services.	Not applicable	The functions of the sole executive body of the Company have not been transferred to a managing organization (manager).
45. The By-laws of the company include the obligation of the members of the executive bodies to refrain from any actions that will or may potentially lead to a conflict of interests with the company and in the case of such conflict – their obligation to inform the Board of Directors on such conflict.	Not complied	The By-laws of the Company do not provide for such obligation. Meantime, according to the Charter (Clause 7.9) "the General Director and members of the Managing Board, in exercising their rights and responsibilities, shall act in the interests of the Company, and exercise their rights and responsibilities in respect of the Company faithfully and reasonably..."
46. The Charter or By-laws of the company contain criteria for the selection of the managing entity (manager).	Not applicable	The functions of the sole executive body of the Company have not been transferred to a managing organization (manager).
47. Executive bodies provide monthly reports on their activities to the Board of Directors.	Not complied	Reports on the Company's operations are provided to the Board of Directors on a quarterly basis.

48. The contracts made by the company with the General Director (managing entity, manager) and members of the Management Board stipulate liability for violation of the provisions on the use of confidential and insider information.	Complied	<p>In accordance with Clause 9.5 of the Charter, "members of executive bodies of the Company shall be liable for disclosure of confidential and insider information in accordance with the current legislation of the Russian Federation".</p> <p>In accordance with Clause 7.9 of the Charter, the General Director and members of the Management Board "shall be liable to the Company for losses incurred by the Company as a result of their wrongful acts (omissions) in accordance with the laws of the Russian Federation".</p> <p>In accordance with Clause 6.1 of the Regulation on Insider Information, for unlawful disclosure and use of insider information of the Company, the General Director and members of the Management Board "shall be held liable in accordance with the current legislation, by-laws of the Company and the terms of agreements concluded with the Company".</p>
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Secretary of the company

49. There is a special official in the company (company secretary) whose function is to ensure that the company's bodies and officials comply with procedural requirements guaranteeing the exercise of the legal rights and interests of the company's shareholders.	Complied	Charter, Clause 6.5. On 11 August 2005, the Board of Directors approved the resignation of Mikhail Sosnovsky, the Secretary of MMC Norilsk Nickel, and appointed Pavel Sukholinsky to the position.
50. The Charter or By-laws of the company prescribe a procedure for the appointment (election) of the company secretary and responsibilities of the company secretary.	Complied	Charter, Clauses 6.3.3.31, 6.3.3.33, 6.4., 6.5.
51. The company's charter contains requirements to the candidate for the position of the company secretary.	Not complied	These qualifications are not defined in the Charter.

Major corporate actions

52. The Charter or By-laws of the company contain a requirement on approval of any major deal before it is concluded	Complied	Charter, Clause 6.6.
53. Obligatory engagement of an independent appraiser to determine the market value of any property that is subject to a major transaction.	Complied	Charter, Clause 6.7.

54. In the event of acquisition of any large stakes in the company (takeover), the company's charter prohibits to take any actions aimed at the protection of interests of the executive bodies (members of such bodies) and members of the Board of Directors and also such actions that make the position of shareholders worse than their current position (in particular, prohibition of a decision by the Board of Directors to issue additional shares, securities convertible into shares or securities granting right to acquire shares in the company before the end of the expected time of the acquisition of shares, even if the right to take such decision is granted by the Charter).	Not complied	These qualifications are not defined in the Charter.
55. The company's charter contains a requirement on obligatory engagement of an independent appraiser to determine the current market value of shares and potential changes in their market value as a result of takeover.	Not complied	Company's shares traded on the leading Russian stock exchanges: NP RTS, OJSC RTS, CJSC SE MICEX and in the form of ADRs over-the-counter on the international stock exchanges and, therefore, have current market value.
56. The company's charter contains no exemption of the acquirer from the obligation to offer buyout of the company's ordinary shares (other securities convertible into ordinary shares) to the shareholders upon takeover.	Complied	On 24 June 2004, the Annual General Meeting of Shareholders made the decision to exclude the provision from the Company's Charter (Para. 2 of Clause 4.3) exempting the acquirer (of 30% or more of the Company's shares) to offer buyout of the Company's shares to other shareholders.
57. The Charter or By-laws of the company contain a requirement on obligatory engagement of an independent appraiser to determine the proportion for the conversion of shares on reorganization.	Not complied	This requirement is not defined in the Charter or By-laws of the company.

Disclosures

58. There is an internal document approved by the Board of Directors determining policies and procedures used by the company for the disclosure of information (Regulation on Information Policies).	Not complied	No such regulation has been approved by the Company's Board of Directors.
59. By-laws of the company contain a requirement to disclose purposes of placement of shares, persons that intend to acquire shares placed, including large stakes, and participation of officials of the company in the acquisition of the shares placed.	Not complied	This requirement is not defined in the By-laws of the Company.

60. By-laws of the company contain a list of information, documents and materials that should be provided to shareholders for the decision on the issues put for the consideration of the General Meeting.	Complied	Charter, Clause 5.7; Regulation on the General Meeting, Clause 9.
61. The company has a web site and regularly discloses information about the company on the web site.	Complied	Charter, Clause 5.4.
62. By-laws of the company contain a requirement to disclose information on the deals of the company with persons that are senior executives of the company in accordance with the Charter and deals of the company with entities where senior executives of the company directly or indirectly hold 20 or more percent of the share capital or on which such persons may otherwise exercise significant influence.	Not complied	<p>This requirement is not defined in the By-laws of the Company.</p> <p>In accordance with the requirements of Clause 8.6.1 (e) of the Regulation on Information Disclosure by Issuers of Emission Securities approved by Order of the FSFM No. 05-5/pz-n of 16 March 2005, the Company discloses information on a deal with interested parties which must be approved by the authorized management body of the Company in accordance with the legislation of the Russian Federation if the price of the deal is equal to or exceeds 5% of the carrying value of assets of the Company as per its financial statements for the last reporting date before the deal is approved by an authorized management body of the Company.</p>
63. By-laws of the company contain a requirement to disclose information on all transactions that may affect the market value of the company's shares.	Not complied	<p>This requirement is not contained in the By-laws of the Company.</p> <p>In accordance with the requirements of the Regulation on Information Disclosure by Issuers of Emission Securities (Clause 1.14, Clause 6.1) approved by Order of the FSFM No. 05-5/pz-n of 16 March 2005, the Company discloses information that may affect the market value of the Company's shares and information in the form of material events reports.</p> <p>Besides, the Company discloses, on a regular basis, information on all significant transactions through dissemination of press-releases and posting information on the corporate web-site.</p>
64. There is an internal document approved by the Board of Directors on the use of significant information on the activity, shares and other securities of the company and transactions with such shares and other securities, which is not publicly available and the disclosure of which may have material impact on the market value of shares and other securities of the company.	Complied	The Regulation on Insider Information approved by the Board of Directors on 30 December 2004, is in effect in the Company.

Control of financial and economic operations of the company

65. There are internal control procedures over the financial and operational activities of the company approved by the Board of Directors.	Not complied	In accordance with the Company's Charter (Clause 6.3.3.26), the competence of the Board of Directors includes approval of internal control systems and procedures and management information system; however, no internal document that would stipulate specific internal control procedures has been approved by the Board of Directors.
66. There is a special division in the company ensuring compliance with the internal control procedures (internal control service).	Not complied	<p>The current version of the Charter (Clause 6.3.3.27, 6.3.3.28, 6.3.3.29) provides for the creation of an internal control service at the Company, and includes approval of the requirements to the candidates for officers of the service, as well as decision making regarding hiring of the head of such service in the competence of the Board of Directors.</p> <p>The Company has a division ensuring compliance with the internal control procedures, the Internal Control Department, which does not fully comply with the requirements for the internal control service.</p>
67. By-laws of the company contain a requirement that the structure and members of the internal control service should be determined by the Board of Directors.	Complied	Charter, Clauses 6.3.3.27, 6.3.3.28, 6.3.3.29.
68. There are no persons in the internal control service recognized guilty of committing offences in the sphere of economic activity, against the government, against interests of the federal, regional and local government service or that have been subject to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	Not applicable	The Company has a division ensuring compliance with the internal control procedures, the Internal Control Department, whose staff meets the specified requirements. Meanwhile, the Department itself does not fully comply with the requirements for the internal control service.
69. There are no persons in the internal control service who serve as members of the executive bodies of the company, as well as members, the General Director (manager), members of the management bodies or employees of any competitor of the company.	Not applicable	The Company has a division ensuring compliance with the internal control procedures, the Internal Control Department, whose staff meets the specified requirements. Meanwhile, the Department itself does not fully comply with the requirements for the internal control service.

70. By-laws of the company establish dates for the submission of documents and materials to the internal control service for the assessment of financial and operational transactions performed and liability of officials and employees of the company for failure to provide them in time.	Not complied	This requirement is not defined in the By-laws of the Company.
71. By-laws of the company provide for the obligation of the internal control service to communicate any violations detected to the Audit Committee and where there is no such committee to the Board of Directors.	Not complied	At the date of approval of this annual report, this requirement is not defined in the By-laws of the Company. Meanwhile, the Company is developing the regulations on internal control over financial and operating activities (to be approved by the Company's Board of Directors) in accordance with which the Internal Control Department "shall inform the Audit Committee of the Board of Directors and the Company's Sole Executive Body of the identified breaches of internal control procedures."
72. The company's charter contains a requirement on preliminary assessment of the practicality of transactions not envisaged in the company's financial and operational plan (unusual transactions) by the internal control service.	Not complied	The Company's Charter contains no such requirement.
73. By-laws of the company establish a procedure for the agreement of any unusual transactions with the Board of Directors	Not complied	Actually, all unusual transactions are considered by the Company's Board of Directors.
74. There is an internal document determining the procedure of audits of the financial and operating activities by the internal audit commission approved by the Board of Directors.	Complied	Regulation on the Revision commission, section 5 Procedure of Audits (Inspections)
75. The Audit Committee performs an assessment of the auditor's report before it is presented to the shareholders in the General Meeting.	Complied	Clause 2.3.1 (e) of the Regulation of the Audit Committee of the Board of Directors provides that it is within the competence of the Audit Committee to "review financial statements and results of audits, discuss them with external auditors and management of the Company before they are presented to the Board of Directors of the Company". In accordance with Clause 5.7 of the Charter, "the review of the Auditor's Report prepared by the Audit Committee" constitutes "information (materials) to be made available to persons eligible to participate in a Meeting in the course of preparation for the Meeting".

Dividends

76. There is an internal document approved by the Board of Directors used as guidance by the Board of Directors in developing recommendations on the size of dividends (Regulation on Dividend Policies).	Complied	Protocol of the Board of Directors No. GMK/18-pr-sd dated 4 June 2002.
77. The Regulation on Dividend Policies contains a procedure for the determination of the minimum share of the net profit of the company used for the payment of dividends and conditions under which dividends are not paid or are not paid in full on preferred shares for which the size of dividends is determined in the company's charter.	Complied	Protocol of the Board of Directors meeting No. GMK/18-pr-sd dated 4 June 2002. Recommendations regarding terms of dividend payment on preferred stock are not applicable to the Company due to absence of this class of shares.
78. Publication of information on dividend policies of the company and any amendments thereto in a periodical stipulated in the company's charter for publication of announcements on General Meetings and on the web site of the company.	Complied	Information on Dividend Policy (when approved by the Board of Directors) was placed on the Company's web site in its annual reports and distributed in the form of a press release whereas no such information was placed in periodic publications as envisaged by the Company's Charter.

Notes:

(1) This report on compliance with the Code of Corporate Conduct was prepared in accordance with the Methodological Recommendations approved by the Directive of the FCSM of Russia No. 03-849/r dated 30 April 2003.

(2) For the purposes of this Report, "complied"/"not complied" answers in respect of a specific provision of the Corporate Governance Code should be interpreted as compliance/non-compliance by the Company with the principal (material) part of the provision in accordance with the Company's Charter or by-laws effective at the time of preparation of this compliance report and/or based on the existing corporate governance practices at the Company. For the purposes of this compliance report, "not applicable" in respect of a specific provision of the Corporate Governance Code should be interpreted as the non-applicability of the Code's provision to the Company, since the Code's provision refers to an institution/a procedure which does not exist within the Company.

••• Appendix 2

Interested party transactions of MMC Norilsk Nickel approved by the Board of Directors in 2005

Date of transaction	Description of transaction
Transactions with OJSC AKB Rosbank	
24.01.2005	Deposit of USD 100 million for a period from 24.01.2005 to 25.04.2005 Deposit of USD 100 million for a period from 25.01.2005 to 26.04.2005
05.02.2005	Loan of USD 100 million.
10.03.2005	Deposit of USD 55 million for a period from 22.03.2005 to 21.06.2005 Additional agreement No. 1 to the mutual settlements procedure No. 414 dated 01.04.2001
20.04.2005	Provision of broker services Provision of depository services Additional agreement to the Procedure of mutual settlements for depository services No. 414 dated 01.04.2001
22.04.2005	Deposit of USD 100 million for a period from 25.04.2005 to 25.07.2005 Deposit of USD 100 million for a period from 26.04.2005 to 26.07.2005
14.06.2005	Acquisition of property (refined platinum bullion)
16.06.2005	Deposit of USD 55 million for a period from 21.06.2005 to 20.09.2005
25.07.2005	Deposit of USD 100 million for a period from 25.07.2005 to 24.10.2005 Deposit of USD 100 million for a period from 26.07.2005 to 25.10.2005
13.09.2005	Transfer of property (750,000 gram of refined platinum bullion)
21.10.2005	Deposit of USD 100 million for a period from 24.10.2005 to 23.01.2006 Deposit of USD 100 million for a period from 25.10.2005 to 24.01.2006 Transfer of property (1,500,000 gram of refined silver bullion)
Other transactions	
15.04.2005	Conclusion of an agreement with OJSC RAO UES of Russia on establishing OJSC Norilsk Taimyr Energy Company
16.06.2005	Sublease of non-residential buildings to OJSC RAO Norilsk Nickel for a period from 01.01.2005 to 30.12.2005
22.11.2005	Loan to OJSC Yenisey River Shipping Company Signing of Additional Agreement to Protocol No. NN/970-2005/3-93 dated 22.06.2005 with OJSC Yenisey River Shipping Company Signing of Additional Agreement to Protocol No. NN/968-2005/3-95 dated 22.06.2005 with OJSC Yenisey River Shipping Company Signing of Additional Agreement to Protocol No. NN/969-2005/3-94 dated 22.06.2005 with OJSC Yenisey River Shipping Company
16.12.2005	Signing of compensation and expense reimbursement agreements with independent director Guy de Selliers Signing of compensation and expense reimbursement agreements with independent director Heinz Schimmelbusch Signing of compensation and expense reimbursement agreements with independent director K.L. Ugolnikov Signing of compensation and expense reimbursement agreements with independent director V.I. Dolgikh