Gold Mining Company Polus

Audited annual financial statements for the year ended 31 December 2003

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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 annual financial statements of Closed Joint Stock Company "Gold Mining Company Polus" (the "Company").

Management is responsible for the preparation of the annual financial statements that present fairly the financial position of the Company at 31 December 2003, and the results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the 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 annual financial statements (refer to the note dealing with the basis of presentation); and
- preparing the annual financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

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

The annual financial statements for the year ended 31 December 2003 were approved on 31 May 2004 by:

Ivanov E.I.	**Rudskykh T. N.**
President	Chief Accountant

Krasnoyarsk
31 May 2004

REPORT OF THE INDEPENDENT AUDITORS
to the management of Closed Joint Stock Company
"Gold Mining Company Polus"

We have audited the annual financial statements for the year ended 31 December 2003 of Closed Joint Stock Company "Gold Mining Company Polus" (the "Company"), set out on pages 3-26. The annual financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

The annual financial statements do not include corresponding figures in the statements of income, cash flows and changes in shareholder's equity for the year ended 31 December 2002. Disclosure of such information is required by International Accounting Standard 1 "Presentation of Financial Statements".

In our opinion, except for the omission of corresponding figures in the statements of income, cash flows and changes in shareholder's equity for the year ended 31 December 2002, the annual financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2003, and the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche
Moscow, Russia
31 May 2004

GOLD MINING COMPANY POLUS

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003
in thousands of US Dollars

	Notes	2003
Sales		**299,018**
Cost of sales	3	(108,726)
Gross profit		**190,292**
Selling, general and administrative expenses	7	(15,888)
Other operating expenses	8	(15,094)
Operating profit		**159,310**
Unwinding of discount on decommissioning provision	21	(379)
Income from investments	9	6,854
Other non-operating expenses	10	(1,667)
Profit before taxation		**164,118**
Taxation	11	(44,528)
Net profit for the year		**119,590**
Earnings per share	12	**492**

GOLD MINING COMPANY POLUS

BALANCE SHEET
AT 31 DECEMBER 2003
in thousands of US Dollars

	Notes	2003	2002
ASSETS			
Non-current assets		**247,391**	**211,397**
Property, plant and equipment	13	216,360	203,075
Capital construction-in-progress	14	31,011	8,300
Long-term investments		20	22
Current assets		**161,422**	**32,075**
Inventories	15	26,548	13,969
Advances to suppliers and other receivables	16	2,851	3,976
Promissory notes receivable		114,080	-
Taxes receivable	17	14,317	13,053
Cash and cash equivalents	18	3,626	1,077
Total assets		**408,813**	**243,472**
EQUITY AND LIABILITIES			
Share capital and reserves		**339,371**	**199,013**
Share capital	19	2	2
Translation reserve		5,010	-
Accumulated profits		334,359	199,011
Non-current liabilities		**38,791**	**40,483**
Deferred tax liabilities	20	31,813	34,382
Provision for decommissioning	21	6,978	6,101
Current liabilities		**30,651**	**3,976**
Trade and other payables	22	6,742	1,849
Taxes payable	23	23,909	2,127
Total equity and liabilities		**408,813**	**243,472**

GOLD MINING COMPANY POLUS

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003
in thousands of US Dollars

	Notes	2003
Operating activities		
Cash flows from operations	24	186,150
Income tax paid		(39,144)
Net cash inflow from operating activities		**147,006**
Investing activities		
Purchase of property, plant and equipment	13, 14	(42,130)
Purchase of promissory notes	25	(102,645)
Cash outflow from investing activities		**(144,775)**
Effect of translation to presentation currency		318
Net increase in cash and cash equivalents		**2,549**
Cash and cash equivalents at beginning of year	18	**1,077**
Cash and cash equivalents at end of year	18	**3,626**

GOLD MINING COMPANY POLUS

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003
in thousands of US Dollars

	Share capital	Translation reserve	Accumulated profits	Total
Balance at 31 December 2002	**2**	**-**	**199,011**	**199,013**
Net profit for the year	-	-	119,590	119,590
Effect of translation to presentation currency	-	5,010	15,758	20,768
Balance at 31 December 2003	**2**	**5,010**	**334,359**	**339,371**

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. The principal activity of the Company is the extraction and processing of gold. Production facilities of the Company are located in Krasnoyarsk region, Russian Federation. The average number of the Company's employees is 2,838 (2002: 2,755).

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" ("MMC Norilsk Nickel") holds 100 percent of voting shares of the Company. MMC Norilsk Nickel together with its subsidiaries comprises the Norilsk Nickel Group.

Basis of presentation

The annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), except for management's decision not to provide corresponding figures in the statements of income, cash flows and changes in shareholder's equity for the year ended 31 December 2002 as this was the first time that annual financial statements had been prepared in compliance with IFRS. The term "International Financial Reporting Standards" includes standards and interpretations approved by International Accounting Standards Board, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee who replaced the Standing Interpretations Committee ("SIC").

The Company maintains its accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, the annual financial statements which have been prepared from the Company's Russian statutory accounting records, reflect adjustments necessary for the annual financial statements to be presented in compliance with IFRS.

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

- valuation of property, plant and equipment, in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"), which is more fully described in note 2 (d);

- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), which is more fully described in note 2 (i).

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Measurement and presentation currency

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

The Company has elected to use the United States of America Dollar ("USD" or "US Dollar") as its presentation currency. Using USD as a presentation currency is a common practice for global mining companies. In addition, USD is a more acceptable currency for international users of the annual financial statements of the Company.

The translation from RUR (measurement currency) into USD (presentation currency) in the annual financial statements for the year ended 31 December 2003 is made in accordance with the requirements of SIC 30 "Reporting Currency – Translation from Measurement Currency to Presentation Currency", using exchange rates as quoted by the Central Bank of the Russian Federation, as follows:

- all assets and liabilities, both monetary and non-monetary, have been translated at closing exchange rate, USD 1 = RUR 29.4545;
- all items included in shareholder's equity, other than net profit for the reporting period, have been translated at closing exchange rate, USD 1 = RUR 29.4545;
- all income and expense items for the year have been translated at the average exchange rate, USD 1 = RUR 30.6884; and
- all resulting exchange differences are included in shareholder's equity.

Due to the fact that prior to 1 January 2003 the Russian Federation was considered to be a hyperinflationary economy, the corresponding figures for the year ended 31 December 2002, presented in the balance sheet, were translated from RUR into USD at closing exchange rate at that date, 1 USD = RUR 31.7844 (refer to 2 (b)).

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 annual financial statements does not imply that Company could or will in the future realise or settle in USD the translated values of these assets and liabilities.

(b) Hyperinflation in the Russian Federation

Hyperinflationary accounting for the year ended 31 December 2002

The operations of the Company take place in the Russian Federation, where the accounting records are maintained in RUR. The economy of the Russian Federation was considered to be hyperinflationary from 1991 to 2002. The Company's balance sheet includes corresponding figures as of 31 December 2002, which in accordance with IAS 29 were measured in the measurement units current as of that date.

Cessation of hyperinflation

The characteristics of the economic environment of the Russian Federation indicate that it has ceased to be hyperinflationary. Accordingly, with effect from 1 January 2003 the Company discontinued application of the requirements of IAS 29, and the carrying amount of all non-monetary assets, liabilities and shareholder's equity stated in measurement units as of 31 December 2002 have thereafter been treated as cost.

(c) Foreign currency transactions and balances

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

(d) Property, plant and equipment

Basis of carrying value of property, plant and equipment

Property, plant and equipment were valued by independent, professionally qualified valuers. The effective date of the valuation was 31 December 2002. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value.

However, a significant part of property, plant and equipment, which is of a specialised nature, was valued at depreciated replacement cost. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accumulated depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset. The valued amounts have subsequently been recognised as cost in accordance with the requirements of IAS 29.

Mining assets

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

Mineral rights, mineral resources and ore reserves

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

Estimated proven and probable mineral reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits, in accordance with local geological engineering reserve standards.

Mine development costs

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

Capitalised mine development costs include expenditure incurred in:

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

Mine development costs include interest capitalised during the construction period, when financed by borrowings and the present value of future decommissioning cost.
Mine development costs are amortised on a straight-line basis using the life of mine method, based on estimated proven and probable mineral reserves, over a period of 7 to 20 years.

Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine method, based on estimated proven and probable mineral reserves, varying from 5 to 20 years.

Amortisation

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

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

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

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

Non-mining assets

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

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

(e) Capital construction-in-progress

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

(f) Impairment

An impairment review of assets is carried out, when impairment indicators exist in relation to a cash generating unit, by comparing the carrying amount of the assets to their respective recoverable amount. The recoverable amount is the greater of the assets' value-in-use or net selling price.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

Recoverable amounts of mining and processing assets are determined on the basis of the present values of net future cash flows. Changes in the present value of these future cash flows occur mostly from:

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

The recoverable amount of other assets is the amount, which the Company expects to recover from the future use of an asset, including its residual value on disposal.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the original carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

(g) Research and exploration expenditure

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

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

(h) Inventories

Refined gold

Gold is measured at the lower of net production cost on the weighted average basis, or net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, by the saleable mine output of gold.

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

Work-in-process

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

Stores and materials

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

(i) Financial instruments

Financial instruments recognised on the Company's balance sheet comprise investments, including promissory notes receivable, other receivables, cash and cash equivalents and trade and other payables. Financial instruments are initially measured at cost, including transaction costs, when the Company has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is described below.

A financial instrument or a portion of a financial instrument is derecognised, when the Company 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 initially measured at cost on a trade date basis, which is the fair value of the consideration given including transaction costs.

Investments are classified into the following categories:

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

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

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

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

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

Receivables

Receivables originated by the Company are measured at gross invoice value less provision for doubtful debts where considered appropriate.

Cash and cash equivalents

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

Trade and other payables

Trade and other payables are stated at their nominal value.

(j) Borrowing costs

Borrowing costs relating to major qualifying capital projects under construction are capitalised during the construction period during 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.

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

(k) Provisions

Provisions are recognised when the Company 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 Company contributes to the state pension fund, 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 for the year, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company 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 based on tax rates that have been enacted or substantially enacted by the balance sheet date. 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 sales 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 licensed commercial banks. Revenues from the sale of by-products are netted-off against production costs.

(o) 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 Russian legislation and as reflected in the statutory financial statements of the Company. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

(p) Segmental information

The Company predominantly operates in a single business segment, being mining and processing of gold. The Company's production facilities are based solely in the Russian Federation. Therefore, business activities are subject to the same risks and returns, and reported in the annual financial statements as one reportable segment.

(q) Decommissioning costs

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

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

(r) Ongoing rehabilitation

Expenditure on ongoing rehabilitation costs is accounted for when incurred.

in thousands of US dollars

3. COST OF SALES

	2003
Cash operating costs	89,143
On-mine and concentrating costs (refer to note 4)	36,173
Smelting costs (refer to note 5)	33,138
Refining costs	1,735
Tax on mining	18,097
Amortisation and depreciation of operating assets (refer to note 6)	23,194
Increase in metal inventories	(3,611)
Total	**108,726**

4. ON-MINE AND CONCENTRATING COSTS

Labour	17,644
Consumables and spares	15,876
Utilities	636
Sundry on-mine costs	2,017
Total (refer to note 3)	**36,173**

5. SMELTING COSTS

Consumables and spares	17,218
Labour	12,913
Utilities	2,049
Sundry smelting costs	958
Total (refer to note 3)	**33,138**

6. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

Mining and concentrating	12,535
Smelting	10,659
Total (refer to note 3)	**23,194**

in thousands of US dollars

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2003
Salaries and wages	9,294
Taxes other than tax on mining and income tax	3,398
Repair and maintenance	1,033
Transportation	240
Professional services	123
Other	1,800
Total	**15,888**

8. OTHER OPERATING EXPENSES

Provision for tax fines and penalties	13,911
Loss on disposal of property, plant and equipment	437
Provision for doubtful debts	43
Other	703
Total	**15,094**

9. INCOME FROM INVESTMENTS

Interest income on promissory notes (refer to note 25)	6,848
Dividends received	6
Total	**6,854**

10. OTHER NON-OPERATING EXPENSES

Expenses on maintenance of social infrastructure	323
Donations	557
Other	787
Total	**1,667**

in thousands of US dollars

11. TAXATION

	2003
Current taxation	49,603
Deferred taxation (refer to note 20)	(5,075)
Total	**44,528**

The tax rate applied to taxable income in the Russian Federation is 24%.

A reconciliation of theoretical income tax to the amount of actual income tax expense recorded in the income statement is as follows:

Profit before tax	**164,118**
Theoretical income tax at 24%	39,388
Provision for tax fines and penalties	3,339
Non-deductible expenses	1,801
Total income tax expense	**44,528**

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of USD 119,590 thousand and a weighted average number of the outstanding ordinary shares of 123 and preferred shares of 120 (refer to note 19).

in thousands of US dollars

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Cost/valuation				
Balance at 31 December 2002	**112,238**	**90,445**	**392**	**203,075**
Additions at cost	-	17,024	181	17,205
Transfers from capital construction-in-progress (refer to note 14)	3,666	-	-	3,666
Disposals	-	(353)	(14)	(367)
Effect of translation to presentation currency	9,031	7,853	38	16,922
Balance at 31 December 2003	**124,935**	**114,969**	**597**	**240,501**
Accumulated amortization and depreciation				
Balance at 31 December 2002	-	-	-	-
Amortization and depreciation charge	(12,030)	(11,078)	(86)	(23,194)
Eliminated on disposal	-	20	2	22
Effect of translation to presentation currency	(504)	(462)	(3)	(969)
Balance at 31 December 2003	**(12,534)**	**(11,520)**	**(87)**	**(24,141)**
Net book value				
31 December 2002	**112,238**	**90,445**	**392**	**203,075**
31 December 2003	**112,401**	**103,449**	**510**	**216,360**

14. CAPITAL CONSTRUCTION-IN-PROGRESS

	2003
Balance at beginning of the year	8,300
Additions at cost	24,925
Transfers to property, plant and equipment (refer to note 13)	(3,666)
Disposals	(92)
Effect of translation to presentation currency	1,544
Balance at end of the year	**31,011**

in thousands of US dollars

	2003	2002

15. INVENTORIES

	2003	2002
Refined metal at net production cost	1,474	17
Work-in-process at production cost	6,018	3,440
Total metal inventories	**7,492**	**3,457**
Fuel	8,344	3,489
Spares and consumable materials	10,905	7,023
Less: Provision for obsolescence	(193)	-
Total other inventories	**19,056**	**10,512**
Total	**26,548**	**13,969**

16. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

	2003	2002
Advances to suppliers	1,630	2,104
Other receivables	1,444	2,166
Prepaid expenses	342	188
	3,416	**4,458**
Less: Provision for doubtful debts	(565)	(482)
Total	**2,851**	**3,976**

17. TAXES RECEIVABLE

	2003	2002
VAT recoverable	8,543	3,458
VAT prepaid	4,975	1,272
Social taxes prepaid	732	541
Income tax prepaid	-	4,521
Tax on mining prepaid	-	1,699
Other taxes prepaid	67	1,562
Total	**14,317**	**13,053**

18. CASH AND CASH EQUIVALENTS

	2003	2002
Current accounts in banks	3,549	979
Cash on hand	60	47
Other cash equivalents	17	51
Total	**3,626**	**1,077**

As of 31 December 2003 cash held with a related party commercial bank amounted to USD 2,996 thousand.

in thousands of US dollars

19. SHARE CAPITAL

At 31 December 2003 and 2002 the Company had 123 authorized, issued and fully paid ordinary shares with a par value of RUR 400 and 120 issued and fully paid preference shares with a par value of RUR 100. Ordinary and preference shares have voting rights. Preference shares are freely convertible to ordinary shares.

20. DEFERRED TAXATION

The movement in the Company's deferred tax position for the year is as follows:

Net liability at 1 January 2003	34,382
Recognized in income statement (refer to note 11)	(5,075)
Effect of translation to presentation currency	2,506
Net liability at 31 December 2003	**31,813**

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 tax assets and liabilities are presented below:

	2003	**2002**
Property, plant and equipment	34,939	35,788
Inventory valuation	(1,729)	(705)
Accrued operating expenses	(758)	(539)
Valuation of receivables	(639)	(162)
Net deferred tax liability	**31,813**	**34,382**

21. PROVISION FOR DECOMMISSIONING

Balance at 1 January	6,101	-
Provision raised	-	6,101
Unwinding of discount on decommissioning obligations	379	-
Effect of translation to presentation currency	498	-
Balance at 31 December	**6,978**	**6,101**

22. TRADE AND OTHER PAYABLES

Payables to suppliers	3,691	378
Wages and salaries	1,723	546
Accrual for annual leave	1,328	925
Total	**6,742**	**1,849**

in thousands of US dollars

23. TAXES PAYABLE

	2003	2002
Income tax	7,017	807
Tax on mining	1,292	-
Property tax	556	342
Social taxes	439	392
Other taxes	112	586
Provision for fines and penalties	14,493	-
Total	**23,909**	**2,127**

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

	2003
Profit before taxation	**164,118**
Adjustments for:	
Amortization and depreciation	23,194
Provision for tax fines and penalties	13,911
Interest income on promissory notes	(6,848)
Loss on disposal of property, plant and equipment	437
Unwinding of discount on decommissioning provision	379
Provision for inventories obsolescence	185
Provision for doubtful debts	43
Operating profit before working capital changes	**195,419**
Increase in inventories	(11,198)
Decrease in advances to suppliers and other receivables	1,339
Increase in taxes receivable, other than income tax	(4,905)
Increase in trade and other payables	4,558
Increase in taxes payable, other than income tax	937
Cash flows from operations	**186,150**

25. TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to include parent company, MMC Norilsk Nickel, and entities under common ownership and control with the Company and/or its parent company.

Sales of refined gold to a related party commercial bank

Sales of gold to a related party commercial bank amounted in 2003 to USD 239,811 thousand.

Promissory notes purchased from parent company

In July 2003 the Company purchased short-term discounted promissory notes issued by MMC Norilsk Nickel for USD 102,645 thousand. Discount varied from 10 to 14% per annum. Up to 31 December 2003 the Company accrued interest income on these promissory notes in the amount of USD 6,848 thousand. Notes were fully redeemed at face value as of 31 May 2004.

26. COMMITMENTS

Capital commitments

The total capital expenditure of the Company for the year ending 31 December 2004 is estimated to be USD 26,142 thousand. Capital expenditure will be funded from the Company's own cash resources.

Social commitments

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

Company's social commitments will be funded from own cash resources.

27. CONTINGENCIES

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available. The Company 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 Company's property or relating to the Company's operations. Management understands that until the Company obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Litigation

The Company has been and continues to be from time to time a subject to claims and legal proceedings relating to its business activities. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Company's financial position or operating results.

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 recently 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 laws. 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 Company'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 Company'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 Company to additional taxation, fines and penalties, that could be significant.

Environmental matters

The Company is subject to extensive federal, state and local environmental controls and regulations in the Russian Federation. The Company's operations involve the discharge of materials and contaminants into the environment, disturbance of land and have the potential to impact flora and fauna, and raise other environmental concerns.

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

The Company 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 restore and rehabilitate the environment. The Company periodically performs internal estimates of environmental obligations for its operations. Such estimates are based on management's understanding of the current legal requirements in the Russian Federation and the terms of license agreements. Management believes that Company's environmental obligations mainly include:

- ongoing rehabilitation of land and other types of ongoing rehabilitation, which is accounted for when incurred; and
- decommissioning of mining assets and bringing mine sites into a condition that ensures the safety of population, protection of environment, buildings and facilities. These obligations were provided for in accordance with the Company's accounting policies.

Management of the Company believes that due to the specific geographic location of its operations, the Company has no other liabilities for land restoration that should be recorded in the annual financial statements. Accordingly, no provision has been raised for these obligations.

It is the Company's intention to conduct a more detailed evaluation of its environmental obligations. Should the requirements of applicable environmental legislation change or be clarified, the Company may incur additional environmental obligations.

Russian Federation risk

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. 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, various 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.

28. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Company is exposed to commodity price, currency, credit and liquidity risks.

Commodity price risk

Commodity price risk is the risk that the Company's current or future earnings will be adversely impacted by changes in the market prices of gold.

The Company 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 Company will be adversely impacted by changes in exchange rates to which the Company is exposed.

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

The Company does not enter into foreign currency derivative transactions to offset its currency risk.

Credit risk

Credit risk is the risk that customers may default or not meet their obligations to the Company on a timely basis, leading to financial loss to the Company. The Company minimises its exposure to this risk by selling a significant portion of its gold production to a related party commercial bank on a prepayment basis.

Management believes that the Company is not economically dependent on its only major customer because of the existence of liquid market for gold.

Liquidity risk

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Company's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

As at 31 December 2003 and 2002 the carrying value of promissory notes, receivables, cash and cash equivalents, trade and other payables approximates the fair value of these instruments as a result of their short-term duration.

30. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Acquisition of shares in Russian gold mining companies

On 6 April 2004 the Company acquired 50.5% of the outstanding ordinary shares of Open Joint Stock Company "Lenzoloto" for USD 173,731 thousand and 38% of the outstanding ordinary shares of Open Joint Stock Company "Matrosov Mine" for USD 34,510 thousand.

On 19 May 2004 the Company acquired additional 5.2% of the outstanding ordinary shares and 2.2% of the preference shares of Open Joint Stock Company "Matrosov Mine" for USD 1,520 thousand.