# MMC Norilsk Nickel Group
# Audited Consolidated Annual Financial Statements 31 December 2002

NORILSK NICKEL

**June 5, 2003**

# Basis of presentation

- The consolidated annual financial statements have been prepared in compliance with Statements on International Accounting Standards (IAS), as adopted by the International Accounting Standards Board; and audited by Deloitte & Touche in accordance with ISA
- The measurement currency - Russian Rouble as adjusted for hyperinflation
- As the Russian rouble is the currency of hyperinflationary economy, all financial statements items presented in US$ have been translated from roubles, using the exchange rate ruling at the close of business on 31 December 2002 (US$ 1 = RUR 31.78)
- The consolidated annual financial statements are prepared on the historical cost basis, except for:
  - valuation of fixed assets in accordance with IAS 16;
  - mark to market valuation of by-products in accordance with IAS 2;
  - mark to market valuation of financial instruments in accordance with IAS 39;
  - restatement of non-monetary assets and liabilities and the income statement, in accordance with IAS 29, to take account of the effects of hyper-inflation.
- Norilsk Nickel will discontinue the application of the provisions of IAS 29 with effect from 1 January 2003

# Basis of presentation (continued)

- Starting 2002 Norilsk Nickel uses joint products method of accounting
- Joint products are Nickel, Copper, Palladium, Platinum and Gold
- The remainder of the metals produced, i.e. cobalt, rhodium, ruthenium, iridium and silver, are considered to be by-products
- Production costs are allocated among joint products based on the following key principles
  - All production costs are allocated to five joint products: nickel, copper, palladium, platinum and gold
  - Allocation is based on direct costs or using Relative Sales Value (RSV) of joint products
  - RSV of joint products is calculated as the actual saleable output produced during the period multiplied by the prices at LME or LPPM over the same period
  - Production costs allocated to joint products are reduced by the revenue generated from the sale of by-products,
  - Production cost per unit for each main product is calculated by dividing the net production cost related to joint product by the actual saleable output per product

# Consolidated income statement

NORILSK NICKEL

*(In millions of US dollars)*

| | Audited 2002 | Unaudited restated* 2001 | Y-o-Y change % |
|---|---|---|---|
| **Gross metal sales revenue** | **3 094** | **4 382** | **-29** |
| Cost of metal sales | (1 751) | (2 400) | -27 |
| **Gross profit on metal sales** | **1 343** | **1 982** | **-32** |
| *Gross profit margin* | *43%* | *45%* | -4 |
| Selling, general and administrative expenses | (561) | (668) | -16 |
| Other net income / (expenses) | 27 | (259) | -110 |
| **Operating profit** | **809** | **1 055** | **-23** |
| Net gains on derivative transactions | 215 | 815 | -74 |
| Net finance (cost) / income | (15) | 125 | -112 |
| Other non-operating expenses | (146) | (245) | -40 |
| Taxation | (286) | (503) | -43 |
| Minority interest | 7 | (11) | -164 |
| Preference share dividend | 0 | (1) | -100 |
| Profit attributable to ordinary shareholders | 584 | 1 235 | -53 |
| **Headline earnings**** | **315** | **411** | **-23** |
| *Net profit margin* | *10%* | *9%* | *9* |

*Note: (*) The previously reported figures for 2001 have been restated to account for changes in the general purchasing power of the Rouble (the measurement currency) and are stated in terms of measurement unit current at the balance sheet date. For the purposes of comparability 2001 financial statements were restated to reflect asset valuation, new accounting policies, and the introduction of some best practices in disclosures in financial statements. (**)Net profit was adjusted to exclude the non-cash-flow changes in fair value of an embedded derivative of US $269 million (2001 - US$ 824 millions)*

# Consolidated balance sheet

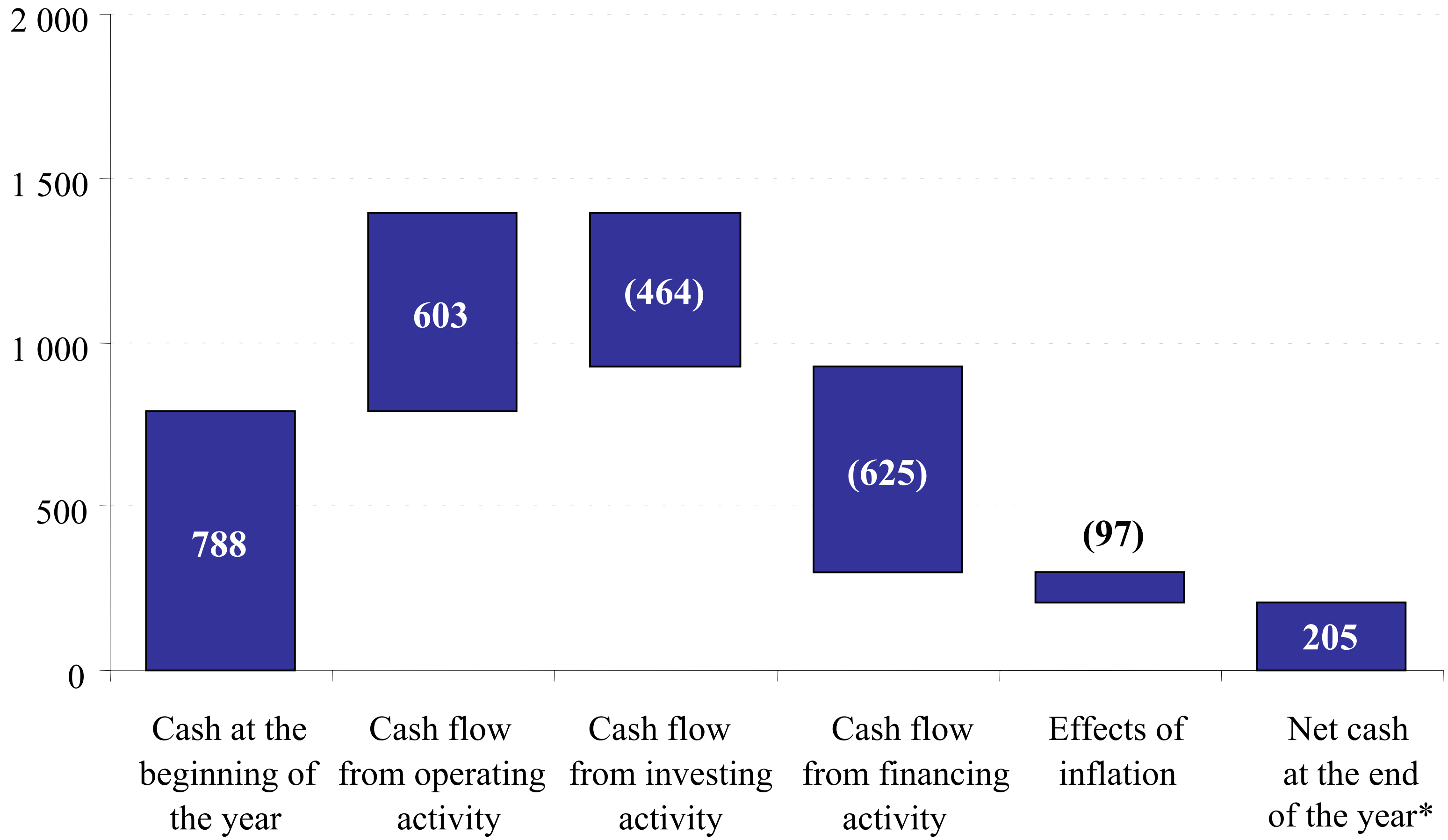
*(In millions of US dollars)*

| | Audited 2002 | Unaudited restated* 2001 | Y-o-Y change % |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **6 459** | **6 142** | **5** |
| Property, plant and equipment | 6 350 | 6 050 | 5 |
| Other non-current assets | 109 | 92 | 18 |
| **Current assets** | **3 284** | **4 717** | **-30** |
| Inventories | 1 836 | 2 112 | -13 |
| Trade accounts and other receivables | 356 | 583 | -39 |
| Other current assets | 668 | 1 044 | -36 |
| Cash and cash equivalents | 424 | 978 | -57 |
| **Total assets** | **9 743** | **10 859** | **-10** |
| **EQUITY AND LIABILITIES** | | | |
| **Share capital and reserves** | **7 305** | **6 860** | **6** |
| **Non-current liabilities** | **962** | **673** | **43** |
| Long-term borrowings | 147 | 15 | 880 |
| Other non-current liabilities | 815 | 658 | 24 |
| **Current liabilities** | **1 476** | **3 326** | **-56** |
| Current portion of long-term borrowings | 74 | 26 | 185 |
| Short-term borrowings | 382 | 1 107 | -65 |
| Other current liabilities | 1 020 | 2 193 | -53 |
| **Total equity and liabilities** | **9 743** | **10 859** | **-10** |

*Note: (*) The previously reported figures for 2001 have been restated to account for changes in the general purchasing power of the Rouble (the measurement currency) and are stated in terms of measurement unit current at the balance sheet date. For the purposes of comparability 2001 financial statements were restated to reflect assets valuation, new accounting policies, and the introduction of some best practices in the disclosure in financial statements.*

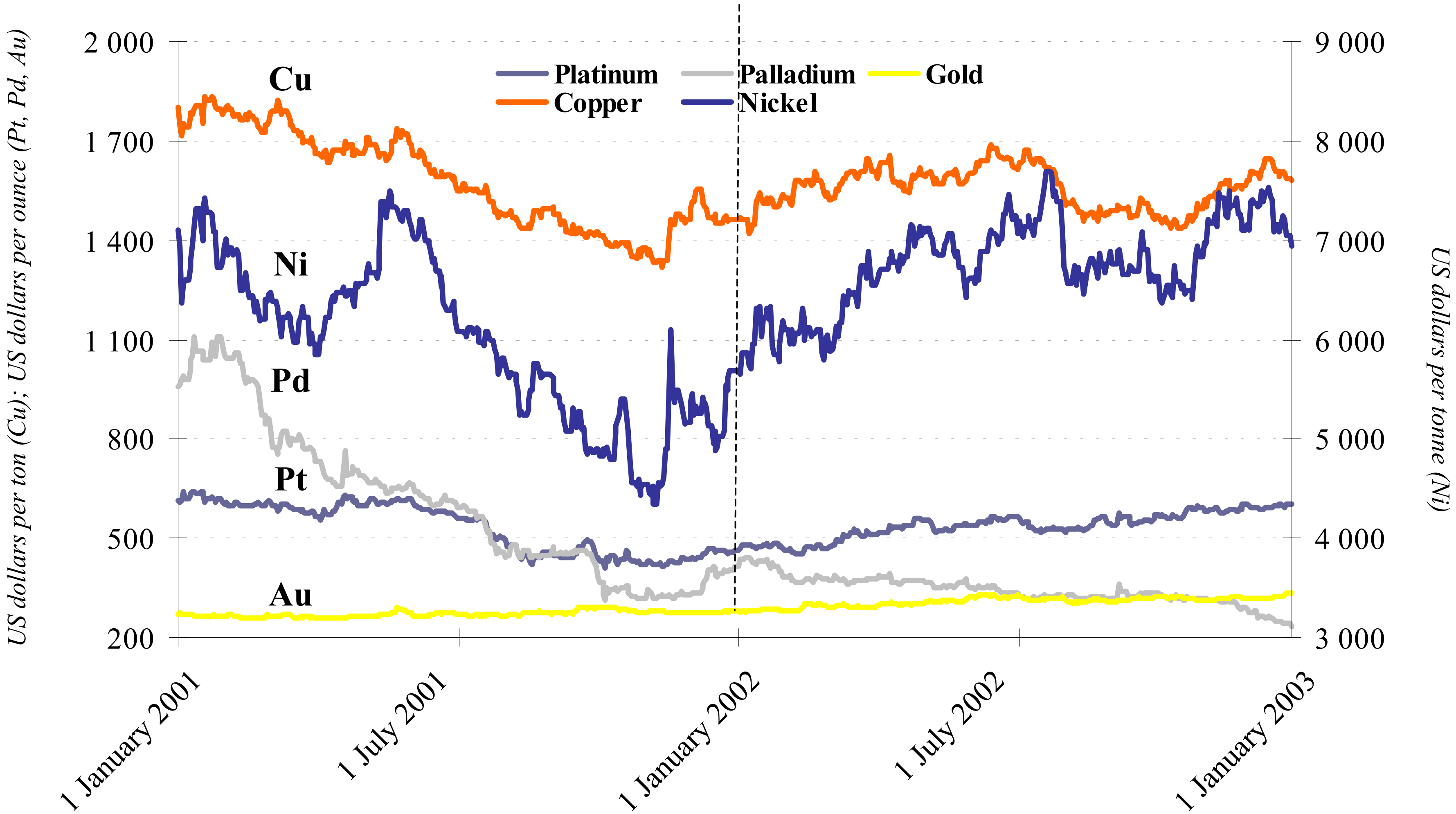
# Consolidated cash flow statement

*(In millions of US dollars)*




* - *Cash is shown net of bank overdraft*

# Metal prices for joint products

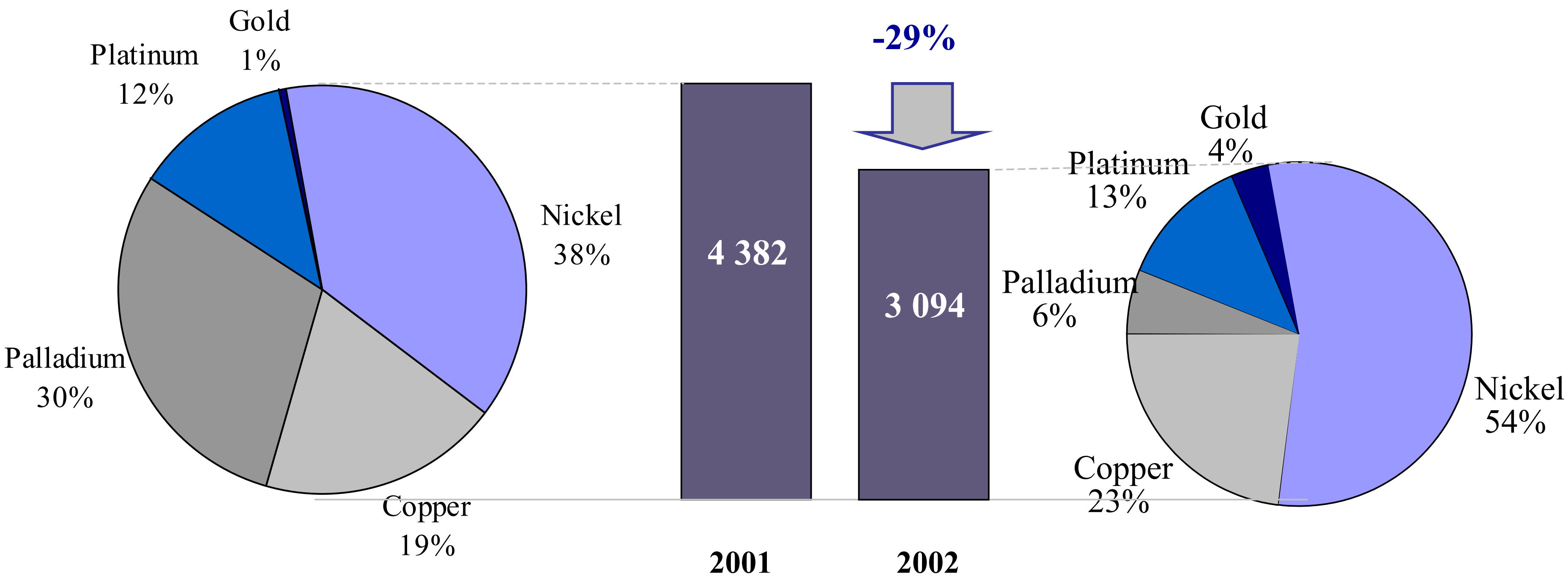



*Source: Bloomberg; LME*

# Revenues

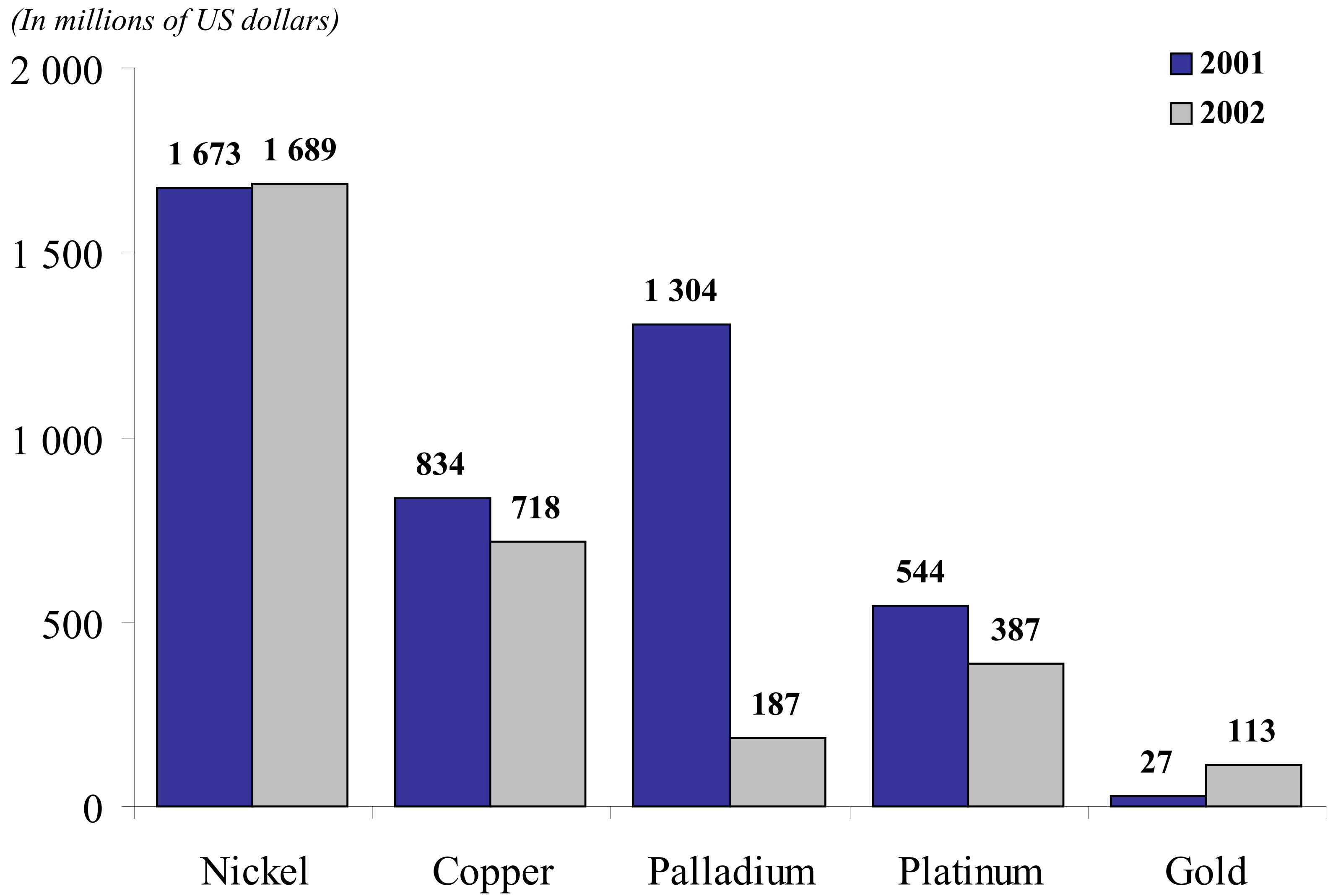
## Sales volume

*(In millions of US dollars)*



# Sales volumes

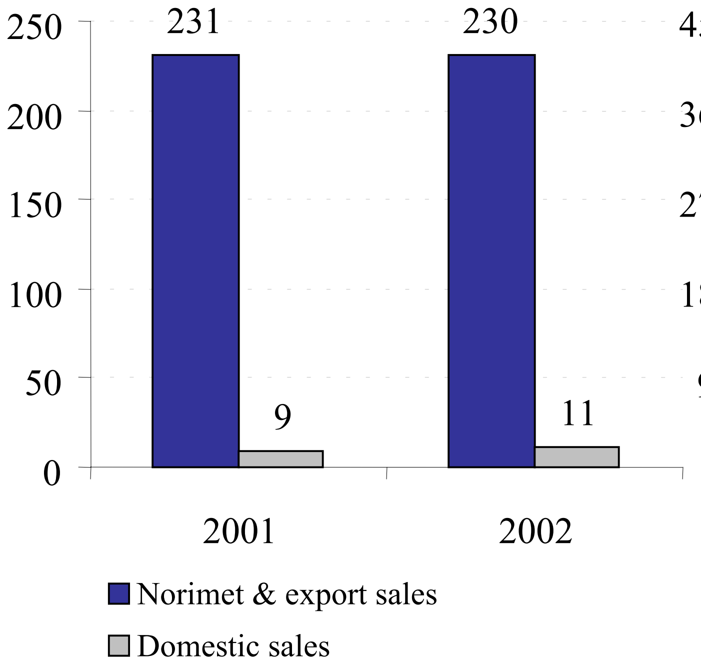
NORILSK NICKEL



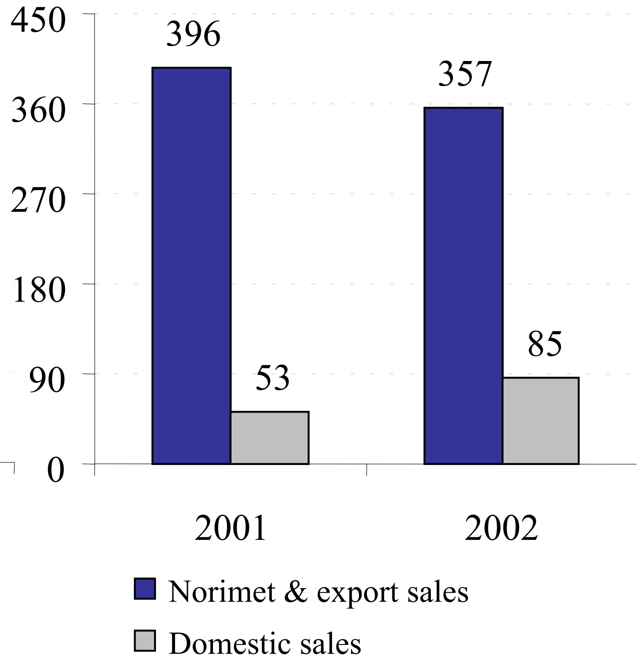

| | Nickel | | Copper | | Palladium | | Platinum | | Gold | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Including domestic sales** | **60** | **68** | **47** | **131** | **1** | **-** | **-** | **-** | **27** | **113** |

# Physical volumes sales

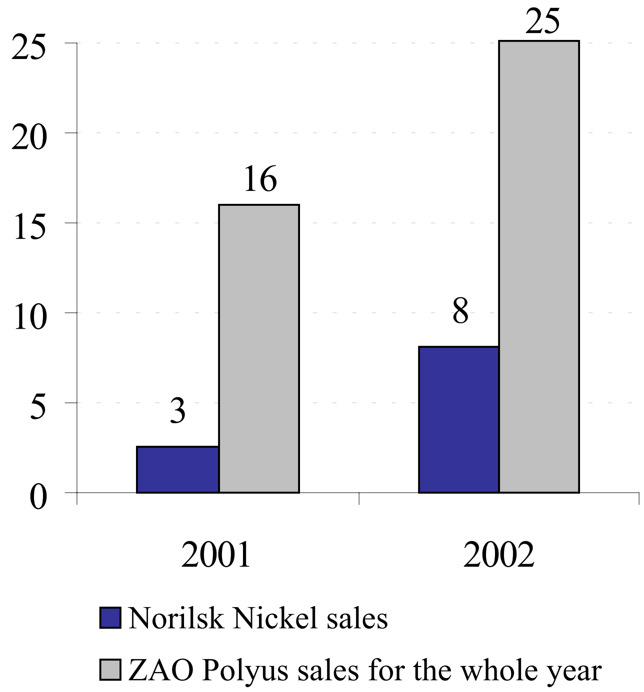
## Nickel sales
*(Tons in thousand)*




## Copper sales
*(Tons in thousand)*

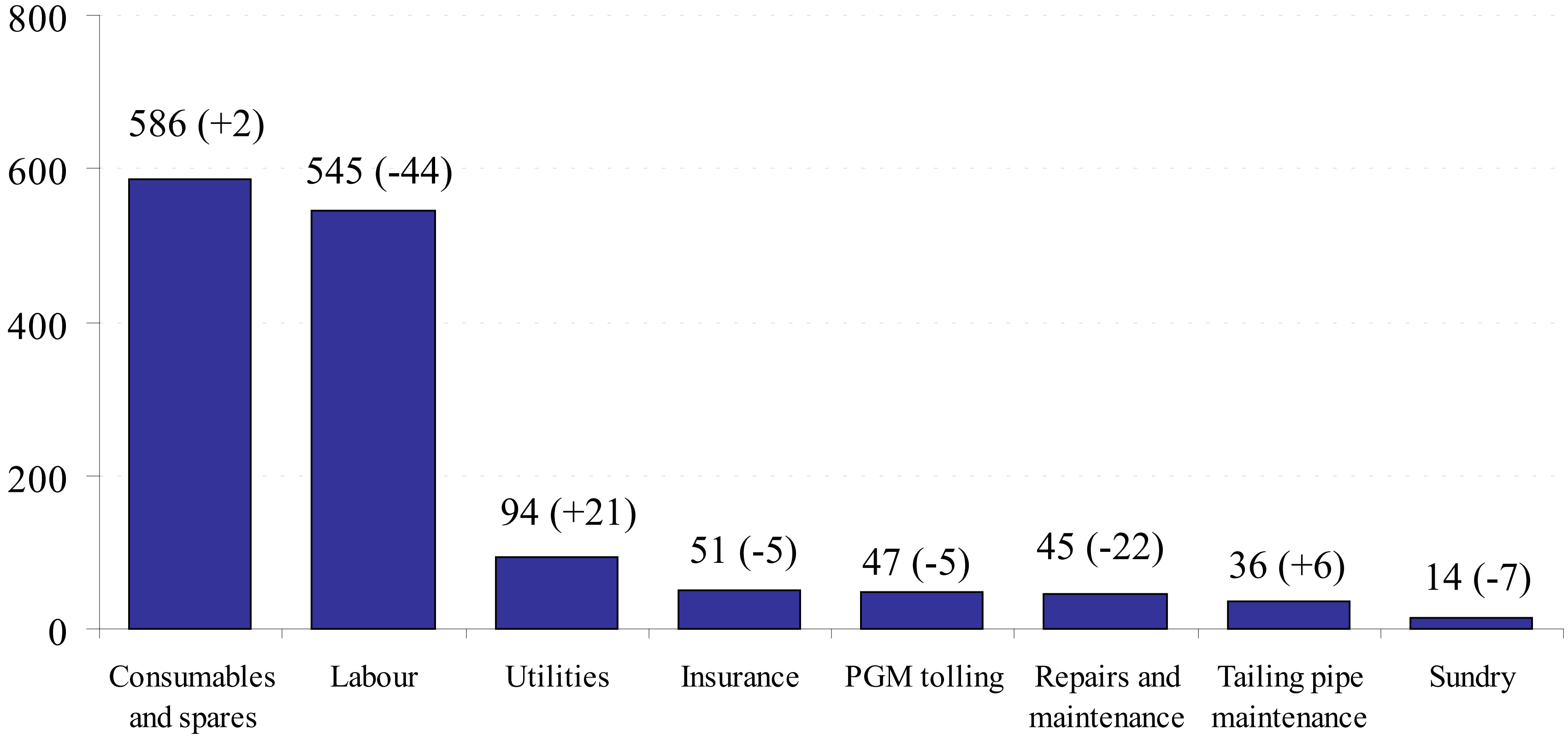



## Gold sales
*(In tons)*



# Cash operating cost

*(In millions of US dollars, change compared to previous year)*




**As a percentage of total cash operating cost**

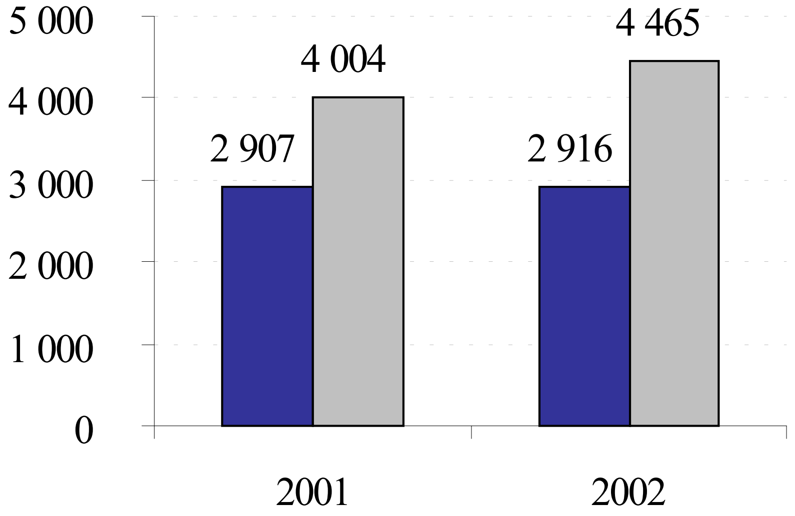
| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2002 | **41%** | **38%** | **7%** | **4%** | **3%** | **3%** | **3%** | **1%** |
| 2001 | **40%** | **40%** | **5%** | **4%** | **4%** | **5%** | **2%** | **1%** |

# Cash cost per unit

NORILSK NICKEL

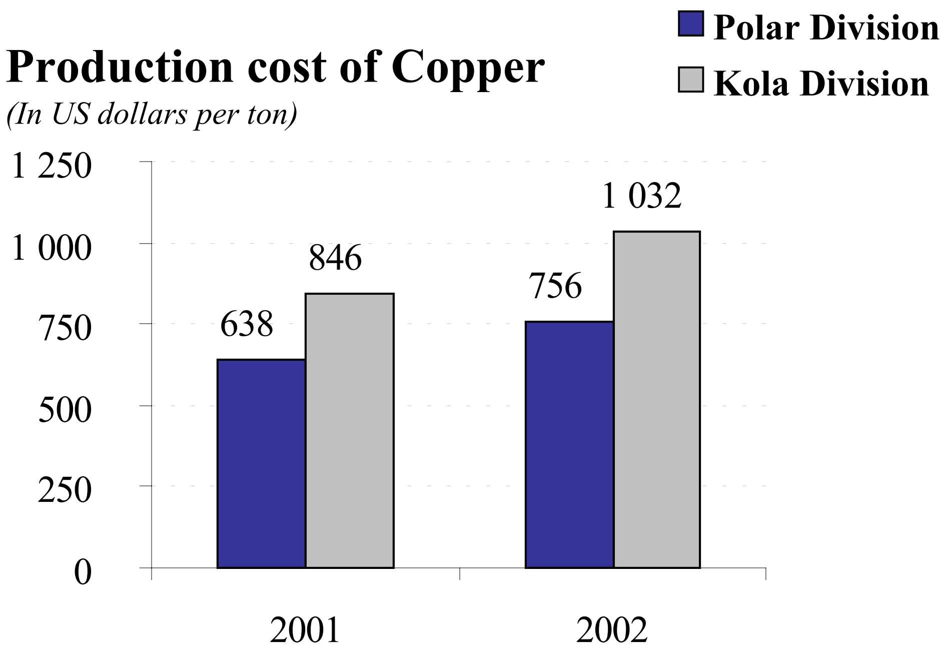
## Production cost of Nickel

*(In US dollars per ton)*




## Production cost of Copper

*(In US dollars per ton)*



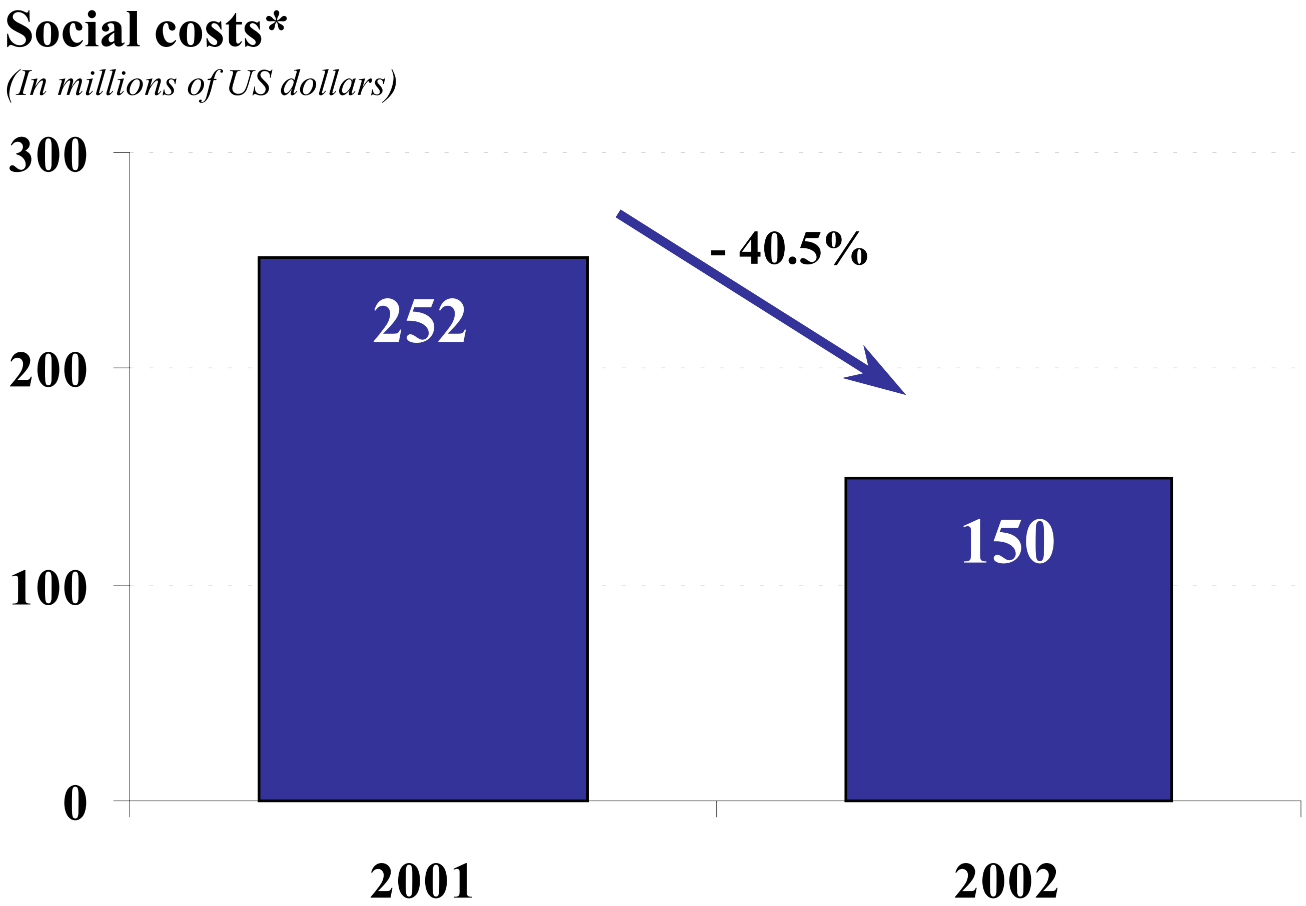

**Average production cost per ton**

| | 2001 | 2002 | *Change* |
|---|---|---|---|
| **Nickel** | **3 408** | **3 621** | *6%* |
| **Copper** | **681** | **811** | *19%* |

**Production cost per ounce gold**

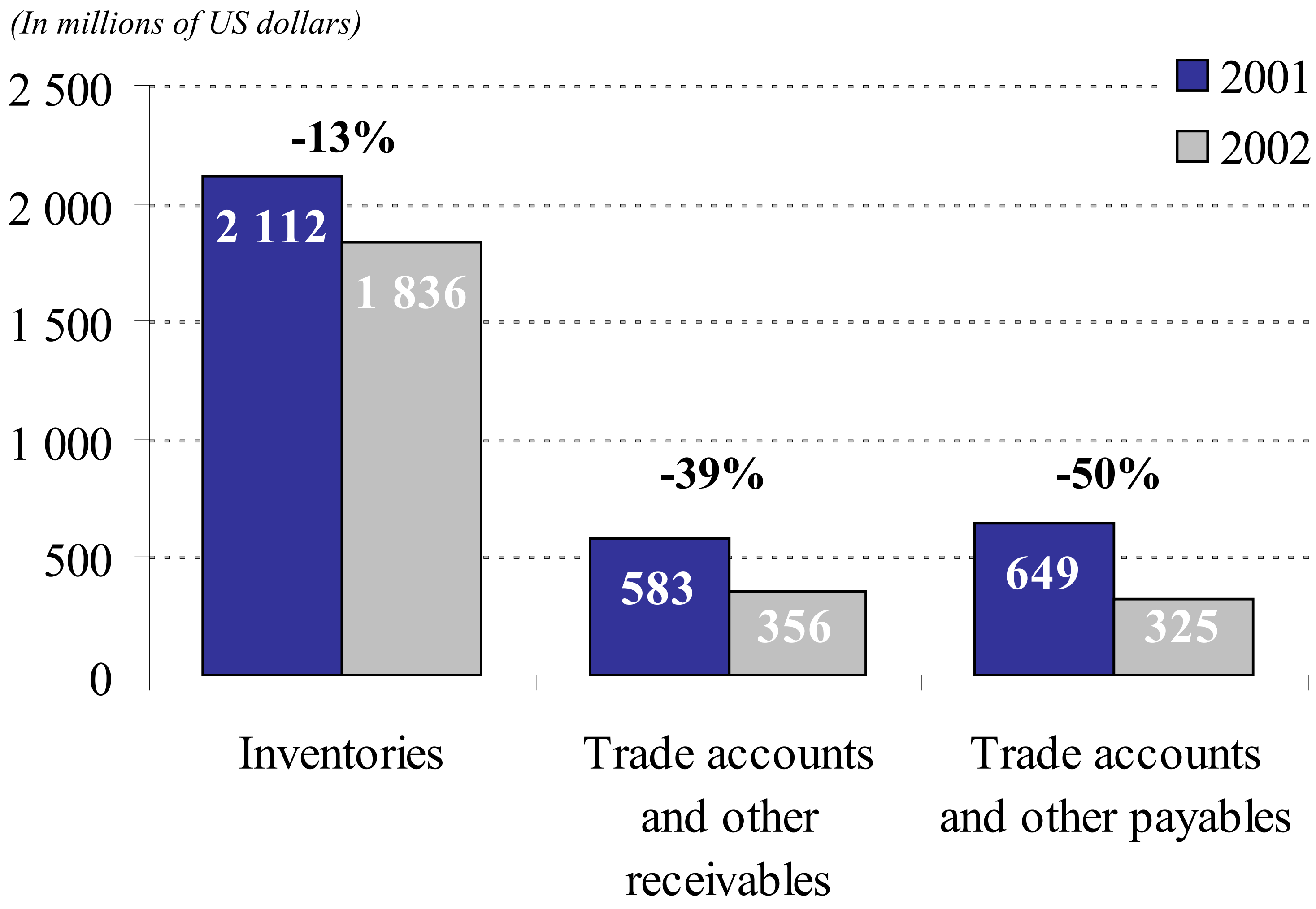
| | 2001 | 2002 | *Change* |
|---|---|---|---|
| **Polar Division** | **133** | **180** | *35%* |
| **ZAO Polyus** | **n/a** | **113** | *n/a* |

## Social Costs

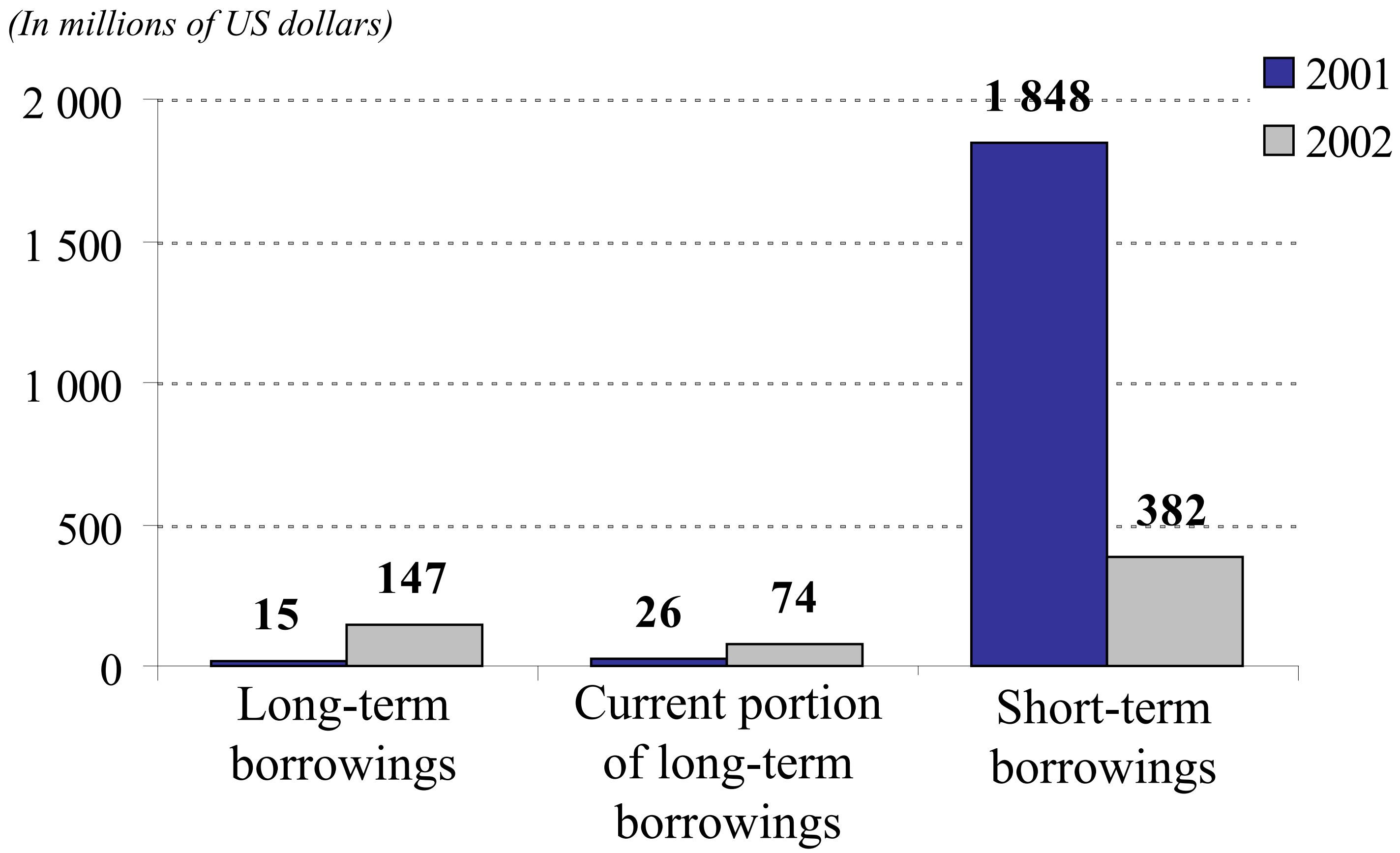



*Note: (*) Social costs include expenses on maintenance of social sphere facilities and donations*

# Change in working capital



# Debt structure



# Capital expenditure in 2002

NORILSK NICKEL

*(In millions of US dollars)*

| | |
|---|---|
| **Total capital expenditures** | **351** |
| *including:* | |
| Mining | 117 |
| Enrichment | 20 |
| Metallurgy | 45 |
| Energy | 28 |
| Infrastructure | 23 |

# Investments

NORILSK NICKEL

| Action | Rationale | Price *(USD in millions)* |
|---|---|---|
| Acquisition of 100% equity stake in ZAO Polyus - Russia's largest gold producer | Diversification and growth | **- 233*** |
| Acquisition of 24% equity stake in Krasnoyarskenergo | Increase energy independence | **- 40** |
| Sale of 9% equity stake in Novolipetsk Metallurgical Combine | Divestment of non-core assets | **+ 189**** |
| Abandonment of Nakety project | Insufficient return rate | **- 8** |
| **Net cash outflow** | | **- 96** |

*Note:* ** Norilsk Nickel paid US$226 million in October 2003*
***Norilsk Nickel received the consideration of RUR 5 513 million in March 2002.*