

# **Polyus Gold**

**Consolidated financial statements  
for the years ended 31 December 2006 and 2005**

# POLYUS GOLD

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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## POLYUS GOLD

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Polyus Gold" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2006 and 2005 and the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated 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 is also responsible for:

- Designing, implementing and maintaining an effective and sound 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 revised consolidated financial statements for the years ended 31 December 2006 and 2005 were approved on 2 February 2009 by:

  
\_\_\_\_\_  
**Ivanov E.I.**  
General Director

  
\_\_\_\_\_  
**Ignatov O.V.**  
Deputy General Director

Moscow, Russia  
2 February 2009

## **INDEPENDENT AUDITORS' REPORT**

### **To shareholders of Open Joint Stock Company "Polyus Gold":**

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Polyus Gold" (hereinafter refer to as "Polyus Gold" or the "Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005 and the consolidated statements of income, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## **Emphasis of matter**

In forming our opinion on the revised consolidated financial statements we have considered the corrections made to the previously issued financial statements as disclosed in Note 5. These revised consolidated financial statements have been restated to reflect the changes in accounting policies for the accounting for the acquisition of additional shares of subsidiaries from minority shareholders, accounting for general and administrative overhead costs directly attributable to exploration and evaluation activities and accounting for stripping costs and to adjust the accounting for the contingent consideration in the acquisition of a subsidiary. The original consolidated financial statements were approved on 5 June 2007 and our previous report was signed on that date.



Moscow, Russia  
2 February 2009

# POLYUS GOLD

## CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	Notes	2006 As restated*	2005 As restated*
Gold sales		734,559	473,184
Other sales		18,127	17,700
<b>Total revenue</b>		<b>752,686</b>	<b>490,884</b>
Cost of gold sales	7	(426,527)	(260,030)
Cost of other sales		(18,816)	(19,750)
<b>Gross profit</b>		<b>307,343</b>	<b>211,104</b>
Selling, general and administrative expenses	11	(79,678)	(55,156)
Research and exploration expenses		(7,574)	(1,886)
Other income	12	2,094	-
Other expenses	12	(14,108)	(26,506)
Finance costs	13	(6,453)	(3,586)
Income from investments	14	1,102,111	52,012
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	5, 6	-	15,746
Foreign exchange loss, net	15	(75,344)	(250)
<b>Profit before income tax</b>		<b>1,228,391</b>	<b>191,478</b>
Income tax	16	(73,080)	(53,899)
<b>Profit for the year</b>		<b>1,155,311</b>	<b>137,579</b>
Attributable to:			
Shareholders of the parent company		1,155,725	137,562
Minority interest		(414)	17
		<b>1,155,311</b>	<b>137,579</b>
<b>Earnings per share</b>			
Basic and diluted (US cents)**	17	75	-

*The accompanying notes are an integral part of these consolidated financial statements.*

\* The information for the years ended 31 December 2006 and 2005 reflects adjustments made in connection with reclassifications described in Note 4 and the changes in accounting policies and a restatement described in Note 5.

\*\*In 2006 earnings per share was calculated based on the profit attributable to shareholders of the parent company for the period subsequent to the incorporation of the Company till 31 December 2006, and the weighted average number of ordinary shares in issue during that period.

# POLYUS GOLD

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	Notes	2006 As restated*	2005 As restated*
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	1,395,605	1,107,993
Deferred stripping costs		10,382	14,438
Investments in securities and other financial assets	19	1,995	4,070
Long-term portion of reimbursable value added tax	18	10,945	16,010
		<b>1,418,927</b>	<b>1,142,511</b>
<b>Current assets</b>			
Inventories	20	169,471	123,056
Reimbursable value added tax		101,178	57,281
Accounts receivable	21	11,876	9,970
Advances paid to suppliers	22	26,211	15,439
Investments in securities and other financial assets	19	1,238,429	2,230,256
Income tax prepaid		8,228	1,434
Other current assets	23	13,667	13,949
Cash and cash equivalents	24	294,197	28,408
		<b>1,863,257</b>	<b>2,479,793</b>
<b>TOTAL ASSETS</b>		<b>3,282,184</b>	<b>3,622,304</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital	25	6,871	5
Additional paid-in capital		2,190,661	1,837,330
Treasury shares	25	(995,557)	-
Investments revaluation reserve		19,620	816,709
Translation reserve		261,794	9,076
Retained earnings		1,342,638	469,157
<b>Equity attributable to shareholders of the parent company</b>		<b>2,826,027</b>	<b>3,132,277</b>
Minority interest		32,647	29,762
		<b>2,858,674</b>	<b>3,162,039</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	26	178,860	172,673
Environmental obligations	27	71,513	60,828
Other non-current liabilities		1,802	5,271
		<b>252,175</b>	<b>238,772</b>
<b>Current liabilities</b>			
Contingent consideration on acquisition of subsidiaries	6	60,087	121,904
Short-term borrowings	28	15,001	26,087
Trade payables	29	20,799	15,854
Other payables and accrued expenses	30	49,714	34,475
Income tax payable		7,519	8,283
Other taxes payable	31	18,215	14,890
		<b>171,335</b>	<b>221,493</b>
<b>TOTAL LIABILITIES</b>		<b>423,510</b>	<b>460,265</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,282,184</b>	<b>3,622,304</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

\* The information at 31 December 2006 and 2005 reflects adjustments made in connection with reclassifications described in Note 4 and the changes in accounting policies and a restatement described in Note 5

# POLYUS GOLD

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	Notes	2006 As restated*	2005 As restated*
<b>Operating activities</b>			
<b>Profit before income tax</b>		<b>1,228,391</b>	<b>191,478</b>
Adjustments for:			
Amortisation and depreciation		79,025	50,993
Expensed stripping cost		5,230	-
Finance costs		6,453	3,586
Loss on disposal of property, plant and equipment		1,494	4,848
Change in allowance for doubtful debts		1,288	428
Impairment of advances paid to suppliers		1,586	526
Change in provision for land restoration		7,318	2,088
Impairment of property, plant and equipment		383	11,613
Change in allowance for reimbursable value added tax		2,814	1,340
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition		-	(15,746)
Income from investments		(1,102,111)	(52,012)
Foreign exchange loss, net		75,344	250
Other		3,042	(1,126)
<b>Operating profit before working capital changes</b>		<b>310,257</b>	<b>198,266</b>
Increase in inventories		(34,134)	(43,732)
(Increase)/decrease in accounts receivable		(2,728)	1,503
Increase in advances paid to suppliers		(11,295)	(5,864)
Increase in other current assets and reimbursable value added tax		(32,285)	(29,592)
Increase/(decrease) in trade payables		12,450	(7,749)
Decrease in decommissioning obligations		(6,048)	-
Increase in other payables and accrued expenses		7,065	868
Decrease in other taxes payable		(2,796)	(6,311)
<b>Cash flows from operations</b>		<b>240,486</b>	<b>107,389</b>
Interest paid		(3,552)	(2,438)
Income tax paid		(89,897)	(45,600)
<b>Net cash generated from operating activities</b>		<b>147,037</b>	<b>59,351</b>

\* The information for the years ended 31 December 2006 and 2005 reflects adjustments made in connection with reclassifications described in Note 4 and the changes in accounting policies and a restatement described in Note 5.

# POLYUS GOLD

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (CONTINUED) (in thousands of US Dollars)

	Notes	2006 As restated*	2005 As restated*
<b>Investing activities</b>			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	6	(307,667)	(153,560)
Proceeds from disposal of subsidiary, net of cash disposed of		-	(107)
Repayment of contingent consideration on acquisition of subsidiaries	6	(61,817)	-
Purchase of property, plant and equipment		(267,551)	(143,946)
Deferred stripping costs capitalised		-	(9,565)
Proceeds from sale of property, plant and equipment		12,030	2,876
Purchase of shares of Gold Fields Ltd.		-	(944,940)
Proceeds from sale of shares of Gold Fields Ltd.	14	1,925,402	-
Dividends received		6,420	6,062
Interest received		109,078	32,451
Purchase of promissory notes and other financial assets		(2,028,154)	(613,452)
Proceeds from sale of promissory notes and other financial assets		1,307,749	509,066
<b>Net cash generated from/(used in) investing activities</b>		<b>695,490</b>	<b>(1,315,115)</b>
<b>Financing activities</b>			
Proceeds from borrowings		56,094	5,041
Repayments of borrowings		(69,146)	(32,706)
Repayments of finance lease obligations		(2,928)	(2,234)
Buy back of issued shares	25	(995,557)	-
Proceeds from minority shareholders for additional shares issued by subsidiaries		18,445	-
Proceeds from issue of additional shares of CJSC "Polyus"	25	-	1,299,745
Cash contribution by Norilsk Nickel in connection with the spin-off	1	360,197	-
<b>Net cash (used in)/generated from financing activities</b>		<b>(632,895)</b>	<b>1,269,846</b>
Effect of translation to presentation currency		56,157	1,311
<b>Net increase in cash and cash equivalents</b>		<b>265,789</b>	<b>15,393</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>28,408</b>	<b>13,015</b>
<b>Cash and cash equivalents at end of the year</b>	24	<b>294,197</b>	<b>28,408</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

\* The information for the years ended 31 December 2006 and 2005 reflects adjustments made in connection with reclassifications as described in Note 4 and changes in accounting policies and a restatement described in Note 5.

## POLYUS GOLD

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

		Equity attributable to shareholders of the parent company								
	Notes	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Minority interest	Total
<b>Balance at 31 December 2004 – as previously reported</b>		<b>3</b>	<b>537,587</b>	-	-	<b>71,925</b>	<b>325,899</b>	<b>935,414</b>	<b>43,970</b>	<b>979,384</b>
Change in accounting policy and restatement	5	-	-	-	-	172	4,959	<b>5,131</b>	(343)	<b>4,788</b>
<b>Balance at 31 December 2004 – as restated</b>		<b>3</b>	<b>537,587</b>	-	-	<b>72,097</b>	<b>330,858</b>	<b>940,545</b>	<b>43,627</b>	<b>984,172</b>
Increase in fair value of available-for-sale investments		-	-	-	816,709	-	-	<b>816,709</b>	-	<b>816,709</b>
Profit for the year – as restated		-	-	-	-	-	137,562	<b>137,562</b>	17	<b>137,579</b>
Issue of shares of CJSC “Polyus”	25	2	1,299,743	-	-	-	-	<b>1,299,745</b>	-	<b>1,299,745</b>
Minority interest in subsidiaries acquired		-	-	-	-	-	-	-	514	<b>514</b>
Acquisition of non-controlling interest in subsidiary		-	-	-	-	-	(6,652)	<b>(6,652)</b>	(5,904)	<b>(12,556)</b>
Net decrease in minority interest due to change of shareholding structure of subsidiaries		-	-	-	-	-	7,389	<b>7,389</b>	(7,389)	-
Effect of translation to presentation currency		-	-	-	-	(63,021)	-	<b>(63,021)</b>	(1,103)	<b>(64,124)</b>
<b>Balance at 31 December 2005 – as restated</b>		<b>5</b>	<b>1,837,330</b>	-	<b>816,709</b>	<b>9,076</b>	<b>469,157</b>	<b>3,132,277</b>	<b>29,762</b>	<b>3,162,039</b>
Increase in fair value of available-for-sale investments	19	-	-	-	19,620	-	-	<b>19,620</b>	-	<b>19,620</b>
Profit for the year – as restated		-	-	-	-	-	1,155,725	<b>1,155,725</b>	(414)	<b>1,155,311</b>
Realised gain on available-for sale investments		-	-	-	(816,709)	-	-	<b>(816,709)</b>	-	<b>(816,709)</b>
Formation of the Group	1	6,866	353,331	-	-	-	-	<b>360,197</b>	-	<b>360,197</b>
Buy back of issued shares	25	-	-	(995,557)	-	-	-	<b>(995,557)</b>	-	<b>(995,557)</b>
Acquisition of non-controlling interest in subsidiary	6	-	-	-	-	-	(281,720)	<b>(281,720)</b>	-	<b>(281,720)</b>
Change in minority interest due to change in share capital of a subsidiary	6	-	-	-	-	-	(524)	<b>(524)</b>	524	-
Effect of translation to presentation currency		-	-	-	-	252,718	-	<b>252,718</b>	2,775	<b>255,493</b>
<b>Balance at 31 December 2006 – as restated</b>		<b>6,871</b>	<b>2,190,661</b>	<b>(995,557)</b>	<b>19,620</b>	<b>261,794</b>	<b>1,342,638</b>	<b>2,826,027</b>	<b>32,647</b>	<b>2,858,674</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### 1. GENERAL

#### Formation of the Group

Open Joint Stock Company "Polyus Gold" (the "Company" or "Polyus Gold") was incorporated in Moscow, Russian Federation, on 17 March 2006. The Company was formed as a result of a spin-off from OJSC "Mining and Metallurgical Company "Norilsk Nickel" ("Norilsk Nickel").

On 12 April 2006, the Board of Directors of Norilsk Nickel approved a plan to spin-off its gold mining business comprising Closed Joint Stock Company "Gold Mining Company Polyus" (CJSC "Polyus") and its subsidiaries. The spin-off was completed through Norilsk Nickel distributing its shares in Polyus Gold to its shareholders (the shares were distributed in proportion to each shareholder's interest in Norilsk Nickel at the date of the spin-off transaction) contributing 100% of its shares in CJSC "Polyus" to Polyus Gold and a transfer of cash in the amount of USD 360,197 thousand.

References to the "Group" for periods prior to the formation of Polyus Gold are references to CJSC "Polyus" and its subsidiaries and for periods after the formation of Polyus Gold are to OJSC "Polyus Gold" and its subsidiaries.

As a result of the spin-off, assets, liabilities and results of operations of the Group are presented as if the Company had existed from the beginning of the periods presented. The following principles were used in the preparation of the consolidated financial statements for the years ended 31 December 2006 and 2005:

- Share capital, additional paid-in-capital and retained earnings: For the periods prior to the spin-off, share capital and additional paid in capital is that of CJSC "Polyus". Upon the spin-off share capital was changed to that of Polyus Gold and additional paid in capital was determined as the excess of the net assets of the Group at the date of the spin-off over cost of investment as part of the spin-off. The cost of the investment represents the cash contributed of USD 360,197 thousand to Polyus Gold and the value of the contributed shares of CJSC "Polyus" to Polyus Gold.
- All other financial statement elements as at 31 December 2005 were recorded at the same values as in the consolidated financial statements of Norilsk Nickel for the year ended 31 December 2005, unless there were differences between accounting policies of Norilsk Nickel and those adopted by the Group.

#### Description of business

The principal activities of 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 and the Nezhdaninskoe field located in the Sakha Republic. Further details regarding the nature of the business and structure of the Group are presented in note 36.

#### Statement of compliance

The consolidated 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").

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### Basis of presentation

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

The consolidated financial statements of the Group are prepared on the historical cost basis, except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

### Adoption of new and revised International Financial Accounting Standards

In the preparation of the consolidated financial statements, the Group has adopted all of the new and revised International Financial reporting Standards that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2006.

The following interpretations issued by IFRIC were effective for the current period: IFRIC 7 *Applying the Restatement Approach under IAS 29*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the financial information.

### Standards and interpretations in issue but not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective for 2006:

<b>Standards and interpretations</b>	<b>Effective for annual periods beginning on or after</b>
IAS 1 <i>Presentation of financial statements</i> (amendment – revised in 2007)	1 January 2009
IAS 16 <i>Property, Plant and Equipment</i> (amendment)	1 January 2009
IAS 19 <i>Employee Benefits</i> (amendment)	1 January 2009
IAS 20 <i>Government Grants and Disclosure of Government Assistance</i> (amendment)	1 January 2009
IAS 23 <i>Borrowing Costs</i> (amendment)	1 January 2009
IAS 27 <i>Consolidated and separate financial statements</i> (amendment due to revision of IFRS 3)	1 July 2009
IAS 28 <i>Investments in associates</i> (amendment)	1 July 2009
IAS 29 <i>Financial Reporting in Hyperinflationary Economies— Amendments resulting from May 2008 Annual Improvements to IFRSs</i>	1 January 2009
IAS 31 <i>Interest in joint ventures</i> (amendment)	1 July 2009
IAS 32 <i>Financial instruments: presentation</i> (amendment)	1 January 2009
IAS 36 <i>Impairment of Assets</i> (amendment)	1 January 2009
IAS 38 <i>Intangible Assets</i> (amendment)	1 January 2009
IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (amendment)	1 January 2009
IAS 40 <i>Investment Property</i> (amendment)	1 January 2009
IAS 41 <i>Agriculture</i> (amendment)	1 January 2009
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> (amendment)	1 January 2009
IFRS 2 <i>Share based payments</i> (amendment)	1 January 2009
IFRS 3 <i>Business combinations</i> (revised on applying the acquisition method)	1 July 2009
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> (amendment)	1 July 2009
IFRS 7 <i>Financial Instruments: Disclosures</i>	1 January 2007
IFRS 8 <i>Operating segments</i>	1 January 2009

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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<b>Standards and interpretations</b>	<b>Effective for annual periods beginning on or after</b>
IFRIC 11 <i>IFRS 2 – Group and Treasury Share Transactions</i>	1 March 2007
IFRIC 12 <i>Service Concession Arrangements</i>	1 January 2008
IFRIC 13 <i>Customer Loyalty Programmes</i>	1 July 2008
IFRIC 14 <i>IAS 19 – The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction</i>	1 January 2008
IFRIC 15 <i>Agreements for the Construction of Real Estate</i>	1 January 2009
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	1 October 2008
IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>	1 July 2009
IFRIC 18 <i>Transfers of Assets from Customers</i>	1 July 2009

As a result of the adoption of IFRS 7, management anticipates expansion of the required disclosures to be provided in the consolidated financial statements for the year ended 31 December 2007 and future periods regarding the Group's financial instruments.

Management anticipates that all other standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of these standards and interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Change in accounting policies

The accounting policies used in the preparation of the consolidated financial statements for the years ended 31 December 2006 and 2005 were consistent with the previous financial year, except that the Group has adopted new accounting policies in respect of general and administrative overhead costs attributable to exploration and evaluation activities, accounting for acquisition and disposal of additional interest in subsidiaries from minority shareholders and accounting for stripping costs (refer to sections *Accounting for acquisition from third parties*, *Exploration and evaluation assets* and *Deferred stripping costs* below and note 5).

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

### Basis of consolidation

#### *Subsidiaries*

The consolidated financial statements of the Group include the 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 the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interest in the net assets (excluding goodwill) of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest includes interest at the date of the original business combination and minority's share of changes in net assets since the date of the combination.

Losses applicable to minority interest in excess of the minority's interest in the subsidiary's net assets are allocated against the interest of the Group except to the extent that a minority has a binding obligation and is able to make an additional investment to cover the losses.

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

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### *Accounting for acquisitions from third parties*

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

Goodwill is reviewed for impairment at least annually and if impairment has occurred, it is recognised in the income statement in the period during 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 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.

### **Functional and presentation currency**

The individual financial statements of the Group entities are presented in their functional currency, Russian Rouble ("RUR").

The Group has chosen to present its consolidated financial statements in the United States of America Dollar ("USD"), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is made as follows:

- All assets, liabilities, both monetary and non-monetary 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 years presented;
- Resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within *Translation reserve*;
- In the statement of cash flows, cash balances at beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction. Resulting exchange differences are presented as *Effect of translation to presentation currency*.

Exchange rates quoted by the Central Bank of the Russian Federation were as follows (RUR to 1 USD):

	<u>2006</u>	<u>2005</u>
31 December	26.3311	28.7825
Average for the year	27.1852	28.2864

### **Foreign currencies**

Transactions in currencies other than the entity's functional currencies (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.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### **Property, plant and equipment**

#### *Estimated 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. The majority of the Group's reserves are estimated in accordance with the JORC code or using the Russian Resource Reporting Code for alluvial gold reserves.

#### *Mineral rights*

Mineral rights are recorded as assets when acquired as part of a business combination and are then amortised within mining assets on a straight-line basis over the life of mines based on estimated proven and probable ore reserves.

#### *Exploration and evaluation assets*

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- Acquisition of rights to explore potentially mineralised areas;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling;
- Trenching;
- Sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting a gold resource.

Exploration and evaluation expenditures are capitalised when it is expected that they will be recouped by future exploitation or sale, and when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold reserves. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable, capitalised exploration and evaluation assets are reclassified to mining assets.

In 2007, management of the Group changed its accounting policy for general and administrative overhead costs directly attributable to exploration and evaluation activities. Under the new policy such costs are capitalised within exploration and evaluation assets.

Under the previous accounting policy the Group recognised general and administrative overhead costs directly attributable to exploration and evaluation activities in the income statement when incurred.

The Group applied this policy retrospectively. The effect of change in accounting policy on the consolidated financial statements for the years ended 31 December 2006 and 2005 is presented in note 5.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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#### *Impairment of exploration and evaluation assets*

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

- The term of exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area;
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration licence areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out below.

#### *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.

Mining assets are amortised on a straight-line basis over the life of mines of 7 to 20 years, which is based on estimated proven and probable ore reserves. Amortisation is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

#### *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 such assets at the following annual rates:

- Buildings, structures, plant and equipment      2% to 10%;
- Transport      9% to 25%;
- Other assets      10% to 20%.

#### *Capital construction-in-progress*

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are placed into commercial production.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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#### *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. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

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.

#### *Impairment of tangible assets, other than exploration and evaluation assets*

An impairment review of tangible 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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 costs to sell and value-in-use. If the recoverable amount of an asset (or cash-generating 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. The 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 recognised in prior periods.

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

#### **Deferred stripping costs**

The Group accounts for stripping costs incurred using the average life-of-mine stripping ratio. The method assumes that stripping costs incurred during the production phase to remove waste ore are deferred and charged to operating costs on the basis of the average life-of-mine stripping ratio. The average stripping ratio is calculated as the number of cubic meters of waste material removed per ton of ore mined based on proven and probable reserves. The average life-of-mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life-of-mine ratio are accounted prospectively as changes in accounting estimates.

Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. Such deferred costs are then charged against profit and loss to the extent that, in subsequent periods, the current ratio falls short of the life-of-mine ratio.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or a change in circumstances indicate that the carrying value may not be recoverable. Amortization of deferred stripping costs is included in cost of gold sales.

#### **Deferred expenditures**

Certain of the Group's surface (alluvial) mining operations are located in regions with the extreme weather conditions, and gold at these locations can only be mined during certain months of the year. Costs incurred in preparation for future seasons, usually during winter months, are deferred until summer of the following year. Such expenditures mainly include stripping and excavation costs and mine specific administration costs, and are recognised on the balance sheet within other current assets.

#### **Inventories**

##### *Refined gold*

Gold is measured at the lower of net production cost and net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, by the saleable mine output of gold.

Production costs include on-mine, smelting and concentrating 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 provision for obsolete and slow-moving items.

#### **Financial assets**

Financial assets are recognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group's financial assets are classified into the following categories:

- Financial assets as at fair value through profit or loss ("FVTPL");
- Held-to-maturity investments;
- Available-for-sale ("AFS") financial assets; and
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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#### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. Together with any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 34.

#### *Held-to-maturity investments*

Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

#### *AFS financial assets*

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value of AFS is determined as follows:

- The fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised directly in equity with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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Dividends on AFS equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the income statement, and other changes are recognised in equity.

#### *Loans and receivables*

Loans and receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

#### **Financial liabilities**

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### **Borrowing costs**

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 when incurred.

Other interest is expensed in the income statement when incurred.

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### **Employee benefit obligations**

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

The Group contributes to the Pension Fund of the Russian Federation on behalf of all its employees. These contributions are recognised in the income statement when employees have rendered services entitling them to the contribution.

The Group does not maintain any separate retirement benefit plans.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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#### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### **Revenue recognition**

#### *Gold sales revenue*

Revenue from the sale of refined gold is recognised when the risks and rewards of ownership are transferred to the buyer. Gold sales revenue represents the invoiced value of gold shipped to customers, net of value-added tax. Revenues from sale of by-products are netted off against production costs.

#### *Other revenue*

Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements. Revenue from service contracts are recognised when the services are rendered.

### **Operating leases**

The lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as 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.

### **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.

Retained earnings 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.

### **Segmental information**

The Group predominantly operates in a single business segment, being mining and refining of gold. The Group's production facilities are 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.

### **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 damaged after the commencement of commercial production, is estimated at the 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.

Ongoing restoration costs are expensed when incurred.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the consolidated 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 property, plant and equipment; deferred stripping costs; recognition of exploration and evaluation assets; impairment of tangible assets; calculation of allowances; environmental obligations and income taxes.

#### **Useful economic lives of property, plant and equipment**

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine 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.

#### **Deferred stripping costs**

The Group defers stripping costs incurred during the production stage of its open-pit operations, on the basis of the average life-of-mine stripping ratio.

The factors that could affect capitalisation and expensing of deferred stripping costs include the following:

- Changes of proven and probable ore reserves;
- Changes in mining plans in the light of additional knowledge and change in mine's pit design, technical or economic parameters; and
- Changes in estimated ratio of the number of cubic meters of waste material removed per ton of ore mined.

## **POLYUS GOLD**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

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#### **Exploration and evaluation assets**

Management's judgment is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploitation or sale. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However these estimates are subject to significant uncertainties.

The Group is involved in exploration and evaluation activities, and some of its licensed properties contain any gold reserves under the definition of ore reserves under internationally recognised reserve reporting methodology. A number of licensed properties have no resources delineation at all. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

#### **Impairment of tangible assets**

The Group reviews the carrying amounts of its tangible 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.

#### **Allowances**

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

#### **Environmental obligations**

The Group's mining and exploration activities are subject to various environmental laws and regulations. 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 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.

## **POLYUS GOLD**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

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#### **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.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

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#### 4. RECLASSIFICATIONS

Certain information, presented in the consolidated financial statements for the years ended 31 December 2006 and 2005 has been modified as a result of the following:

##### *Classification of foreign exchange differences*

The Group changed its classification of gains or losses resulting from foreign currency exchange differences. The Group had initially classified the gains or losses based on the nature of the transaction or events which gave rise to the foreign exchange gains or losses. However, as the impact of foreign exchange gains and losses has continued to increase, the Group has elected to present foreign exchange gains and losses as a separate line item on the consolidated income statement.

In 2006, the effect of this reclassification resulted in an increase of USD 1,236 thousand to Finance cost, an increase of USD 82,321 thousand to Income from investments, and an increase of USD 81,085 thousand to Foreign exchange loss, net. In 2005, the effect of this reclassification resulted in an increase of USD 114 thousand to Finance cost, an increase of USD 263 thousand to Income from investments, and an increase of USD 149 thousand to Foreign exchange loss, net.

##### *Classification of other revenue*

During the prior period, the Group recorded other revenue relating to ancillary sales and utility services provided by some of its subsidiaries net against Cost of other sales on the consolidated income statement as the Company believed these amounts were not significant. However, as the amount became more significant, it was recorded gross as Other Sales on the income statement in accordance with International Accounting Standard 1: “*Presentation of Financial Statements*”. As a result, the 2006 and 2005 amounts have been reclassified to this presentation resulting in an increase in Other Sales USD 18,127 thousand and USD 17,700 thousand, respectively, with a corresponding increase in Cost of Other Sales.

##### *Reclassification between accounts*

Certain amounts from prior years have been disaggregated in the current year, and as a result the prior year presentation has been conformed to achieve comparability with the current year presentation. These reclassifications had no impact on profit for the years ended 31 December 2006 and 2005 or shareholders’ equity.

The effect of the reclassifications for the years 2006 and 2005 is summarised in the tables in note 5.

#### 5. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT

##### *Accounting for acquisition of additional shares of subsidiaries from minority shareholders*

In 2007, management of the Group changed its accounting policy for the acquisition of additional shares of subsidiaries from minority shareholders. Previously, the Group recognised any excess of consideration paid over the fair value of the subsidiary’s net assets acquired at the date of increase in ownership as goodwill (or mineral rights in respect of mining subsidiaries). Changes to the carrying value of mineral interests resulted in higher depreciation and amortisation charges post acquisition. Determining the fair value of mineral interests acquired requires significant estimates to be made and management concluded that the subjectivity of such estimates did not provide useful information to investors that reflected the economic substance of the transactions. Furthermore, such transactions do not effect the assets and liabilities controlled by the Group. Instead they simply increase the Group’s share of the economic benefits generated by the assets.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 *(in thousands of US Dollars)*

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Under the new policy, the difference between the carrying value of the acquired minority interests and the fair value of consideration paid is recognised directly in equity and attributed to the shareholders of the parent. The new policy does not require the remeasurement of those assets and liabilities and therefore results in more relevant and reliable information reflecting the economic substance of the transactions and the effects of the Group's acquisition of non-controlling interest in its subsidiaries.

The effect of this change in accounting policy resulted in a restatement of historical results that included a decrease to property, plant and equipment and a decrease to retained earnings for 2006 and 2005.

#### *Accounting for general and administrative overhead costs directly attributable to exploration and evaluation activities*

In 2007, management of the Group changed its accounting policy for general and administrative overhead costs directly attributable to exploration and evaluation activities. Under the new policy, such costs, which previously were recognised in the income statement as incurred, are capitalised within exploration and evaluation assets. The reason for the change was to align the accounting policy consistent with the substance of expenses and how the Group manages its exploration and evaluation activities. Management believes that the new policy is consistent with common industry practices and will result in more accurate information on expenditures related to exploration and evaluation activities. The change in accounting policy has been applied retrospectively.

The effect of this change in accounting policy resulted in a restatement of historical results that included an increase to property, plant and equipment, an increase to retained earnings, an increase to deferred tax liabilities, a decrease to selling, general and administrative expenses, a decrease to research and exploration expenses and an increase to income tax expense for 2006 and 2005.

#### *Accounting for stripping costs*

In 2008, management of the Group changed its accounting policy for stripping costs. Previously mine stripping costs were expensed in the year it was incurred as operating expenses. Under the new accounting policy, expenditure for stripping costs incurred during the production phase to remove waste ore is deferred and charged to cost of gold sales on the basis of the average life-of-mine stripping ratio. The cost of excess stripping is capitalised as deferred stripping costs. Management believes that deferring stripping costs incurred during the production stage of its open-pit operations will better reflect the matching of the costs against the related economic benefits and will be consistent with industry practice and comparable to other mining companies. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The new method reduces the volatility in reporting periods for operations that experience material fluctuations in the ratio of waste materials to ore on a year to year basis over the life of the mine. The change in accounting policy has been applied retrospectively.

The effect of this change in accounting policy resulted in a restatement of historical results that included an increase to deferred stripping costs, an increase to retained earnings, an increase to inventories, an increase to deferred tax liabilities, a decrease to cost of gold sales and a decrease to income tax expense for 2006 and an increase to deferred stripping costs, an increase to retained earnings, a decrease to inventories, an increase to deferred tax liabilities, a decrease to cost of gold sales and an increase to income tax expense for 2005.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

### *Restatement for contingent consideration in the acquisition of a subsidiary*

In 2008, upon finalizing the terms of the 2005 acquisition of OJSC “South-Verkhoyansk Mining Company” (“SVMC”), management identified an error in the original accounting for the acquisition in 2005. At the time of the original accounting, contingent consideration was overstated by USD 15,746. This accounting has been corrected in the current year, and the consolidated financial statements have been restated. The impact of this restatement was a decrease to the contingent consideration on acquisition of subsidiaries and the recognition of the excess of the Group’s share in the fair value of net assets acquired over the cost of acquisition for the same amount as income in 2005.

The cumulative effect of the change in accounting policies, restatement and reclassifications (refer to note 4) on the Group’s financial position and results of operation of the Group for the years ended 31 December 2006 and 2005 is presented in the table below.

2006	Amounts previously reported	Reclassification adjustments (note 4)	Change in accounting policies and restatement adjustments	Restated
<b>CONSOLIDATED INCOME STATEMENT DATA</b>				
Other sales	-	18,127	-	18,127
Cost of gold sales	(422,512)	-	(4,015)	(426,527)
Cost of other sales	-	(18,816)	-	(18,816)
Selling, general and administrative expenses	(85,086)	-	5,408	(79,678)
Research and exploration expenses	(7,861)	-	287	(7,574)
Other income	-	2,094	-	2,094
Other expenses	-	(11,914)	(2,194)	(14,108)
Other net operating expenses	(7,028)	7,028	-	-
Finance cost	(5,217)	(1,236)	-	(6,453)
Income from investments	1,019,790	82,321	-	1,102,111
Foreign exchange gain, net	7,161	(81,085)	(1,420)	(75,344)
Other non-operating expenses	(3,481)	3,481	-	-
Income tax expense	(73,087)	-	7	(73,080)
<b>Basic and diluted earnings per share (US cents)</b>	<b>78</b>	<b>-</b>	<b>(3)</b>	<b>75</b>
<b>CONSOLIDATED BALANCE SHEET DATA</b>				
<b>Assets</b>				
Property, plant and equipment	1,768,447	-	(372,842)	1,395,605
Deferred stripping costs	-	-	10,382	10,382
Investments in securities and other financial assets	848	1,147	-	1,995
Inventories	168,829	-	642	169,471
Reimbursable value added tax	-	101,178	-	101,178
Accounts receivable	-	11,876	-	11,876
Advances paid to suppliers	-	26,211	-	26,211
Advances to suppliers and other receivables	39,234	(39,234)	-	-
Income tax prepaid	-	8,228	-	8,228
Other current assets	123,073	(109,406)	-	13,667

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	Amounts previously reported	Reclassification adjustments (note 4)	Change in accounting policies and restatement adjustments	Restated
<b>Equity and liabilities</b>				
Translation reserve	260,116	-	1,678	261,794
Retained earnings	1,603,386	-	(260,748)	1,342,638
Minority interest	32,409	-	238	32,647
Deferred tax liabilities	266,100	-	(87,240)	178,860
Obligations under financial lease	1,601	(1,601)	-	-
Other non-current liabilities	201	1,601	-	1,802
Contingent consideration on acquisition of subsidiaries	75,833	-	(15,746)	60,087
Current portion of obligations under finance lease	2,885	(2,885)	-	-
Short-term borrowings	12,116	2,885	-	15,001
Trade payables	-	20,799	-	20,799
Other payables and accrued expenses	70,513	(20,799)	-	49,714
Income tax payable	-	7,519	-	7,519
Other taxes payable	25,734	(7,519)	-	18,215
<b>2005</b>				
<b>CONSOLIDATED INCOME STATEMENT DATA</b>				
Other sales	-	17,700	-	17,700
Cost of gold sales	(269,025)	-	8,995	(260,030)
Cost of other sales	-	(19,750)	-	(19,750)
Selling, general and administrative expenses	(58,263)	-	3,107	(55,156)
Other expenses	-	(26,506)	-	(26,506)
Other net operating expenses	(24,989)	24,989	-	-
Finance cost	(3,472)	(114)	-	(3,586)
Income from investments	51,749	263	-	52,012
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	-	-	15,746	15,746
Foreign exchange loss, net	(377)	(149)	276	(250)
Other non-operating expenses	(3,567)	3,567	-	-
Income tax expense	(50,929)	-	(2,970)	(53,899)
<b>Basic and diluted earnings per share (US cents)</b>	-	-	-	-

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	Amounts previously reported	Reclassification adjustments (note 4)	Change in accounting policies and restatement adjustments	Restated
<b>CONSOLIDATED BALANCE SHEET DATA</b>				
<b>Assets</b>				
Property, plant and equipment	1,112,445	-	(4,452)	1,107,993
Deferred stripping costs	-	-	14,438	14,438
Inventories	123,616	-	(560)	123,056
Reimbursable value added tax	-	57,281	-	57,281
Accounts receivable	-	9,970	-	9,970
Advances paid to suppliers	-	15,439	-	15,439
Advances to suppliers and other receivables	25,409	(25,409)	-	-
Income tax prepaid	-	1,434	-	1,434
Other current assets	72,664	(58,715)	-	13,949
<b>Equity and liabilities</b>				
Translation reserve	8,350	-	726	9,076
Retained earnings	446,169	-	22,988	469,157
Minority interest	29,632	-	130	29,762
Deferred tax liabilities	171,345	-	1,328	172,673
Obligations under financial lease	4,025	(4,025)	-	-
Other non-current liabilities	1,246	4,025	-	5,271
Contingent consideration on acquisition of subsidiaries	137,650	-	(15,746)	121,904
Current portion of obligations under finance lease	2,844	(2,844)	-	-
Short-term borrowings	23,243	2,844	-	26,087
Trade payables	-	15,854	-	15,854
Other payables and accrued expenses	50,329	(15,854)	-	34,475
Income tax payable	-	8,283	-	8,283
Other taxes payable	23,173	(8,283)	-	14,890

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

#### 6. ACQUISITIONS

##### 2005

##### *Yakut gold mining assets*

In September 2005, the Group acquired from third parties 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” (collectively “Yakut gold mining assets”) for a total consideration of USD 255,000 thousand, of which USD 115,000 thousand was satisfied by cash in 2005. The remaining part of the total consideration was contingent upon the negotiation with the seller of the financial terms of the acquisition and analysis of the financial results of acquired entities at the acquisition date.

In the consolidated financial statements for the year ended 31 December 2005 the acquisition of Yakut gold mining assets was accounted for based on provisional values.

In July 2006, the Group finalised the valuation of the acquired Yakut gold mining net assets and negotiations in respect of contingent consideration. According to the final agreement and correcting for the error as described in note 5, the amount of the outstanding contingent consideration was determined to be USD 121,904 thousand. As a result, in the consolidated financial statements for the year ended 31 December 2006 adjustments to the provisional values of identifiable assets, liabilities, contingent liabilities, contingent consideration and corresponding income statement items were recognised.

	<u>Provisional value</u>	<u>Fair Value</u>
<b><i>OJSC “Aldanzoloto GRK”</i></b>		
Mineral rights	14,503	85,220
Property, plant and equipment, excluding mineral rights	80,759	80,759
Other assets	30,071	30,071
Loans and borrowings	(10,457)	(10,457)
Other liabilities	(29,709)	(29,709)
Deferred tax liabilities	(14,900)	(31,872)
<b>Net assets at the date of acquisition</b>	<b>70,267</b>	<b>124,012</b>
Minority interest	(474)	(474)
<b>Group’s share of net assets acquired</b>	<b>69,793</b>	<b>123,538</b>
<b>Total consideration</b>	<b>69,793</b>	<b>123,538</b>
Contingent consideration	(19,793)	(73,538)
Satisfied by cash	(50,000)	(50,000)
Net cash outflow arising on acquisition:		
Cash consideration	(50,000)	(50,000)
Cash and cash equivalents acquired	274	274
<b>Net cash outflow on acquisition of subsidiaries</b>	<b>(49,726)</b>	<b>(49,726)</b>

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>Provisional value</u>	<u>Fair Value</u>
<b><i>OJSC “South-Verkhoyansk Mining Company”</i></b>		
Mineral rights	257,279	182,994
Property, plant and equipment, excluding mineral rights	13,522	13,522
Other assets	14,235	14,235
Loans and borrowings	(19,722)	(19,722)
Other liabilities	(44,033)	(44,033)
Deferred tax liabilities	(57,699)	(40,503)
<b>Net assets at the date of acquisition</b>	<b><u>163,582</u></b>	<b><u>106,493</u></b>
<b>Group’s share of net assets acquired</b>	<b><u>163,582</u></b>	<b><u>106,493</u></b>
Less: Excess of the Group’s share in the fair value of net assets acquired over the cost of acquisition (note 5)	-	(15,746)
<b>Total consideration</b>	<b><u>163,582</u></b>	<b><u>90,747</u></b>
Contingent consideration	(113,582)	(40,747)
Satisfied by cash	(50,000)	(50,000)
Net cash outflow arising on acquisition:		
Cash consideration	(50,000)	(50,000)
Cash and cash equivalents acquired	181	181
<b>Net cash outflow on acquisition of subsidiaries</b>	<b><u>(49,819)</u></b>	<b><u>(49,819)</u></b>
<b><i>OJSC “Yakut Mining Company”</i></b>		
Mineral rights	-	1,308
Property, plant and equipment, excluding mineral rights	5,532	5,532
Other current assets	16,719	16,719
Deferred tax assets/(liabilities)	139	(175)
Loans and borrowings	(328)	(328)
Trade and other payables	(437)	(437)
<b>Net assets at the date of acquisition</b>	<b><u>21,625</u></b>	<b><u>22,619</u></b>
<b>Group’s share of net assets acquired</b>	<b><u>21,625</u></b>	<b><u>22,619</u></b>
<b>Total consideration</b>	<b><u>21,625</u></b>	<b><u>22,619</u></b>
Contingent consideration	(6,625)	(7,619)
Satisfied by cash	(15,000)	(15,000)
Net cash outflow arising on acquisition:		
Cash consideration	(15,000)	(15,000)
<b>Net cash outflow on acquisition of subsidiaries</b>	<b><u>(15,000)</u></b>	<b><u>(15,000)</u></b>

Fair values presented above reflect the effects of finalising the acquisition accounting and the restatement described in note 5. Such amounts differ from the provisional amounts previously reported.

The corresponding figures in the consolidated balance sheet as at 31 December 2005 have been restated since its original issuance to reflect the revisions. Mineral rights which arose on acquisition were included in the Group’s mining assets (refer to note 18). The contingent consideration relates to working capital adjustments.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

#### *OJSC “Lenzoloto”*

In July 2005 and December 2005, the Group acquired two equal minority shares in OJSC “Lenzoloto” (“Lenzoloto”) of 5.6% for cash consideration USD 2,679 thousand and USD 5,610 thousand, respectively. Acquired mineral rights and attributable deferred tax liabilities amounted to USD 3,303 thousand and USD 792 thousand, respectively. These transactions resulted in a decrease of minority interest by USD 5,779 thousand.

In 2007, the Group changed its accounting policy in respect of accounting for acquisition of additional shares of subsidiaries from minority shareholders (refer to note 5). As a result of this change, the difference between carrying value of acquired minority interest in Lenzoloto and the fair value of consideration paid in the amounts of USD 2,511 thousand was recognised directly in equity.

#### *Other acquisitions*

On 10 February 2005 and 3 November 2005, the Group acquired 74.0% of the issued share capital of OJSC “Pervenets” (“Pervenets”) and 100.0% of the issued share capital of OJSC “Sibzolorazvedka” (“Sibzolorazvedka”) for a cash consideration of USD 25,816 thousand and USD 727 thousand, respectively. Mineral rights in the amount of USD 680 thousand which arose on acquisition of Sibzolorazvedka were included in the Group’s mining assets and subsequently impaired.

	<u>Pervenets</u>	<u>Sibzolorazvedka</u>
Mineral rights	46,360	680
Property, plant and equipment, excluding mineral rights	3,325	633
Other assets	243	529
Loans and borrowings	(1,922)	-
Other liabilities	(2,125)	(1,115)
Deferred tax liabilities	(11,169)	-
<b>Net assets at the date of acquisition</b>	<b>34,712</b>	<b>727</b>
Minority interest	(40)	-
<b>Group’s share of net assets acquired</b>	<b>34,672</b>	<b>727</b>
Less: Carrying value of investment in subsidiary before acquiring control	(8,856)	-
<b>Total consideration</b>	<b>25,816</b>	<b>727</b>
Satisfied by cash	(25,816)	(727)
Net cash outflow arising on acquisition:		
Cash consideration	(25,816)	(727)
Cash and cash equivalents acquired	82	-
<b>Net cash outflow on acquisition of subsidiaries</b>	<b>(25,734)</b>	<b>(727)</b>

During April-May 2005, the Group acquired 100.0% of additional shares issued by OJSC “Matrosov Mine” (“Matrosov Mine”), bringing its total share in the company to 87.4%.

On 31 May 2005, the Group further increased its investment in Matrosov Mine to 88.4% for a cash consideration of USD 4,265 thousand.

In 2007, the Group changed its accounting policy in respect of accounting for acquisition of additional shares of subsidiaries from minority shareholders (refer to note 5). As a result of this change, the difference between carrying value of acquired minority interest in Matrosov Mine and the fair value of consideration paid in the amounts of USD 4,141 thousand was recognised directly in equity.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

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2006

#### *LLC “GRK BarGold”*

On 11 October 2006, Group acquired a 100.0% interest in LLC “GRK BarGold” (“GRK BarGold”) for a cash consideration of USD 7,500 thousand. In the consolidated financial statements for the year ended 31 December 2006, acquisition of GRK BarGold was accounted for using provisional values.

In 2007 the Group finalised valuation of the acquired net assets. As a result, in the consolidated financial statements for the year ended 31 December 2006 adjustments to the provisional values of identifiable assets and liabilities were recognised.

	<b>Provisional value</b>	<b>Fair Value</b>
Mineral rights	9,874	6,974
Property, plant and equipment, excluding mineral rights	602	602
Loans and borrowings	(596)	(596)
Deferred tax liabilities	(2,380)	(1,674)
Other assets	-	2,194
<b>Net assets acquired</b>	<b>7,500</b>	<b>7,500</b>
<b>Total consideration</b>	<b>7,500</b>	<b>7,500</b>
Satisfied by cash	(7,500)	(7,500)

#### **Acquisition of minority interest in subsidiaries in 2005 and 2006**

##### *Yakut gold mining assets*

In December 2006, the Group acquired from a related party the remaining 50.0% of the issued share capital of OJSC “South-Verkhoyansk Mining Company” (“SVMC”) for cash consideration of USD 300,167 thousand. As at 31 December 2006, acquisition of additional shares of SVMC was accounted for in the consolidated financial statements using provisional values. Provisional values of mineral rights and attributable deferred tax liabilities acquired amounted to USD 370,684 thousand and USD 88,964 thousand, respectively.

In 2007, the Group changed its accounting policy in respect of accounting for acquisition of additional shares of subsidiaries from minority shareholders (refer to note 5). As a result of this change, the difference between carrying value of acquired minority interest in SVMC and the fair value of consideration paid in the amount of USD 281,720 thousand was recognised directly in equity.

Total contingent consideration for acquisition of Yakut gold mining assets as at 31 December 2005 after adjusting for the error as described in note 5 was USD 121,904. A payment of USD 61,817 was made in 2006 resulting in a balance of USD 60,087 as at 31 December 2006.

##### *OJSC “Matrosov Mine”*

In June 2006, the Group acquired 100% of additional shares issued by Matrosov Mine for a cash consideration of USD 49,917 thousand, bringing its ownership in the company to 93.3%. This transaction resulted in a change of minority interest by USD 524 thousand.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>7. COST OF GOLD SALES</b>		
Cash operating costs	348,212	232,373
On-mine costs (refer to note 8)	212,623	146,866
Smelting and concentrating costs (refer to note 9)	89,766	52,536
Refining costs	3,462	3,229
Tax on mining	42,361	29,742
Amortisation and depreciation of operating assets (refer to note 10)	73,718	45,251
Increase in provision for land restoration (refer to note 27)	7,318	2,088
Deferred stripping costs expensed/ (capitalised)	5,230	(9,565)
Increase in gold-in-process and refined gold	(7,951)	(10,117)
<b>Total</b>	<b><u>426,527</u></b>	<b><u>260,030</u></b>
<b>8. ON-MINE COSTS</b>		
Consumables and spares	105,311	69,961
Labour	77,808	56,594
Utilities	11,149	8,343
Sundry on-mine costs	18,355	11,968
<b>Total</b> (refer to note 7)	<b><u>212,623</u></b>	<b><u>146,866</u></b>
<b>9. SMELTING AND CONCENTRATING COSTS</b>		
Consumables and spares	47,543	33,909
Labour	26,550	12,784
Utilities	13,748	4,793
Sundry smelting and concentrating costs	1,925	1,050
<b>Total</b> (refer to note 7)	<b><u>89,766</u></b>	<b><u>52,536</u></b>
<b>10. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS</b>		
Mining	50,209	36,836
Smelting and concentrating	23,509	8,415
<b>Total</b> (refer to note 7)	<b><u>73,718</u></b>	<b><u>45,251</u></b>

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries	44,019	30,739
Taxes other than mining and income taxes	11,322	4,685
Professional services	6,820	3,389
Depreciation	4,759	5,742
Bank charges	1,548	917
Communication services	1,415	761
Rent expenses	1,379	1,671
Repair and maintenance	1,025	3,128
Other	7,391	4,124
<b>Total</b>	<b><u>79,678</u></b>	<b><u>55,156</u></b>
<b>12. OTHER INCOME AND EXPENSES</b>		
<i>Other income</i>		
Release of decommissioning obligations (refer to note 27)	2,094	-
<b>Total</b>	<b><u>2,094</u></b>	<b><u>-</u></b>
<i>Other expenses</i>		
Change in allowance for reimbursable value added tax	2,814	1,340
Donations	1,768	1,199
Impairment of advances paid to suppliers	1,586	526
Loss on disposal of property, plant and equipment	1,494	4,848
Change in allowance for doubtful debts	1,288	428
Tax fines and penalties	718	1,872
Maintenance of social infrastructure	558	406
Impairment of property, plant and equipment	383	11,613
Other	3,499	4,274
<b>Total</b>	<b><u>14,108</u></b>	<b><u>26,506</u></b>
<b>13. FINANCE COSTS</b>		
Unwinding of discount on decommissioning obligations (refer to note 27)	3,579	842
Interest on borrowings	2,874	2,744
<b>Total</b>	<b><u>6,453</u></b>	<b><u>3,586</u></b>

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>14. INCOME FROM INVESTMENTS</b>		
<i>Income from financial assets at fair value through profit and loss</i>		
Income from investments in listed companies held for trading	7,234	-
<i>Income from available-for-sale investments</i>		
Gain on disposal of available-for-sale investments	980,462	2,607
Dividend income on available-for-sale investments	6,197	6,062
<i>Income from held-to-maturity investments</i>		
Interest income on promissory notes	13,919	38,540
<i>Income from loans given</i>		
Income accrued on bank deposits	93,697	4,843
Share of post-acquisition losses of associates	-	(40)
Other	602	-
<b>Total</b>	<b><u>1,102,111</u></b>	<b><u>52,012</u></b>

In 2006 the Group received proceeds in the amount of USD 1,925,402 thousand for the sale of its investment in Gold Fields Ltd., which resulted in a gain on disposal of available-for-sale investments of USD 980,462 thousand.

### 15. FOREIGN EXCHANGE LOSS, NET

Foreign currency exchange gain/(loss) on operating activities, net	7,161	(377)
Foreign exchange gain on financing activities, net	1,236	114
Foreign currency exchange (loss)/gain on investing activities, net	(83,741)	13
<b>Total</b>	<b><u>(75,344)</u></b>	<b><u>(250)</u></b>

### 16. INCOME TAX

Current tax expense	84,718	60,425
Deferred tax benefit (refer to note 26)	(11,638)	(6,526)
<b>Total</b>	<b><u>73,080</u></b>	<b><u>53,899</u></b>

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% to 24%.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
A reconciliation of statutory income tax at the rate effective in the Russian Federation, location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:		
<b>Profit before income tax</b>	<b>1,228,391</b>	<b>191,478</b>
Income tax at statutory rate of 24%	294,814	45,955
Taxable losses of subsidiaries not carried forward	8,672	5,660
Tax effect of non-deductible expenses and other permanent differences	2,901	7,446
Effect of different tax rates of subsidiaries operating in other jurisdictions	(233,307)	(1,383)
Tax effect on excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	-	(3,779)
<b>Income tax at effective rate of 6% (2005: 28%)</b>	<b><u>73,080</u></b>	<b><u>53,899</u></b>

#### 17. EARNINGS PER SHARE

For the period from 17 March to 31 December 2006:

Profit attributable to shareholders of the parent company	141,149
Weighted average number of ordinary shares in issue	<u>187,645,115</u>
<b>Basic and diluted earnings per share (US cents)</b>	<b><u>75</u></b>

In 2006 earnings per share was calculated based on the profit attributable to shareholders of the parent company for the period subsequent to the incorporation of the Company till 31 December 2006, and the weighted average number of ordinary shares in issue during that period.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

### 18. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction- in-progress	Total
<b>Cost</b>					
<b>Balance at 31 December 2004 – as previously reported</b>	<b>24,781</b>	<b>596,060</b>	<b>36,690</b>	<b>51,632</b>	<b>709,163</b>
Change in accounting policy (refer to note 5)	1,113	134	-	-	1,247
<b>Balance at 31 December 2004 – as restated</b>	<b>25,894</b>	<b>596,194</b>	<b>36,690</b>	<b>51,632</b>	<b>710,410</b>
Additions - as restated	38,842	43,012	3,885	65,108	150,847
Acquired on acquisition of subsidiaries	-	412,124	1,044	7,165	420,333
Transfers	-	18,389	1,729	(20,118)	-
Disposals	-	(5,061)	(1,017)	(2,413)	(8,491)
Disposed of on disposal of subsidiary	-	(15,238)	(87)	(42)	(15,367)
Decommissioning asset raised (refer to note 27)	-	26,633	-	-	26,633
Effect of translation to presentation currency	(1,560)	(26,637)	(1,406)	(2,729)	(32,332)
<b>Balance at 31 December 2005 – as restated</b>	<b>63,176</b>	<b>1,049,416</b>	<b>40,838</b>	<b>98,603</b>	<b>1,252,033</b>
Additions – as restated	62,295	92,283	7,651	108,484	270,713
Acquired on acquisition of subsidiaries	602	6,974	-	-	7,576
Transfers	-	46,556	-	(46,556)	-
Disposals	-	(15,895)	(1,728)	(3,356)	(20,979)
Effect of translation to presentation currency	7,857	101,837	3,994	11,083	124,771
<b>Balance at 31 December 2006 – as restated</b>	<b>133,930</b>	<b>1,281,171</b>	<b>50,755</b>	<b>168,258</b>	<b>1,634,114</b>

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction- in-progress	Total
<b>Accumulated amortisation, depreciation and impairment</b>					
<b>Balance at 31 December 2004</b>	-	(81,214)	(2,673)	-	(83,887)
Charge for the year	-	(52,422)	(3,704)	-	(56,126)
Disposals	-	689	78	-	767
Disposed of on disposal of subsidiary	-	2,718	15	-	2,733
Impairment loss	-	(6,259)	-	(5,354)	(11,613)
Effect of translation to presentation currency	-	3,838	158	90	4,086
<b>Balance at 31 December 2005</b>	-	(132,650)	(6,126)	(5,264)	(144,040)
Charge for the year	-	(79,119)	(6,466)	-	(85,585)
Disposals	-	7,220	235	-	7,455
Impairment loss	(115)	-	(267)	(1)	(383)
Effect of translation to presentation currency	(4)	(14,683)	(781)	(488)	(15,956)
<b>Balance at 31 December 2006</b>	<b>(119)</b>	<b>(219,232)</b>	<b>(13,405)</b>	<b>(5,753)</b>	<b>(238,509)</b>
<b>Net book value</b>					
<b>31 December 2005 – as restated</b>	<b>63,176</b>	<b>916,766</b>	<b>34,712</b>	<b>93,339</b>	<b>1,107,993</b>
<b>31 December 2006 – as restated</b>	<b>133,811</b>	<b>1,061,939</b>	<b>37,350</b>	<b>162,505</b>	<b>1,395,605</b>

Mining assets at 31 December 2006 and 2005 include mineral rights of USD 513,944 thousand and USD 480,977 thousand, respectively.

Amortisation and depreciation capitalised during the years ended 31 December 2006 and 2005 amounted to USD 6,560 thousand and USD 5,133 thousand, respectively.

At 31 December 2006 and 2005, machinery and equipment with a carrying value of USD 5,087 thousand and USD 3,697 thousand, respectively, were held under finance lease agreement.

The balances of property, plant and equipment at 31 December 2006 and 2005 were recorded net of value added tax (“VAT”) incurred on acquisition of exploration and evaluation and mining assets of USD 10,945 thousand and USD 16,010 thousand, respectively. This VAT is reimbursable when the respective assets are put into operation. Management of the Group believes that VAT amounts are recoverable in full.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS</b>		
<b>Non-current</b>		
Loans advanced	1,592	347
Other	403	3,723
<b>Total non-current</b>	<b><u>1,995</u></b>	<b><u>4,070</u></b>
<b>Current</b>		
Available-for-sale equity investments	383,172	1,736,086
Bank deposits	364,438	6,997
Equity investments in listed companies held for trading	192,155	-
Loans under repurchase agreements	111,373	-
Promissory notes receivable	103,929	314,189
Investment deposit in Rosbank	83,362	172,984
<b>Total current</b>	<b><u>1,238,429</u></b>	<b><u>2,230,256</u></b>

#### *Financial assets at fair value through profit or loss, carried at fair value*

Equity investments in listed companies held for trading were acquired by Rosbank (the "Bank"), a related party, on behalf of the Group under Assets management agreements. The principal amounts invested by the Group of USD 290,531 thousand in 2006 (2005: nil) was not guaranteed by the Bank.

#### *Available-for-sale investments, carried at fair value*

At 31 December 2006, available-for-sale equity investments mainly represented investment in various companies held by Rosfund, SPC (Cayman Islands) acquired in July 2006 for USD 360,000 thousand. Increase in fair value of this investment of USD 19,620 thousand was recognised directly in equity.

At 31 December 2005, available-for-sale equity investments included investment in shares of Gold Fields Limited (South Africa) which was acquired from Norilsk Nickel in May 2005 for USD 944,940 thousand. At 31 December 2005 fair value of this investment amounted to USD 1,735,987 thousand. In March 2006, it was sold to third parties for a cash consideration of USD 1,925,402 thousand.

#### *Investments, carried at amortised cost*

At 31 December 2006 investments, carried out at amortised cost represent promissory notes at 6.0% per annum (2005: 10.4%) and repayable on demand.

#### *Loans and receivables, carried at amortised cost*

Bank deposits at 6.0-7.25% per annum were denominated in RUR and mature in September 2007.

Loans under repurchase agreements, acquired by Rosbank (the "Bank"), a related party, on behalf of the Group under Assets management agreements, have effective interest rates at 9.88%.

Investment deposit in Rosbank primarily represented promissory notes purchased and held by the Bank on behalf of the Group. The principal amount of this deposit of USD 83,362 thousand was guaranteed by the Bank.

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>20. INVENTORIES</b>		
Gold-in-process at net production cost	41,348	29,917
Refined gold at net production cost	<u>2</u>	<u>1,299</u>
<b>Total metal inventories</b>	<b>41,350</b>	<b>31,216</b>
Stores and materials at cost	129,094	92,472
Less: Allowance for obsolescence	<u>(973)</u>	<u>(632)</u>
<b>Total</b>	<b><u>169,471</u></b>	<b><u>123,056</u></b>
<b>21. ACCOUNTS RECEIVABLE</b>		
Accounts receivable from third parties	19,043	16,022
Accounts receivable from related parties (refer to note 32)	<u>199</u>	<u>25</u>
	<b>19,242</b>	<b>16,047</b>
Less: Allowance for doubtful debts	<u>(7,366)</u>	<u>(6,077)</u>
<b>Total</b>	<b><u>11,876</u></b>	<b><u>9,970</u></b>
<b>22. ADVANCES PAID TO SUPPLIERS</b>		
Advances paid to third parties	26,171	14,490
Advances paid to related parties (refer to note 32)	<u>40</u>	<u>949</u>
<b>Total</b>	<b><u>26,211</u></b>	<b><u>15,439</u></b>

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>23. OTHER CURRENT ASSETS</b>		
Deferred expenditures	11,287	11,683
Other prepaid taxes	<u>2,380</u>	<u>2,266</u>
<b>Total</b>	<b><u>13,667</u></b>	<b><u>13,949</u></b>

Deferred expenditures relate to the preparation for the seasonal alluvial mining activities mostly comprised of stripping and excavation costs, general production and specific administration costs.

### 24. CASH AND CASH EQUIVALENTS

Bank deposits	244,519	5,681
Current bank accounts – RUR	47,856	18,376
– foreign currencies	1,413	3,849
Other cash and cash equivalents	<u>409</u>	<u>502</u>
<b>Total</b>	<b><u>294,197</u></b>	<b><u>28,408</u></b>

Bank deposits were denominated in USD and RUR and represented deposits in third and related party banks (refer to note 32) at interest rates of 5.18-5.8% per annum with maturity within three months.

### 25. SHARE CAPITAL

At 31 December 2006, authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUR 1.

In November 2006 the Company bought back 17,146,780 ordinary shares from shareholders for a total consideration of USD 995,557 thousand. Treasury shares which are held by a subsidiary of the Group have been recorded at cost and presented as a separate component in equity.

The immediate shareholders of the Company as at 31 December 2006 were as follows:

<b>Shareholders</b>	<b><u>Number of shares</u></b>	<b><u>% held</u></b>
CJSC “ING Bank Evrazia” (nominal)	63,996,683	36.9%
Bristaco Holdings Co. Limited	24,866,670	14.3%
Lovenco Holdings Co. Limited	24,866,670	14.3%
CJSC “KM Invest”	14,100,053	8.1%
NP “National Deposit Centre” (nominal)	8,641,729	5.0%
Panolio Trading Limited	6,021,971	3.5%
Praderato Trading Limited	6,021,971	3.5%
Other	<u>24,965,220</u>	<u>14.4%</u>
<b>Total</b>	<b><u>173,480,967</u></b>	<b><u>100.0%</u></b>

In 2005 CJSC “Polyus” issued 126 additional ordinary shares for total proceeds of RUR 36,616,855 thousand (USD 1,299,745 thousand). At 31 December 2005, issued and fully paid share capital of CJSC “Polyus” (refer to note 1), comprised 299 ordinary shares at par value of RUR 400, and 120 preference shares at par value of RUR 100.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>26. DEFERRED TAX LIABILITIES</b>		
The movement in the Group's deferred taxation position was as follows:		
<b>Net liability at beginning of the year – as restated</b>	<b>172,673</b>	<b>100,636</b>
Acquired on acquisition of subsidiaries (refer to note 6)	1,674	85,819
Change in deferred tax liabilities recognised on revaluation of available-for-sale investments	(583)	551
Recognised in the income statement (refer to note 16)	(11,638)	(6,526)
Decrease due to disposal of subsidiary	-	(1,193)
Effect of translation to presentation currency	16,734	(6,614)
<b>Net liability at end of the year</b>	<b><u>178,860</u></b>	<b><u>172,673</u></b>

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:

Property, plant and equipment	179,032	172,548
Deferred stripping	2,492	3,465
Inventory valuation	4,234	417
Investments valuation	1,267	187
Valuation of receivables	(1,841)	(1,610)
Accrued operating expenses	(6,324)	(2,334)
<b>Total</b>	<b><u>178,860</u></b>	<b><u>172,673</u></b>

At 31 December 2006 the unutilised tax losses of the entities at the development stage available for offset against the future taxable income amounted to USD 16,873 thousand (31 December 2005: USD 5,834 thousand).

In 2006 the Group has not recognised deferred tax assets in the amount of USD 8,672 thousand (2005: USD 5,660 thousand) in respect of tax losses carried forward for some of the Group's subsidiaries that may be available to offset against future taxable profit of these subsidiaries (refer to note 16).

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 69,708 thousand (31 December 2005: USD 126,140 thousand), because management believes that it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>27. ENVIRONMENTAL OBLIGATIONS</b>		
<b>Decommissioning obligations</b>		
<b>Balance at beginning of the year</b>	<b>53,072</b>	<b>7,851</b>
Acquired on acquisition of subsidiaries	-	18,232
Obligations raised (refer to note 18)	-	26,633
Repayment of decommissioning obligations	(3,954)	-
Release of decommissioning obligations (refer to note 12)	(2,094)	-
Unwinding of discount on decommissioning obligations (refer to note 13)	3,579	842
Effect of translation to presentation currency	4,877	(486)
<b>Balance at end of the year</b>	<b><u>55,480</u></b>	<b><u>53,072</u></b>
<b>Provision for land restoration</b>		
<b>Balance at beginning of the year</b>	<b>7,756</b>	<b>2,629</b>
Acquired on acquisition of subsidiaries	-	3,170
Charge to the income statement (refer to note 7)	7,318	2,088
Effect of translation to presentation currency	959	(131)
<b>Balance at end of the year</b>	<b><u>16,033</u></b>	<b><u>7,756</u></b>
<b>Total environmental obligations</b>	<b><u>71,513</u></b>	<b><u>60,828</u></b>
The principle assumptions used for the estimation of environmental obligations were as follows:		
Discount rates	5.7-7.0%	5.7-7.0%
Expected mine closure dates	2010-2050	2010-2050
Present value of cost to be incurred for settlement of environmental obligations was as follows:		
Due from second to fifth year	1,542	6,806
Due from sixth to tenth year	1,751	1,499
Due from eleventh to fifteenth year	59,959	45,457
Due from sixteenth to twentieth year	1,721	1,472
Due thereafter	6,540	5,594
	<b><u>71,513</u></b>	<b><u>60,828</u></b>

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<b>28. SHORT-TERM BORROWINGS</b>		
USD-denominated borrowings	9,458	9,457
RUR-denominated borrowings	2,020	2,142
Obligations under finance lease	2,885	2,844
Other short-term borrowings	638	11,644
<b>Total</b>	<b><u>15,001</u></b>	<b><u>26,087</u></b>
<p>The Group leases machinery and equipment (refer to note 18). The average lease term is 3.6 years and average effective borrowing rate is 12%. All leases are on a fixed repayment basis and denominated in USD. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.</p>		
<b>29. TRADE PAYABLES</b>		
Trade payables to third parties	20,763	14,085
Trade payables to related parties (refer to note 32)	36	1,769
<b>Total</b>	<b><u>20,799</u></b>	<b><u>15,854</u></b>
<b>30. OTHER PAYABLES AND ACCRUED EXPENSES</b>		
Accrued annual leave	14,316	9,907
Wages and salaries	9,255	5,192
Interest payable	6,277	6,745
Other	19,866	12,631
<b>Total</b>	<b><u>49,714</u></b>	<b><u>34,475</u></b>
<b>31. OTHER TAXES PAYABLE</b>		
Value added tax	5,184	5,212
Social taxes	3,613	3,116
Tax on mining	3,175	3,185
Property tax	2,848	872
Other taxes	3,395	2,505
<b>Total</b>	<b><u>18,215</u></b>	<b><u>14,890</u></b>

Contribution to Pension Fund of the Russian Federation recognised in the income statement for the year ended 31 December 2006 amounted to USD 24,408 thousand (2005: USD 14,871 thousand).

## POLYUS GOLD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

#### 32. RELATED PARTIES

Related parties include shareholders, 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 business, enter into various sale, purchase and service transactions with related parties. The terms of these transactions would not necessarily be on similar terms had the Group entered into the transactions with third parties.

During the years ended 31 December 2006 and 2005 Group entered into the following transactions with related parties:

	<u>2006</u>	<u>2005</u>
<i>Gold sales</i>		
Rosbank	437,096	246,496
<b>Total</b>	<b><u>437,096</u></b>	<b><u>246,496</u></b>
<i>Purchase of goods and services</i>		
Taimyrskaya Toplivnaya Kompaniya	50,269	26,552
Kraus-M	17,260	-
Norilsk Nickel	11,121	-
Krasnoyarskenergosbyt	6,077	3,451
Yeniseyskoe Rechnoe Parohodstvo	1,830	1,424
Insurance Company "Soglasie"	704	-
Rosbank	56	-
<b>Total</b>	<b><u>87,317</u></b>	<b><u>31,427</u></b>
<i>Purchase of interest in SVMC</i>		
KM Technologies Limited	300,167	-
<b>Total</b>	<b><u>300,167</u></b>	<b><u>-</u></b>
<i>Income from investments</i>		
Rosbank	10,370	4,787
Norilsk Nickel	-	38,371
<b>Total</b>	<b><u>10,370</u></b>	<b><u>43,158</u></b>
<i>Cash and cash equivalents</i>		
Rosbank	14,116	26,759
<b>Total</b>	<b><u>14,116</u></b>	<b><u>26,759</u></b>
<i>Investments in securities and other financial assets</i>		
Rosbank	359,621	172,984
Norilsk Nickel	-	314,180
<b>Total</b>	<b><u>359,621</u></b>	<b><u>487,164</u></b>

# POLYUS GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

	<u>2006</u>	<u>2005</u>
<i>Accounts receivable</i>		
Yeniseyskoe Rechnoe Parohodstvo	158	-
Norilsk Nickel	17	25
Taimyrskaya Toplivnaya Kompaniya	16	-
Insurance Company "Soglasie"	6	-
Rosbank	2	-
<b>Total</b>	<b><u>199</u></b>	<b><u>25</u></b>
<i>Advances paid to suppliers</i>		
Insurance Company "Soglasie"	11	-
Norilsk Nickel	-	476
Krasnoyarskenergosbyt	-	301
Taimyrskaya Toplivnaya Kompaniya	-	172
Yeniseyskoe Rechnoe Parohodstvo	-	-
Other	29	-
<b>Total</b>	<b><u>40</u></b>	<b><u>949</u></b>
<i>Trade payables</i>		
Taimyrskaya Toplivnaya Kompaniya	15	23
Norilsk Nickel	-	1,745
Other	21	1
<b>Total</b>	<b><u>36</u></b>	<b><u>1,769</u></b>
<i>Other payables</i>		
Norilsk Nickel	6,741	6,028
Insurance Company "Soglasie"	2	-
<b>Total</b>	<b><u>6,743</u></b>	<b><u>6,028</u></b>

The amounts outstanding are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are a result of the Group's trading transactions identified above and are settled on a gross basis.

### Compensation of key management personnel

Short-term employee benefits	<u>9,322</u>	<u>8,782</u>
<b>Total</b>	<b><u>9,322</u></b>	<b><u>8,782</u></b>

## **POLYUS GOLD**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)**

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#### **33. CONTINGENCIES**

##### **Litigation**

The Group has a large number of insignificant 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.

##### **Compliance with licenses**

The business of the Group depends on the continuing validity of its licenses, particularly subsoil licenses for the Group's exploration and mining operations, the issuance of new licenses and the Group's compliance with the terms of its licenses. Russian regulatory authorities exercise considerable discretion in the timing of license issuances and renewals and the monitoring of a licensee's compliance with the terms of a license. Requirements imposed by these authorities, including requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Accordingly, licenses that may be needed for the operations of the Group may be invalidated or may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion.

The legal and regulatory basis for the licensing requirements is subject to frequent change, which increases the risk that the Group may be found in non-compliance. In the event that the licensing authorities discover a material violation by the Group, the Group may be required to suspend its operations or incur substantial costs in eliminating or remediating the violation, which could have a material adverse effect on the Group's business and financial condition.

##### **Insurance**

The insurance industry is not yet well developed in the Russian Federation and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance 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, other than limited coverage required by law. The Group, as a participant in exploration and mining activities may become subject to liability for risks that can not be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

##### **Taxation contingencies in the Russian Federation**

The taxation system in the Russian Federation is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels. The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

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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.

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 31 December 2006 of approximately USD 1,368 thousand (31 December 2005: nil).

#### **Environmental matters**

The Group is subject to extensive federal, local environmental controls and regulations in the regions 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 the existing environmental legislation of the Russian Federation. 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 for its operations. Estimations are based on management's understanding of the current legal requirements and the terms 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 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 depends on the effectiveness of the government economic policies and the continued development of the legal and political systems.

### **34. 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.

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 is carried out by risk management department within central Group's treasury function under policies set by senior management of the Group. The Group's treasury function identifies and evaluates financial risks.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 *(in thousands of US Dollars)*

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### **Capital risk management**

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of short-term borrowings (disclosed in note 28), cash and cash equivalents (disclosed in note 24) and equity attributable to shareholders of the parent company, comprising issued capital, reserves and retained earnings. As at 31 December 2006 cash and cash equivalents balance exceeded borrowings of the Group. Management of the Group believes that there are no risks associated with the capital structure.

### **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 price of gold. A decline in gold prices could result in a decrease in profit and cash flows. Management of the Group regularly monitors gold price, market forecasts and believes that current trend of price increase will continue in the future.

The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

### **Foreign currency risk**

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. 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 are adversely impacted by appreciation of RUR against USD. In assessing this risk management takes into consideration changes in gold price.

The Group does not use any derivative instruments to manage foreign currency risk exposure.

### **Credit risk**

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks, loans advanced, promissory notes and trade and other receivables.

Prior to dealing with new counterparty, management assesses the credit worthiness and liquidity of potential customer. Information available from the major rating agencies is used in evaluating the creditworthiness of foreign banks. The eligible counterparty should have rating above A level. For Russian banks the credit limits are established using financials analysis and the overall market experience. Bank should be solvent and liquid.

Although the Group sells all the gold produced to four customers, the Group is not economically dependant on these customers because of the high level of liquidity in the gold commodity market. Customers of gold are required to make advance payments, therefore credit risk related to trade receivables is minimal. As at 31 December 2006 and 2005 the Group did not have any outstanding trade receivables.

Other receivables include amounts receivable from the customers of non-mining subsidiaries of the Group in respect of sale of other goods, electricity and other services. The procedures of accepting a new customer include check by a security department and responsible on-site management for a business reputation, licenses and certification, credit worthiness and liquidity.

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As at 31 December 2006 the Group has loans under repurchase agreement managing by the Group's agent Rosbank.

The Group has a concentration of cash and cash equivalents with a related party commercial bank, that as at 31 December 2006 and 2005 represented 5 % and 94% of total cash and cash equivalents, respectively.

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

#### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting process and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The maturity profile of the Group's financial liabilities as at 31 December 2006 and 2005 based on contractual payments is presented in notes 28 and 29.

#### **Fair value of financial instruments**

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of financial assets (refer to notes 19 and 21) and financial liabilities (refer to notes 28 and 29) recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature.

### **35. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

#### **Dividends**

On 29 June 2007 the Company declared a dividend of RUR 3.23 (USD 0.13) per share for the year ended 31 December 2006. Dividends in the amount of USD 21,722 thousand (net of USD 2,147 thousand attributable to treasury shares) were paid to shareholders on 31 August 2007.

On 26 June 2008, the Company declared a final dividend in respect of the year ended 31 December 2007 in the amount of RUR 2.95 (USD 0.13) per share. Dividends in the amount of USD 22,258 thousand (net of USD 1,559 thousand attributable to treasury shares) were paid to shareholders on 31 August 2008.

#### **Disposal of subsidiary**

On 12 April 2007 the Group disposed of its investment in CJSC "Sibzolorazvedka" for a cash consideration of USD 58 thousand and resulted in a gain of USD 754 thousand.

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#### **Share option plan**

On 3 April 2007, the Board of Directors of the Company approved an option plan under which certain senior executives and directors of the Group may acquire up to 9,531,380 of ordinary shares of the Company. The total fair value of the options granted was USD 132,548 thousand, which was recognised at the date of grant as the options were fully vested. The total fair value was recorded as an expense in selling, general and administrative expenses in the 2007 consolidated income statement.

In July 2007 the Group's management exercised their options for total cash consideration of USD 64,051 thousand. The total number of shares acquired equalled to 4,575,065 resulting in a decrease in treasury shares of USD 265,107 thousand and decrease in additional paid-in-capital of USD 72,496 thousand

In February 2008 the Group's management exercised their options in respect of the share option plan. 95,314 treasury shares of the Company were sold for a total cash consideration USD 1,334 thousand. This transaction resulted in a decrease of treasury shares by USD 5,523 thousand and decrease of additional paid-in capital by USD 1,510 thousand.

#### **Increase of ownership in subsidiaries**

On 7 September 2007, the Group acquired 100% of additional shares issued by OJSC "Matrosov Mine" ("Matrosov Mine") for a cash consideration of USD 72,085 thousand (at 7 September 2007 exchange rate), bringing its ownership in the company to 94.8%. This transaction resulted in an increase of minority interest by USD 2,171 thousand.

On 18 February 2008, the Group acquired an additional 0.3% shares of OJSC "Aldanzoloto GRK" for cash consideration of USD 292 thousand, increasing its ownership in this company to 100%. This transaction resulted in a decrease of minority interest by USD 15 thousand.

On 14 May 2008, the Group acquired an additional 2.7% shares of OJSC "Matrosov Mine" for cash consideration of USD 20,925 thousand, increasing its ownership in this company to 97.5%. This transaction resulted in a decrease of minority interest by USD 10,058 thousand. In October 2008 the Group acquired outstanding 2.5% shares of "Matrosov Mine" for a cash consideration of USD 17,131 thousand.

#### **Acquisition of exploration licenses**

On 4 March 2008 LLC "Magadan Exploration", a subsidiary of the Group, acquired a license for geological research, exploration and production of bedrock silver and by-product components at Doroninskoye area in Magadan region. Total consideration paid for the license amounted to USD 780 thousand.

In July 2008 a subsidiary of the Company acquired a license for exploration and gold extraction from stockpiles. Total consideration paid for the license amounted to USD 50,000 thousand.

#### **Sale of investment in OJSC "Vysochaishy"**

In July 2008 the Company sold investments in securities consists of 350,000 ordinary shares of OJSC "Vysochaishy" for USD 29,390 thousand.

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)**

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#### **Approval of the potential acquisition**

On 30 September 2008 the Board of directors of the Company approved the potential acquisition by an indirect, wholly owned subsidiary of 50.1% of the issued and to be issued share capital of KazakhGold Group Limited (“KazakhGold”). Consideration was further determined in the form of shares in amount of 0.423 the Company’s ordinary shares for each KazakhGold share. The acquisition, if made, would be effected by way of a partial offer (the “Possible Partial Offer”). There can be no certainty that any partial offer for shares in KazakhGold will be made. The final announcement of the Possible Partial Offer would be subject to certain previously announced pre-conditions, including the approval of the structure of the Possible Partial Offer by the UK Panel on Takeovers and Mergers and certain other conditions and regulatory approvals. The Company reserves the right to waive, in whole or in part, any of the pre-conditions at its sole discretion.

#### **Recent volatility in global and Russian financial markets**

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these condensed consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that certain assets may be not be recovered at their carrying amount in the ordinary course of business. In addition, in development of certain of the Group’s critical estimates and areas of critical judgment, management uses projected cash flows. These projected cash flows are dependent on various assumptions including historical experience and growth rates. As a result of the volatility in the global and Russian financial markets, management’s estimates may change and result in a significant impact on the Group.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (in thousands of US Dollars)

### 36. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	Shares held		Effective % held <sup>1</sup>	
			2006	2005	2006	2005
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	419	-	100.0	-
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	88,021,708,092	88,021,708,092	99.2	99.2
OJSC "Lenzoloto"	Russian Federation	Market agent	1,014,535	931,035	68.2	68.2
LLC "Lenskaya Zolotorudnaya Company"	Russian Federation	Market agent	-	-	100.0	100.0
CJSC "ZDK Lenzoloto" <sup>2</sup>	Russian Federation	Mining	432,431,903	432,431,903	68.2	68.2
CJSC "Lensib"	Russian Federation	Mining	610	610	41.6	41.6
CJSC "Svetliy"	Russian Federation	Mining	840	840	57.3	57.3
CJSC "Marakan"	Russian Federation	Mining	840	840	57.3	57.3
CJSC "Nadezhdinskoe"	Russian Federation	Mining	840	840	57.3	57.3
CJSC "Dalnaya Taiga"	Russian Federation	Mining	820	820	55.9	55.9
CJSC "Sevzoto"	Russian Federation	Mining	650	650	44.3	44.3
CJSC "Charazoto"	Russian Federation	Mining	640	640	43.6	43.6
CJSC "GRK Sukhoy Log"	Russian Federation	Mining	540	100	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	424,617	232,747	93.3	88.4
CJSC "Tonoda"	Russian Federation	Mining (development stage)	12,100	9,100	100.0	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	100	100	100.0	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	584,986	250,000	100.0	50.0
OJSC "Yakut Mining Company"	Russian Federation	Mining (development stage)	735,000	735,000	100.0	100.0
LLC "GRK BarGold"	Russian Federation	Mining (development stage)	-	-	100.0	-
CJSC "Vitimenergo"	Russian Federation	Electricity production	225,764	355,679	100.0	100.0
CJSC "Mamakanskaya GES" <sup>2</sup>	Russian Federation	Electricity production	128,915	-	100.0	-
CJSC "Vitimenergosbyt" <sup>2</sup>	Russian Federation	Electricity sales	1,000	-	100.0	-
LLC "Vitimservice"	Russian Federation	Procurement services	-	-	100.0	100.0
LLC "Lenrem"	Russian Federation	Repair services	-	-	68.2	68.2
LLC "LZDT"	Russian Federation	Transportation	-	-	100.0	100.0
LLC "Lengeo"	Russian Federation	Geological research	-	-	100.0	100.0
OJSC "Sibzolotorazvedka"	Russian Federation	Geological research	1,497	1,497	100.0	100.0
LLC "MGRP" <sup>2</sup>	Russian Federation	Geological research	-	-	100.0	-
LLC "KGRP" <sup>2</sup>	Russian Federation	Geological research	-	-	100.0	-
Jenington International Inc.	British Virgin Islands	Market agent	1,000,000	1,000,000	100.0	100.0
Polyus Investments Ltd. <sup>2</sup>	Cyprus	Market agent	1,000	-	100.0	-

<sup>1</sup> Effective % held by the Company, including holdings by other subsidiaries of the Group.

<sup>2</sup> Established by the Group in 2006.