Polyus Gold

Consolidated financial statements
for the year ended 31 December 2006

POLYUS GOLD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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

The following statement, which should be read in conjunction with the independent auditors' report, 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 the results of its operations, cash flows and changes in equity for the year 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 judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated 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 such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2006 were approved on 5 June 2007 by:

Skitovich P. G.	**Steschenko D. A.**
General Director	Chief Accountant

Moscow, Russia
5 June 2007

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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" (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial position of the Group as at 31 December 2006, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

As discussed in note 1, the Company was incorporated in March 2006 as a part of a spin-off by Open Joint Stock Company "Mining and Metallurgical Company "Norilsk Nickel" ("Norilsk Nickel") of its gold mining business. In connection with the spin-off, all shares of Closed Joint Stock Company "Gold Mining Company Polyus" (CJSC "Polyus") were contributed into the Company. Assets, liabilities and results of operations of the Group are presented in the accompanying consolidated financial statements as if the Company had existed from the date when CJSC "Polyus" was acquired by Norilsk Nickel.

Deloitte & Touche

Moscow, Russia
5 June 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousands of US Dollars)

	Notes	2006	2005
Sales		**734,559**	**473,184**
Cost of sales	6	(422,512)	(269,025)
Gross profit		**312,047**	**204,159**
Selling, general and administrative expenses	10	(85,086)	(58,263)
Research and exploration expenses		(7,861)	(1,886)
Other net operating expenses	11	(7,028)	(24,989)
Operating profit		**212,072**	**119,021**
Net finance costs	12	(5,217)	(3,472)
Net income from investments	13	1,019,790	51,749
Other non-operating expenses	14	(3,481)	(3,567)
Foreign exchange gain/(loss), net		7,161	(377)
Profit before income tax		**1,230,325**	**163,354**
Income tax	15	(73,087)	(50,929)
Profit for the year		**1,157,238**	**112,425**
Attributable to:			
Shareholders of the parent company		1,157,970	112,881
Minority interest		(732)	(456)
		1,157,238	**112,425**
Earnings per share			
Basic and diluted (US cents)	16	76	-

POLYUS GOLD

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

	Notes	2006	2005*
ASSETS			
Non-current assets		**1,780,240**	**1,132,525**
Property, plant and equipment	17	1,768,447	1,112,445
Investments in securities and other financial assets	18	848	4,070
Long-term portion of reimbursable value added tax		10,945	16,010
Current assets		**1,863,762**	**2,480,353**
Inventories	19	168,829	123,616
Advances to suppliers and other receivables	20	39,234	25,409
Other current assets	21	123,073	72,664
Investments in securities and other financial assets	18	1,238,429	2,230,256
Cash and cash equivalents	22	294,197	28,408
TOTAL ASSETS		**3,644,002**	**3,612,878**
EQUITY AND LIABILITIES			
Share capital and reserves		**3,117,506**	**3,138,195**
Share capital	23	6,871	5
Additional paid-in capital	24	2,190,661	1,837,330
Treasury shares	23	(995,557)	-
Investment revaluation reserve		19,620	816,709
Translation reserve		260,116	8,350
Retained earnings		1,603,386	446,169
Equity attributable to shareholders of the parent company		**3,085,097**	**3,108,563**
Minority interest	25	32,409	29,632
Non-current liabilities		**339,415**	**237,444**
Deferred tax liabilities	26	266,100	171,345
Environmental obligations	27	71,513	60,828
Obligations under finance lease	28	1,601	4,025
Other long-term liabilities		201	1,246
Current liabilities		**187,081**	**237,239**
Current portion of obligations under finance lease	28	2,885	2,844
Deferred consideration for acquisition of subsidiaries	5	75,833	137,650
Short-term borrowings	29	12,116	23,243
Trade and other payables	30	70,513	50,329
Taxes payable	31	25,734	23,173
TOTAL EQUITY AND LIABILITIES		**3,644,002**	**3,612,878**

* The corresponding figures for the year ended 31 December 2005 reflect adjustments made in connection with the completion of initial accounting of acquisition of subsidiaries in accordance with IFRS 3 “Business Combinations” (refer to note 5).

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousands of US Dollars)

	Notes	2006	2005
Operating activities			
Profit before income tax		**1,230,325**	**163,354**
Adjustments for:			
Amortisation and depreciation		79,025	50,993
Net finance costs		5,217	3,472
Loss on disposal of property, plant and equipment		1,494	4,848
Change in allowance for doubtful debts		2,874	954
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
Net income from investments		(1,019,790)	(51,749)
Foreign exchange (gain)/loss, net		(7,161)	377
Other		848	(1,126)
Operating profit before working capital changes		**303,347**	**186,164**
Increase in inventories		(32,919)	(44,302)
Increase in advances to suppliers and other receivables		(13,973)	(4,361)
Increase in other current assets and value added tax, excluding income tax prepaid		(32,285)	(29,592)
Increase/(decrease) in trade and other payables		19,515	(6,881)
Decrease in decommissioning obligations		(6,048)	-
Decrease in taxes payable, excluding income tax		(2,796)	(6,311)
Cash flows from operations		**234,841**	**94,717**
Interest paid		(3,552)	(2,438)
Income tax paid		(89,897)	(45,600)
Net cash inflow from operating activities		**141,392**	**46,679**
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	5	(369,484)	(153,560)
Proceeds from disposal of subsidiary, net of cash disposed of		-	(107)
Purchase of property, plant and equipment		(261,856)	(140,839)
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.		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
Net cash inflow/(outflow) from investing activities		**701,185**	**(1,302,443)**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)
(in thousands of US Dollars)

	Notes	2006	2005
Financing activities			
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		(995,557)	-
Proceeds from increase in share capital of a subsidiary		18,445	-
Proceeds from issue of additional shares of CJSC "Polyus"		-	1,299,745
Cash contribution by Norilsk Nickel in connection with the spin-off	1	360,197	-
Net cash (outflow)/inflow from financing activities		**(632,895)**	**1,269,846**
Effect of translation to presentation currency		56,107	1,311
Net increase in cash and cash equivalents		**265,789**	**15,393**
Cash and cash equivalents at beginning of the year		**28,408**	**13,015**
Cash and cash equivalents at end of the year	22	**294,197**	**28,408**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(in thousands of US Dollars)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Equity attributable to shareholders of the parent company	Minority interest	Total
Balance at 31 December 2004		**3**	**537,587**	**-**	**-**	**71,925**	**325,899**	**935,414**	**43,970**	**979,384**
Profit for the year		-	-	-	-	-	112,881	**112,881**	(456)	**112,425**
Minority interest in subsidiaries acquired	25	-	-	-	-	-	-	**-**	(5,390)	**(5,390)**
Net decrease in minority interest due to change of shareholding structure of subsidiaries	25	-	-	-	-	-	7,389	**7,389**	(7,389)	**-**
Increase in fair value of available-for-sale investments, net of deferred tax		-	-	-	816,709	-	-	**816,709**	-	**816,709**
Issue of additional shares of CJSC “Polyus”		2	1,299,743	-	-	-	-	**1,299,745**	-	**1,299,745**
Effect of translation to presentation currency		-	-	-	-	(63,575)	-	**(63,575)**	(1,103)	**(64,678)**
Balance at 31 December 2005		**5**	**1,837,330**	**-**	**816,709**	**8,350**	**446,169**	**3,108,563**	**29,632**	**3,138,195**
Profit for the year		-	-	-	-	-	1,157,970	**1,157,970**	(732)	**1,157,238**
Recognised gain on available-for sale investments sold during the year		-	-	-	(816,709)	-	-	**(816,709)**	-	**(816,709)**
Issue of shares of OJSC “Polyus Gold”		6,866	353,331	-	-	-	-	**360,197**	-	**360,197**
Buy back of issued shares	23	-	-	(995,557)	-	-	-	**(995,557)**	-	**(995,557)**
Increase in fair value of available-for-sale investments	18	-	-	-	19,620	-	-	**19,620**	-	**19,620**
Increase in minority interest due to increase in share capital of a subsidiary	25	-	-	-	-	-	(753)	**(753)**	753	**-**
Effect of translation to presentation currency		-	-	-	-	251,766	-	**251,766**	2,756	**254,522**
Balance at 31 December 2006		**6,871**	**2,190,661**	**(995,557)**	**19,620**	**260,116**	**1,603,386**	**3,085,097**	**32,409**	**3,117,506**

1. GENERAL

Organisation

Open Joint Stock Company "Polyus Gold" (the "Company") was incorporated in Moscow, Russian Federation, on 17 March 2006. The Company was formed as a result of a spin-off by OJSC "Mining and Metallurgical Company "Norilsk Nickel" ("Norilsk Nickel") of its gold mining business comprising Closed Joint Stock Company "Gold Mining Company Polyus" (CJSC "Polyus") and its subsidiaries. In connection with the spin-off Norilsk Nickel contributed into the Company 100% of CJSC "Polyus" shares and cash in the amount of USD 360,197 thousand (at 17 March 2006 exchange rate).

The principal activities of the Company and its subsidiaries (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research and exploration works, primarily at the Natalka field located in the Magadan region 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 37.

The immediate shareholders of the Company as at 31 December 2006 are presented in note 23.

At 31 December 2006 the ultimate controlling shareholders of the Group were Mr. Vladimir Potanin and Mr. Mikhail Prokhorov.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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:

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations";
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories"; and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting for change in reporting entity

The spin-off of Norilsk Nickel's gold mining business, which involved the contribution of all of CJSC "Polyus" shares into the newly created Company, was accounted for in the consolidated financial statements for the year ended 31 December 2006 as a change in reporting entity. Assets, liabilities and results of operations of the Group are presented as if the Company had existed from the date when CJSC "Polyus" was acquired by Norilsk Nickel.

The following principles were used in the preparation of the consolidated financial statements for the year ended 31 December 2006:

- property, plant and equipment of the Company were recorded at the same carrying values as in the consolidated financial statements of Norilsk Nickel prior to the spin-off, including mineral rights recognised on acquisition of CJSC “Polyus”;
- at 31 December 2005, share capital represented share capital of CJSC “Polyus”;
- additional paid-in-capital comprised share premium of CJSC “Polyus” from the date of incorporation till the spin-off date; increase in equity on recognition of mineral rights arose on the acquisition of CJSC “Polyus” by Norilsk Nickel; and additional cash contribution by Norilsk Nickel into the Company in connection with the spin-off transaction;
- all other financial statements’ elements as at 31 December 2005, not affected by the accounting principles described above, 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.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised standards and interpretations that are relevant to its operations. The adoption of these new and revised standards and interpretations has not resulted in significant changes to the Group’s accounting policies.

New accounting pronouncements

The following new or revised standards and interpretations issued by the IASB and IFRIC have been issued at the date of authorisation of the Group’s consolidated financial statements for the year ended 31 December 2006 that are mandatory for adoption in the annual accounting periods beginning on or after 1 January 2007:

- IAS 1 Amendment “Capital Disclosures”;
- IAS 23 Amendment “Required Capitalisation of Borrowing Costs”;
- IFRS 7 “Financial Instruments: Disclosures”;
- IFRS 8 “Operating Segments”;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”;
- IFRIC 8 “Scope of IFRS 2”;
- IFRIC 9 “Reassessment of Embedded Derivatives”;
- IFRIC 10 “Interim Financial Reporting and Impairment”;
- IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”;
- IFRIC 12 “Service Concession Arrangements”.

As a result of the adoption of IFRS 7, management anticipates the expansion of the required disclosures to be provided in the consolidated financial statements for future periods regarding the Group’s financial instruments.

The impact of the adoption of all other standards and interpretations in preparation of the consolidated financial statements in future periods is currently being assessed by management, however no material effect on the Group’s accounting policies is anticipated.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group incorporate 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.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent company.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of acquisition and the minority's share of changes in equity since that date. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted for based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which such circumstances are identified.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Accounting for acquisitions

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

Goodwill in respect of a mining subsidiary, which represents mineral resources, is amortised on a systematic basis to recognise the depletion of the resources over the life of mine. Goodwill in respect of non-mining subsidiaries is disclosed as a goodwill, and goodwill relating to associates is included within the carrying value of the investments in associates.

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement in the period during which the circumstances are identified and is not subsequently reversed.

On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the consolidated income statement immediately.

Functional and presentation currency

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

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

The translation from RUR (functional currency) into USD (presentation currency) is made using exchange rates as quoted by the Central Bank of the Russian Federation, as follows:

- all assets and liabilities, both monetary and non-monetary are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognised as separate component in equity.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Exchange rates were as follows (RUR to 1 US Dollar):

	2006	2005
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 currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the income statement.

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 expenditures are capitalised when it is expected that they will be recouped by future exploitation, sale, or when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

Capitalised exploration and evaluation expenditures are transferred to mining assets when a mine, related to an area of interest, reaches commercial production quantities.

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.

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

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. 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 expenditures

Certain Group's surface (alluvial) mining operations are located in regions with extreme weather conditions and gold at these locations is only mined during certain months of the year. Costs incurred in preparation for future seasons are deferred. Such expenditures 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, less net revenue from sales of by-products and valuation of by-product inventories on hand, by the saleable mine output of gold.

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

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

Work-in-process

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

Stores and materials

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

Cash and cash equivalents

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

Financial instruments

Financial instruments recognised on the Group's balance sheet mainly include investments, advances to suppliers and other receivables, trade and other payables and borrowings. Financial instruments are initially measured at fair value, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement.

On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Investments

Investments are classified into the following categories:

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

Classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

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

Investments at fair value through profit and loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

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

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

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

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

Advances to suppliers and other receivables

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

Trade and other payables

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

Borrowings

Borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently, borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Interest on borrowings

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

Other interest is expensed in the income statement as and when incurred.

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 are 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 as incurred. The Group does not maintain any separate retirement benefit plans.

Income tax

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred tax is also dealt with in equity.

Revenue recognition

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

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. The unwinding of restoration costs are expensed over the life of mine.

Ongoing restoration costs are expensed when incurred.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 judgements 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; recognition of exploration and evaluation assets; impairment of tangible assets; calculation of allowances; initial accounting for acquisition of subsidiaries; environmental obligations and tax matters.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised 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.

Exploration and evaluation assets

Management's judgement 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 unless evaluation activities have reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

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 judgement 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 ageing 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.

Initial accounting for acquisition of subsidiaries

The initial accounting for acquisition of subsidiaries involves determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired companies and the cost of acquisition. When initial accounting can be determined only provisionally by the end of the period in which acquisition is effected, the Group accounts for the acquisition using provisional values. Significant management's judgements and estimates are involved in determining the provisional values of assets, liabilities and contingent liabilities of the acquired companies. Adjustments to those provisional values as a result of completing the initial accounting for acquisitions in the following accounting periods might be material.

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.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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.

(in thousands of US Dollars)

4. RECLASSIFICATIONS

Certain corresponding figures, previously presented in the consolidated financial statements for the year ended 31 December 2005, have been reclassified.

	2005		
	After reclassifications	**Before reclassifications**	**Difference**
Share capital and reserves			
Additional paid-in capital	1,837,330	1,819,839	17,491
Translation reserve	8,350	-	8,350
Retained earnings	446,169	472,010	(25,841)
			-

Management has made a decision to change the presentation of exchange differences arising on translation of the consolidated financial statements from functional to presentation currency in order to better comply with the requirements of IAS 21 "The Effect of Changes in Foreign Exchange Rates". All exchange differences resulting from such translation have been now presented as a separate component in equity.

Other reclassifications of corresponding figures, individually or in aggregate, were not material to the consolidated financial statements of the Group.

5. ACQUISITIONS

2005

Yakut gold mining assets

In September 2005, 99.2% of issued ordinary shares of OJSC "Aldanzoloto GRK", 50.0% of the issued ordinary shares of OJSC "South-Verkhoyansk Mining Company" and 100.0% of the issued ordinary shares of OJSC "Yakut Mining Company" (collectively "Yakut gold mining assets") were acquired by the Group from the third parties for an estimated consideration of USD 255,000 thousand, of which USD 115,000 thousand was satisfied by cash in 2005. The remaining part of the estimated consideration of USD 140,000 thousand 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 valuation of the acquired net assets and negotiations in respect of consideration. According to the final agreement, the amount of outstanding consideration was determined to be USD 137,650 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 and contingent liabilities and deferred consideration were recognised.

(in thousands of US Dollars)

	Provisional value	Fair value
OJSC "Aldanzoloto GRK"		
Mineral rights	14,503	85,220
Property, plant and equipment, excluding mineral rights	80,759	80,759
Other current assets	30,071	30,071
Loans and borrowings	(10,457)	(10,457)
Trade and other payables	(29,709)	(29,709)
Deferred tax liabilities	(14,900)	(31,872)
Net assets at the date of acquisition	**70,267**	**124,012**
Minority interest	(474)	(474)
Group's share of net assets acquired	**69,793**	**123,538**
Total consideration	**69,793**	**123,538**
Deferred 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
Net cash outflow on acquisition of subsidiaries	**(49,726)**	**(49,726)**
OJSC "South-Verkhoyansk Mining Company"		
Mineral rights	257,279	182,994
Property, plant and equipment, excluding mineral rights	13,522	13,522
Other current assets	14,235	14,235
Loans and borrowings	(19,722)	(19,722)
Trade and other payables	(44,033)	(44,033)
Deferred tax liabilities	(57,699)	(40,503)
Net assets at the date of acquisition	**163,582**	**106,493**
Group's share of net assets acquired	**163,582**	**106,493**
Total consideration	**163,582**	**106,493**
Deferred consideration	(113,582)	(56,493)
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
Net cash outflow on acquisition of subsidiaries	**(49,819)**	**(49,819)**

(in thousands of US Dollars)

	Provisional value	Fair value
OJSC "Yakut Mining Company"		
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)
Net assets at the date of acquisition	**21,625**	**22,619**
Group's share of net assets acquired	**21,625**	**22,619**
Total consideration	**21,625**	**22,619**
Deferred consideration	(6,625)	(7,619)
Satisfied by cash	(15,000)	(15,000)
Net cash outflow arising on acquisition:		
Cash consideration	(15,000)	(15,000)
Net cash outflow on acquisition of subsidiaries	**(15,000)**	**(15,000)**

Fair values presented above reflected the effects of finalising the acquisition accounting. Such amounts differ from the provisional amounts previously reported. The corresponding figures in the consolidated balance sheet as at 31 December 2005 have been updated 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 17).

(in thousands of US Dollars)

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 "Sibzolotorazvedka" ("Sibzolotorazvedka") 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 Sibzolotorazvedka were included in the Group's mining assets and subsequently impaired.

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

Increase of ownership interest in subsidiaries

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.

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. Acquired mineral rights and attributable deferred tax liabilities amounted to USD 5,449 thousand and USD 1,308 thousand, respectively. These transactions resulted in a decrease of minority interest by USD 125 thousand.

(in thousands of US Dollars)

2006

Yakut gold mining assets

During 2006 Group paid USD 61,817 thousand of deferred consideration for acquisition of Yakut gold mining assets outstanding as at 31 December 2005.

In December 2006, the Group acquired from related parties the remaining 50.0% of the issued share capital of OJSC "South-Verkhoyansk Mining Company" ("SVMC") for a cash consideration of USD 300,167 thousand. During 2006 the Group approved a new development plan for Nezhdaninskoe deposit, the main ore deposit of SVMC, and as at 31 December 2006 was in the process of reassessment of its ore reserves. Acquisition of the remaining share in SVMC was accounted for in the consolidated financial statements using provisional values. Provisional amounts of mineral rights and attributable deferred tax liabilities acquired amounted to USD 370,684 thousand and USD 88,964 thousand, respectively.

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.

At 31 December 2006 the acquisition of GRK BarGold was accounted for in the consolidated financial statements using provisional values.

	Provisional value
Mineral rights	9,874
Property, plant and equipment, excluding mineral rights	602
Loans and borrowings	(596)
Deferred tax liabilities	(2,380)
Net assets at the date of acquisition	**7,500**
Group's share of net assets acquired	**7,500**
Total consideration	**7,500**
Satisfied by cash	(7,500)
Net cash outflow arising on acquisition:	
Cash consideration	(7,500)
Net cash outflow on acquisition of subsidiaries	**(7,500)**

Matrosov Mine

In June 2006, the Group acquired 100% of additional shares issued by OJSC "Matrosov Mine" ("Matrosov Mine"), for a cash consideration of USD 49,917 thousand, bringing its total share in the company to 93.3%. This transaction resulted in an increase of minority interest by USD 753 thousand.

(in thousands of US Dollars)

	2006	2005

6. COST OF SALES

	2006	2005
Cash operating costs	348,212	232,373
On-mine costs (refer to note 7)	212,623	146,866
Smelting and concentrating costs (refer to note 8)	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 9)	73,718	45,251
Change in provision for land restoration (refer to note 27)	7,318	2,088
Increase in metal inventories	(6,736)	(10,687)
Total	**422,512**	**269,025**

7. ON-MINE COSTS

	2006	2005
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
Total (refer to note 6)	**212,623**	**146,866**

8. SMELTING AND CONCENTRATING COSTS

	2006	2005
Consumables and spares	45,151	33,909
Labour	26,550	12,784
Utilities	13,748	4,793
Sundry smelting and concentrating costs	4,317	1,050
Total (refer to note 6)	**89,766**	**52,536**

9. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2006	2005
Mining	50,209	36,836
Smelting and concentrating	23,509	8,415
Total (refer to note 6)	**73,718**	**45,251**

(in thousands of US Dollars)

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Salaries	47,671	33,183
Taxes other than mining and income taxes	11,322	4,685
Professional services	7,021	3,563
Depreciation	5,307	5,742
Rent expenses	1,445	1,710
Bank charges	1,621	973
Communication services	1,566	950
Repair and maintenance	1,279	3,133
Other	7,854	4,324
Total	**85,086**	**58,263**

11. OTHER NET OPERATING EXPENSES

	2006	2005
Change in allowance for doubtful debts	2,874	954
Change in allowance for reimbursable value added tax	2,814	1,340
Loss on disposal of property, plant and equipment	1,494	4,848
Tax fines and penalties	718	1,872
Net operating loss from non-mining activities	689	2,050
Impairment of property, plant and equipment	383	11,613
Release of decommissioning obligations	(2,094)	-
Other	150	2,312
Total	**7,028**	**24,989**

12. NET FINANCE COSTS

	2006	2005
Interest on borrowings	2,874	2,744
Gain on revaluation of borrowings denominated in foreign currencies	(1,236)	(114)
Unwinding of discount on decommissioning obligations (refer to note 27)	3,579	842
Total	**5,217**	**3,472**

13. NET INCOME FROM INVESTMENTS

	2006	2005
Gain on disposal of investments and other financial assets	987,696	2,607
Income accrued on deposits	93,697	4,843
Interest income on promissory notes	13,919	38,540
Dividend income	6,197	6,062
Loss on revaluation of investments denominated in foreign currencies	(82,321)	(263)
Share of post-acquisition losses of associates	-	(40)
Other	602	-
Total	**1,019,790**	**51,749**

Gain on disposal of investments and other financial assets included gain on sale of investment in Gold Fields Ltd. in the amount of USD 980,462 thousand.

(in thousands of US Dollars)

	2006	2005

14. OTHER NON-OPERATING EXPENSES

	2006	2005
Donations	1,768	1,199
Maintenance of social infrastructure	558	406
Other	1,155	1,962
Total	**3,481**	**3,567**

15. INCOME TAX

	2006	2005
Current tax expense	84,718	60,425
Deferred tax benefit (refer to note 26)	(11,631)	(9,496)
Total	**73,087**	**50,929**

The corporate income tax rates in the countries where the Group has a taxable presence are as follows:

	2006	2005
Russian Federation	24%	24%
British Virgin Islands	0%	0%
Cyprus	0%	n/a

A reconciliation of theoretical income tax, calculated 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:

	2006	2005
Profit before income tax	**1,230,325**	**163,354**
Theoretical income tax at 24%	295,278	39,205
Impact of specific tax rates	(233,307)	(1,383)
Taxable losses of subsidiaries not carried forward	8,741	5,660
Tax effect of non-deductible expenses and other permanent differences	2,375	7,447
Income tax at effective rate of 6% (2005: 31%)	**73,087**	**50,929**

16. EARNINGS PER SHARE

	2006	2005
Profit attributable to shareholders of the parent company for the period from 17 March to 31 December 2006	142,099	-
Weighted average number of ordinary shares in issue from 17 March to 31 December 2006	187,645,115	-
Basic and diluted earnings per share (US cents)	**76**	**-**

Earnings per share were calculated based on the profit attributable to shareholders of the parent company for the period subsequent to the incorporation of the Company, and the weighted average number of ordinary shares in issue during that period. Such earnings per share amount may not be comparable to earnings per share amounts determined in future reporting periods.

(in thousands of US Dollars)

17. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost					
Balance at 31 December 2004	**24,781**	**596,060**	**36,690**	**51,632**	**709,163**
Additions	35,735	43,012	3,885	65,108	**147,740**
Acquired on acquisition of subsidiaries	-	420,877	1,044	7,165	**429,086**
Transfers from capital construction-in-progress	-	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	(1,506)	(26,638)	(1,406)	(2,729)	**(32,279)**
Balance at 31 December 2005	**59,010**	**1,058,034**	**40,838**	**98,603**	**1,256,485**
Additions	56,600	92,283	7,651	108,484	**265,018**
Acquired on acquisition of subsidiaries	602	380,558	-	-	**381,160**
Transfers from capital construction-in-progress	-	46,556	-	(46,556)	**-**
Disposals	-	(15,895)	(1,728)	(3,356)	**(20,979)**
Effect of translation to presentation currency	7,342	102,853	3,994	11,083	**125,272**
Balance at 31 December 2006	**123,554**	**1,664,389**	**50,755**	**168,258**	**2,006,956**
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2004	**-**	**(81,214)**	**(2,673)**	**-**	**(83,887)**
Charge for the year	-	(52,422)	(3,704)	-	**(56,126)**
Eliminated on 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**
Balance at 31 December 2005	**-**	**(132,650)**	**(6,126)**	**(5,264)**	**(144,040)**
Charge for the year	-	(79,119)	(6,466)	-	**(85,585)**
Eliminated on 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)**
Balance at 31 December 2006	**(119)**	**(219,232)**	**(13,405)**	**(5,753)**	**(238,509)**
Net book value					
31 December 2005	**59,010**	**925,384**	**34,712**	**93,339**	**1,112,445**
31 December 2006	**123,435**	**1,445,157**	**37,350**	**162,505**	**1,768,447**

Mining assets at 31 December 2006 included mineral rights of USD 897,163 thousand (31 December 2005: USD 489,729 thousand).

Amortisation and depreciation capitalised during the year ended 31 December 2006 amounted to USD 6,560 thousand (2005: USD 5,133 thousand).

At 31 December 2006 the carrying amount of the Group's machinery and equipment included USD 5,087 thousand (31 December 2005: USD 3,697 thousand) in respect of assets held under finance leases (refer to note 28).

(in thousands of US Dollars)

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2006	2005
Non-current		
Loans advanced	445	347
Equity investments available-for-sale	357	3,339
Other	46	384
Total non-current	**848**	**4,070**
Current		
Equity investments available-for-sale	379,620	1,735,987
Bank deposits	364,438	6,997
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
Other	3,552	99
Total current	**1,238,429**	**2,230,256**

At 31 December 2006 equity investments available-for-sale represented investment in shares of 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 equity investments available-for-sale included investment in shares of Gold Fields Ltd. (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.

Bank deposits at 6-7.25% per annum were denominated in RUR and mature before September 2007.

Investments in listed companies held for trading and loans under repurchase agreements were acquired by Rosbank, a related party, on behalf of the Group under asset management agreements. The principal amounts invested by the Group of USD 100,641 thousand and USD 189,890 thousand, respectively, are not guaranteed by the Bank.

Promissory notes at 6-10.4% per annum were purchased from related parties and are repayable on demand.

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

(in thousands of US Dollars)

19. INVENTORIES

	2006	2005
Work-in-process at production cost	40,706	30,470
Refined gold at net production cost	2	1,306
Total metal inventories	**40,708**	**31,776**
Stores and materials at cost	129,094	92,472
Less: Allowance for obsolescence	(973)	(632)
Total	**168,829**	**123,616**

20. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

	2006	2005
Advances to suppliers	28,758	17,077
Other receivables from non-mining activities	20,389	16,047
	49,147	**33,124**
Less: Allowance for doubtful debts	(9,913)	(7,715)
Total	**39,234**	**25,409**

21. OTHER CURRENT ASSETS

	2006	2005
Reimbursable value added tax	101,178	57,281
Deferred expenditures	11,287	11,683
Income tax prepaid	8,228	1,434
Other taxes prepaid	2,380	2,266
Total	**123,073**	**72,664**

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

22. CASH AND CASH EQUIVALENTS

		2006	2005
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		409	502
Total		**294,197**	**28,408**

Bank deposits were denominated in USD and represented deposits in third party banks at interest rates of 5.18-5.8% per annum with maturity within three months after the reporting dates.

(in thousands of US Dollars)

23. 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.

During November 2006 the Company bought back 17,146,780 ordinary shares from shareholders for a total consideration USD 995,557 thousand. Treasury shares 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:

Shareholders	**Number of shares**	**% held**
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	24,965,220	14.4%
	173,480,967	**100.0%**

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.

24. ADDITIONAL PAID-IN CAPITAL

At 31 December 2006, additional paid-in capital of the Company comprised the share premium of CJSC "Polyus", accumulated from the date of incorporation till 17 March 2006, additional capital in respect of mineral rights recognised on acquisition of CJSC "Polyus" and its subsidiaries by Norilsk Nickel, and cash contributed by Norilsk Nickel in connection with the spin-off transaction in excess of nominal value of the Company's shares (refer to note 1).

25. MINORITY INTEREST

	2006	**2005**
Balance at beginning of the year	**29,632**	**43,970**
Net changes in minority interest due to change of shareholding structure of subsidiaries	753	(7,389)
Minority interest in subsidiaries acquired (refer to note 5)	-	(5,390)
Minority interest in net loss of subsidiaries for the year	(732)	(456)
Effect of translation to presentation currency	2,756	(1,103)
Balance at end of the year	**32,409**	**29,632**

(in thousands of US Dollars)

26. DEFERRED TAX LIABILITIES

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

	2006	2005
Net liability at beginning of the year	**171,345**	**100,096**
Recognised in the income statement for the year (refer to note 15)	(11,631)	(9,496)
Change in deferred tax liabilities (realised)/arising on revaluation of available-for-sale investments	(583)	551
Increase due to acquisition of subsidiaries (refer to note 5)	91,344	85,819
Decrease due to disposal of subsidiary	-	(1,193)
Effect of translation to presentation currency	15,625	(4,432)
Net liability at end of the year	**266,100**	**171,345**

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:

	2006	2005
Property, plant and equipment	268,637	174,616
Inventory valuation	4,080	122
Investments valuation	1,548	551
Accrued operating expenses	(6,324)	(2,334)
Valuation of receivables	(1,841)	(1,610)
Total	**266,100**	**171,345**

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).

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.

(in thousands of US Dollars)

27. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	2006	2005
Balance at beginning of the year	**53,072**	**7,851**
Acquired on acquisition of subsidiaries	-	18,232
Obligations raised (refer to note 17)	-	26,633
Repayment of decommissioning obligations	(3,954)	-
Release of decommissioning obligations (refer to note 11)	(2,094)	-
Unwinding of discount on decommissioning obligations (refer to note 12)	3,579	842
Effect of translation to presentation currency	4,877	(486)
Balance at end of the year	**55,480**	**53,072**

Provision for land restoration

	2006	2005
Balance at beginning of the year	**7,756**	**2,629**
Acquired on acquisition of subsidiaries	-	3,170
Charge to the income statement (refer to note 6)	7,318	2,088
Effect of translation to presentation currency	959	(131)
Balance at end of the year	**16,033**	**7,756**
Total environmental obligations	**71,513**	**60,828**

The principle assumptions used for the estimation of environmental obligations were as follows:

	2006	2005
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:

	2006	2005
Within one year	542	5,476
Due from second to fifth year	1,000	1,330
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
	71,513	**60,828**

(in thousands of US Dollars)

28. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
Amounts payable under finance lease:	**4,907**	**7,930**	**4,486**	**6,869**
Within one year (shown under current liabilities)	3,252	3,279	2,885	2,844
In the second to fifth year inclusive (shown under non-current liabilities)	1,655	4,651	1,601	4,025
Less: Future finance charges	(421)	(1,061)	n/a	n/a
Present value of lease obligations	**4,486**	**6,869**	**4,486**	**6,869**

The present value of lease obligations was estimated by discounting the future contractual cash flows using the market interest rates at inception date available to the Group for other borrowings. Assets subject to finance leases were included in property, plant and equipment.

The average lease term is 3.6 years. The 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. The fair value of the Group's lease obligations approximates their carrying amount.

29. SHORT-TERM BORROWINGS

	2006	**2005**
USD-denominated borrowings	9,458	9,457
RUR-denominated borrowings	2,020	2,142
RUR-denominated promissory notes	638	11,644
Total	**12,116**	**23,243**

All short-term borrowings were unsecured.
The interest rates vary as follows:

	2006	2005
USD-denominated borrowings	8.0-16.5%	8.0-16.5%
RUR-denominated borrowings	3.5-15.6%	14.0-15.5%
RUR-denominated promissory notes	7.0-14.5%	14.0%

(in thousands of US Dollars)

	2006	2005

30. TRADE AND OTHER PAYABLES

	2006	2005
Trade accounts payable	20,799	15,854
Accrued annual leave	14,316	9,907
Wages and salaries	9,255	5,192
Interest payable	6,277	6,745
Other creditors	19,866	12,631
Total	**70,513**	**50,329**

31. TAXES PAYABLE

	2006	2005
Income tax	7,519	8,283
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
Total	**25,734**	**23,173**

Contribution to the state 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).

(in thousands of US Dollars)

32. RELATED PARTIES

Related parties are considered to include shareholders, associates, entities under common ownership and control with the Group and key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Material transactions and balances with entities under common ownership and control with the Group not dealt with elsewhere in the consolidated financial statements were as follows:

	Transactions				Outstanding balances		
	Sale of gold to Rosbank	**Purchase of assets, supplies and services**	**Purchase of investments in SVMC**	**Interest received on short-term investments**	**Short-term investments**	**Cash deposits in Rosbank**	**Trade payables to Norilsk Nickel**
Year ended 31 December 2006							
By the Company	-	-	-	-	251,494	28	-
By other subsidiaries of the Group	437,096	103,429	300,167	10,370	415,203	14,088	6,779
Total	**437,096**	**103,429**	**300,167**	**10,370**	**666,697**	**14,116**	**6,779**
Year ended 31 December 2005							
By CJSC "Polyus"	145,185	31,427	-	42,235	483,468	15,804	1,769
By other subsidiaries of the Group	101,311	-	-	-	3,696	10,955	6,028
Total	**246,496**	**31,427**	**-**	**42,235**	**487,164**	**26,759**	**7,797**

Compensation of key management personnel

The remuneration of key management personnel of the Group for the year ended 31 December 2006 amounted to USD 9,322 thousand (2005: USD 8,782 thousand).

33. CONTINGENCIES

Insurance

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. However, management of the Group believes that the existing level of insurance coverage addresses the major risks that could have a material effect of the Group's operations and financial position.

Litigation

The Group has a large number of small claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

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

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

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regards to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposure at 31 December 2006 of approximately USD 1,368 thousand.

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.

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.

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

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

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. In 2006 favourable changes in market price of gold mitigated the adverse effect of appreciation of RUR against USD.

The Group does not use derivative financial instruments to offset its currency risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities when they fall due.

The Group's liquidity position is carefully monitored and managed. The Group makes use of a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

The Group does not enter into interest rate swap arrangements to manage its interest rate risk.

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group.

Although the Group sells all the gold produced to two customers, the Group is not economically dependant on these customers because of the high level of liquidity in the gold commodity market in the Russian Federation. Payment terms with the customers are such that credit risk is minimal.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management's valuation.

Advances to suppliers and other receivables, other current assets, cash equivalents and trade and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on borrowings are market related. Consequently the carrying values of these financial instruments approximate their fair values.

The fair value of lease obligations is estimated by discounting the future contractual cash flows using the market interest rates available to the Group in relation to other borrowings.

The fair values of financial instruments are estimates and do not necessarily reflect the cash amount had these instruments been liquidated at the date of valuation.

36. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Recommendation of final dividend

On 27 April 2007 the Board of Directors of the Company recommended a final dividend of RUR 3.23, or US cents 12 (at 31 December 2006 exchange rate) per share for the year ended 31 December 2006. Total amount of dividend to be paid is RUR 615,728 thousand, or USD 23,384 thousand (at 31 December 2006 exchange rate).

Disposal of subsidiary

On 12 April 2007 the Group disposed of its investment in CJSC "Sibzolotorazvedka" for a cash consideration of USD 58 thousand.

Incorporation of a new subsidiary

On 12 April 2007 a new subsidiary Open Joint Stock Company "Polyus Geologorazvedka" has been incorporated by the Company.

Approval of a share-based 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.

(in thousands of US Dollars)

37. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

			Shares held		Effective % held[1]	
Subsidiaries	**Country of incorporation**	**Nature of business**	**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"[2]	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"	Russian Federation	Electricity production	128,915	-	100.0	-
CJSC "Vitimenergosbyt"	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"[2]	Russian Federation	Geological research	-	-	100.0	-
LLC "KGRP"[2]	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.[2]	Cyprus	Market agent	1,000	-	100.0	-

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Established by the Group in 2006.