

Polyus Gold

**Consolidated financial statements
for the year ended 31 December 2007**

POLYUS GOLD

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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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 2007

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 2007 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 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 consolidated financial statements for the year ended 31 December 2007 were approved on 3 February 2009 by:



Ivanov E.I.
General Director



Ignatov O.V.
Deputy General Director

Moscow, Russia
3 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 sheet as at 31 December 2007, 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 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 2007, and the results of its operations and its cash flows for the year 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 change in accounting policy 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 6 June 2008 and our previous report was signed on that date.

Deloitte + Touche

Moscow, Russia
3 February 2009

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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	Notes	2007 As restated*	2006
Gold sales		849,023	734,559
Other sales		18,096	18,127
Total revenue		867,119	752,686
Cost of gold sales	7	(449,216)	(426,527)
Cost of other sales		(25,866)	(18,816)
Gross profit		392,037	307,343
Selling, general and administrative expenses	11	(261,776)	(79,678)
Research and exploration expenses		(6,217)	(7,574)
Other income	12	7,696	2,094
Other expenses	12	(18,025)	(14,108)
Finance costs	13	(6,629)	(6,453)
Income from investments	14	61,537	1,102,111
Foreign exchange gain/(loss), net	15	8,484	(75,344)
Profit before income tax		177,107	1,228,391
Income tax	16	(85,299)	(73,080)
Profit for the year		91,808	1,155,311
Attributable to:			
Shareholders of the parent company		85,809	1,155,725
Minority interest		5,999	(414)
		91,808	1,155,311
Earnings per share			
Basic and diluted (US cents)**	17	49	75

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

*The information for the year ended 31 December 2007 reflects adjustments made in connection with changes in accounting policies and a restatement (refer to 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.

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CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007 (in thousands of US Dollars)

	Notes	2007 As restated*	2006
ASSETS			
Non-current assets			
Property, plant and equipment	18	1,783,432	1,395,605
Deferred stripping costs		82,061	10,382
Investments in securities and other financial assets	19	2,147	1,995
Long-term portion of reimbursable value added tax	18	11,824	10,945
		1,879,464	1,418,927
Current assets			
Inventories	20	224,209	169,471
Reimbursable value added tax		108,926	101,178
Accounts receivable	21	13,477	11,876
Advances paid to suppliers	22	26,204	26,211
Investments in securities and other financial assets	19	1,270,918	1,238,429
Income tax prepaid		3,398	8,228
Other current assets	23	20,680	13,667
Cash and cash equivalents	24	226,174	294,197
		1,893,986	1,863,257
TOTAL ASSETS		3,773,450	3,282,184
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	25	6,871	6,871
Additional paid-in capital		2,118,165	2,190,661
Treasury shares	25	(730,450)	(995,557)
Investments revaluation reserve		36,907	19,620
Translation reserve		425,727	261,794
Retained earnings		1,404,554	1,342,638
Equity attributable to shareholders of the parent company		3,261,774	2,826,027
Minority interest		47,187	32,647
		3,308,961	2,858,674
Non-current liabilities			
Deferred tax liabilities	26	200,609	178,860
Environmental obligations	27	81,341	71,513
Other non-current liabilities		-	1,802
		281,950	252,175
Current liabilities			
Contingent consideration on acquisition of subsidiaries	6	22,197	60,087
Short-term borrowings	28	20,909	15,001
Trade payables	29	21,651	20,799
Other payables and accrued expenses	30	83,932	49,714
Income tax payable		12,663	7,519
Other taxes payable	31	21,187	18,215
		182,539	171,335
TOTAL LIABILITIES		464,489	423,510
TOTAL EQUITY AND LIABILITIES		3,773,450	3,282,184

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

* The information for the year ended 31 December 2007 reflects adjustments made in connection with reclassifications (refer to note 4), change in accounting policies and restatements (refer to note 5).

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CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	Notes	2007 As restated*	2006
Operating activities			
Profit before income tax		177,107	1,228,391
Adjustments for:			
Share option plan		132,548	-
Amortisation and depreciation		92,495	79,025
Expensed stripping cost		-	5,230
Finance costs		6,629	6,453
Loss on disposal of property, plant and equipment		6,421	1,494
Change in allowance for doubtful debts		991	1,288
Impairment of advances paid to suppliers (reversed)/recognised		(244)	1,586
Change in provision for land restoration		482	7,318
Change in allowance for reimbursable value added tax		(3,641)	2,814
Income from investments		(61,537)	(1,102,111)
Foreign exchange (gain)/loss, net		(8,484)	75,344
Other		4,363	3,425
Operating profit before working capital changes		347,130	310,257
Increase in inventories		(42,015)	(34,134)
Increase in accounts receivable		(1,717)	(2,728)
Decrease/(increase) in advances paid to suppliers		2,098	(11,295)
Decrease/(increase) in other current assets and reimbursable value added tax		1,067	(32,285)
Increase in trade payables		715	12,450
Decrease in decommissioning obligations		-	(6,048)
Increase in other payables and accrued expenses		14,117	7,065
Decrease in other taxes payable		(14,462)	(2,796)
Cash flows from operations		306,933	240,486
Interest paid		(1,671)	(3,552)
Income tax paid		(50,187)	(89,897)
Net cash generated from operating activities		255,075	147,037
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	6	-	(307,667)
Proceeds from disposal of subsidiary, net of cash disposed of		1,320	-
Repayment of contingent consideration on acquisition of subsidiaries	6	(38,228)	(61,817)
Purchase of property, plant and equipment		(382,802)	(267,551)
Deferred stripping costs capitalised		(68,065)	-
Proceeds from sale of property, plant and equipment		17,952	12,030
Proceeds from sale of shares of Gold Fields Limited		-	1,925,402
Dividends received		-	6,420
Interest received		26,696	109,078
Purchase of promissory notes and other financial assets		(1,447,102)	(2,028,154)
Proceeds from sale of promissory notes and other financial assets		1,511,054	1,307,749
Net cash (used in)/generated from investing activities		(379,175)	695,490

* The information for the year ended 31 December 2007 reflects adjustment made in connection with change in accounting policies and restatements (refer to note 5).

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CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED) (in thousands of US Dollars)

	Notes	2007 As restated*	2006
Financing activities			
Proceeds from borrowings		7,109	56,094
Repayments of borrowings		(2,725)	(69,146)
Repayments of finance lease obligations		(3,434)	(2,928)
Buy back of issued shares		-	(995,557)
Proceeds from issuance of Company's shares from treasury shares		64,051	-
Proceeds from minority shareholders for additional shares issued by subsidiaries		-	18,445
Dividends paid to shareholders of the Company		(21,722)	-
Dividends paid to minority shareholders of the Group's subsidiary		(942)	-
Cash contribution by Norilsk Nickel in connection with the spin-off	1	-	360,197
Net cash generated from/(used in) financing activities		42,337	(632,895)
Effect of translation to presentation currency		13,740	56,157
Net (decrease)/increase in cash and cash equivalents		(68,023)	265,789
Cash and cash equivalents at beginning of the year		294,197	28,408
Cash and cash equivalents at end of the year	24	226,174	294,197

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

* The information for the year ended 31 December 2007 reflects adjustment made in connection with change in accounting policies and restatements (refer to note 5).

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

Notes	Equity attributable to shareholders of the parent company							Minority interest	Total
	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2005	5	1,837,330	-	816,709	9,076	469,157	3,132,277	29,762	3,162,039
Increase in fair value of available-for-sale investments	17	-	-	19,620	-	-	19,620	-	19,620
Effect of translation to presentation currency		-	-	-	252,718	-	252,718	2,775	255,493
Total income recognised directly in equity		-	-	19,620	252,718	-	272,338	2,775	275,113
Profit for the year		-	-	-	-	1,155,725	1,155,725	(414)	1,155,311
Recognised gain on available-for sale investments		-	-	(816,709)	-	-	(816,709)	-	(816,709)
Total recognised income and expense for the year		-	-	(797,089)	252,718	1,155,725	611,354	2,361	613,715
Formation of the Group	1	6,866	353,331	-	-	-	360,197	-	360,197
Acquisition of non-controlling interest in subsidiary		-	-	-	-	(281,720)	(281,720)	-	(281,720)
Buy back of issued shares	25	-	-	(995,557)	-	-	(995,557)	-	(995,557)
Increase in minority interest due to change in share capital of a subsidiary		-	-	-	-	(524)	(524)	524	-
Balance at 31 December 2006		6,871	2,190,661	(995,557)	19,620	1,342,638	2,826,027	32,647	2,858,674
Increase in fair value of available-for-sale investments	17	-	-	17,287	-	-	17,287	-	17,287
Translation of foreign operations		-	-	-	(44,412)	-	(44,412)	-	(44,412)
Effect of translation to presentation currency		-	-	-	211,977	-	211,977	3,088	215,065
Total income recognised directly in equity – as restated		-	-	17,287	167,565	-	184,852	3,088	187,940
Profit for the year – as restated		-	-	-	-	85,809	85,809	5,999	91,808
Increase in minority interest due to disposal of preferred shares of a subsidiary		-	-	-	-	-	-	4,224	4,224
Total recognised income and expense for the year – as restated		-	-	17,287	167,565	85,809	270,661	13,311	283,972
Dividends to shareholders of the parent company	25	-	-	-	-	(21,722)	(21,722)	-	(21,722)
Dividends to minority shareholders in the Group's subsidiaries		-	-	-	-	-	-	(942)	(942)
Increase in minority interest due to increase in share capital of a subsidiary		-	-	-	-	(2,171)	(2,171)	2,171	-
Issuance of shares from treasury shares under share option plan	25	-	(72,496)	265,107	-	(3,632)	188,979	-	188,979
Balance at 31 December 2007		6,871	2,118,165	(730,450)	36,907	425,727	3,261,774	47,187	3,308,961

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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”).

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions, in which they are incorporated and registered. 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*.

The consolidated financial statements for the year ended 31 December 2006 contained herein as comparative financial information represent amounts that were restated as reflected in the separate financial statements for the year ended 2005 that were issued on 2 February 2009.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Adoption of new and revised International Financial Reporting 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 2007. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group but gave rise to additional disclosures in the consolidated financial statements as follows:

IAS 1 Presentation of Financial Statements (amendment – revised in 2005)

This amendment requires the Group to provide new disclosures to enable users of the consolidated financial statements to evaluate the Group's principal objectives, policies and procedures for managing capital (refer to note 34).

IFRS 7 Financial Instruments: Disclosures

This standard introduces new disclosures that enable users of the consolidated financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new or expanded disclosures are included throughout the consolidated financial statements.

There are four interpretations issued by IFRIC that were also effective for 2007.

These are: 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*; 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 consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007:

Standards and interpretations	Effective for annual periods beginning on or after
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 due to revision of IFRS 3)	1 July 2009
IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> — <i>Amendments resulting from May 2008 Annual Improvements to IFRSs</i>	1 January 2009
IAS 31 <i>Interest in joint ventures</i> (amendment due to revision of IFRS 3)	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 8 <i>Operating segments</i>	1 January 2009
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

Management anticipates that all of the above 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

2. SIGNIFICANT ACCOUNTING POLICIES

Change in accounting policies

The accounting policies used in the preparation of the consolidated financial statements for the year ended 31 December 2007 were consistent with the previously issued consolidated financial statements, except that the Group has adopted a new accounting policy in respect of accounting for stripping costs (refer to section *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.

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 operating in the Russian Federation are presented in their functional currency, Russian Rouble ("RUR").

In 2007, subsidiaries of the Group operating in Cyprus and British Virgin Islands significantly increased their investing activities which led to an economical autonomy of these entities from the Company. As a result, starting from 1 January 2007 the functional currency of these entities changed from RUR to United States of America Dollar ("USD"). Assets and liabilities of these subsidiaries were translated into the new functional currency using the exchange rate as at 1 January 2007. The translated amounts for non-monetary items were treated as their new historical cost.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Group has chosen to present its consolidated financial statements in the 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>2007</u>	<u>2006</u>
31 December	24.5462	26.3311
Average for the year	25.5772	27.1852

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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, 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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, or in the group's share of the results of its equity accounted units, as appropriate.

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.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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 YEAR ENDED 31 DECEMBER 2007

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 YEAR ENDED 31 DECEMBER 2007

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

Other revenue consists of sales of electricity, transportation, handling and warehousing services, and other. 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, renewal of a license 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

Renewal of a license

The Group's geological research license for Kyutchus field expires on 31 October 2009. If the license is not renewed the Group will have to write off costs of USD 20,931 thousand incurred in connection with this project as at 31 December 2007. The consolidated financial statements are prepared based on the management's expectation that either the term of this license will be extended, or the Group will obtain an exploration and production license for the same area.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 *(in thousands of US Dollars)*

4. RECLASSIFICATIONS

In 2007 management made a reclassification to combine the unsettled liabilities under share option plan of USD 5,357 with other payables and accrued expenses. As a result, other payables and accrued expenses increased by USD 5,357 to USD 83,932.

5. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT

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 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, 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 2007.

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 thousand. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

The cumulative effect of the change in accounting policy and restatement a on the Group's financial position and results of operation of the Group for the year ended 31 December 2007 is presented in the table below.

	<u>Amounts previously reported</u>	<u>Change in accounting policy and restatement adjustments</u>	<u>Restated</u>
2007			
CONSOLIDATED INCOME STATEMENT DATA			
Cost of gold sales	(509,158)	59,942	(449,216)
Foreign exchange gain, net	9,583	(1,099)	8,484
Income tax expense	(71,177)	(14,122)	(85,299)
Basic and diluted earnings per share (US cents)	23	26	49
CONSOLIDATED BALANCE SHEET DATA			
Deferred stripping costs	-	82,061	82,061
Inventories	231,985	(7,776)	224,209
Translation reserve	420,157	5,570	425,727
Retained earnings	1,337,346	67,208	1,404,554
Deferred tax liabilities	183,356	17,253	200,609
Contingent consideration on acquisition of subsidiaries	37,943	(15,746)	22,197

6. ACQUISITIONS

OJSC "South-Verkhoyansk Mining Company"

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 (refer to note 32). 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.

As disclosed in note 5, 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 thousand. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

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 2007 adjustments to the provisional values of identifiable assets and liabilities were recognised.

	Provisional value	Fair value
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
Net assets acquired	7,500	7,500
Total consideration	7,500	7,500
Satisfied by cash	(7,500)	(7,500)

OJSC “Matrosov Mine”

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.

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.

Yakut gold mining assets

The Group made a payment of USD 38,228 thousand (2006: USD 61,817 thousand) of the contingent consideration on the 2005 acquisition of the Yakut gold mining assets (consisting of OJSC “Aldanzoloto GRK”, OJSC “South-Verkhoyansk Mining Company” and OJSC “Yakut Mining Company”).

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
7. COST OF GOLD SALES		
Cash operating costs	442,224	348,212
On-mine costs (refer to note 8)	256,074	212,623
Smelting and concentrating costs (refer to note 9)	131,443	89,766
Refining costs	3,569	3,462
Tax on mining	51,138	42,361
Amortisation and depreciation of operating assets (refer to note 10)	87,196	73,718
Deferred stripping costs (capitalised)/expensed	(68,065)	5,230
Increase in provision for land restoration (refer to note 27)	482	7,318
Increase in gold-in-process and refined gold	(12,621)	(7,951)
Total	<u>449,216</u>	<u>426,527</u>
8. ON-MINE COSTS		
Consumables and spares	133,942	105,311
Labour	101,470	77,808
Utilities	12,754	11,149
Sundry on-mine costs	7,908	18,355
Total (refer to note 7)	<u>256,074</u>	<u>212,623</u>
9. SMELTING AND CONCENTRATING COSTS		
Consumables and spares	66,659	47,543
Labour	42,538	26,550
Utilities	19,412	13,748
Sundry smelting and concentrating costs	2,834	1,925
Total (refer to note 7)	<u>131,443</u>	<u>89,766</u>
10. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS		
Mining	59,503	50,209
Smelting and concentrating	27,693	23,509
Total (refer to note 7)	<u>87,196</u>	<u>73,718</u>

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Share option plan	132,548	-
Salaries	76,291	44,019
Taxes other than mining and income taxes	20,724	11,322
Professional services	8,288	6,820
Depreciation	3,969	4,759
Rent expenses	1,799	1,379
Repair and maintenance	1,734	1,025
Communication services	1,278	1,415
Bank charges	1,224	1,548
Other	13,921	7,391
Total	<u>261,776</u>	<u>79,678</u>
12. OTHER INCOME AND EXPENSES		
<i>Other income</i>		
Change in allowance for reimbursable value added tax	3,641	-
Interest payable written off	4,055	-
Release of decommissioning obligations (refer to note 27)	-	2,094
Total	<u>7,696</u>	<u>2,094</u>
<i>Other expenses</i>		
Loss on disposal of property, plant and equipment	6,421	1,494
Donations	3,868	1,768
Change in allowance for doubtful debts	991	1,288
Tax fines and penalties	696	718
Maintenance of social infrastructure	507	558
Impairment of property, plant and equipment	313	383
Change in allowance for reimbursable value added tax	-	2,814
Other	5,229	5,085
Total	<u>18,025</u>	<u>14,108</u>
13. FINANCE COSTS		
Unwinding of discount on decommissioning obligations (refer to note 27)	3,975	3,579
Interest on borrowings	2,654	2,874
Total	<u>6,629</u>	<u>6,453</u>

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
14. INCOME FROM INVESTMENTS		
<i>Income from financial assets at fair value through profit and loss</i>		
Income from investments in listed companies held for trading	9,898	7,234
<i>Income from available-for-sale investments</i>		
Gain on disposal of available-for-sale investments	-	980,462
Dividend income on available-for-sale investments	-	6,197
<i>Income from held-to-maturity investments</i>		
Interest income on promissory notes	6,813	13,919
<i>Income from loans given</i>		
Income accrued on bank deposits	30,836	93,697
Interest income on loans under repurchase agreements	13,844	-
Other	146	602
Total	<u>61,537</u>	<u>1,102,111</u>

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 GAIN/(LOSS), NET

Foreign currency exchange gain on operating activities, net	8,369	7,161
Foreign exchange gain on financing activities, net	1,214	1,236
Foreign currency exchange loss on investing activities, net	(1,099)	(83,741)
Total	<u>8,484</u>	<u>(75,344)</u>

16. INCOME TAX

Current tax expense	77,017	84,718
Deferred tax expense/(benefit) (refer to note 26)	8,282	(11,638)
Total	<u>85,299</u>	<u>73,080</u>

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

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:

Profit before income tax	177,107	1,228,391
Income tax at statutory rate of 24%	42,506	294,814
Effect of different tax rates of subsidiaries operating in other jurisdictions	27,839	(233,307)
Taxable losses of subsidiaries not carried forward	10,866	8,672
Tax effect of non-deductible expenses and other permanent differences	4,088	2,901
Income tax at effective rate of 48% (2006: 6%)	<u>85,299</u>	<u>73,080</u>

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
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>
Basic and diluted earnings per share (US cents)		<u><u>75</u></u>
Year ended 31 December:		
Profit attributable to shareholders of the parent company:	85,809	
Weighted average number of ordinary shares in issue	<u>175,739,670</u>	
Basic and diluted earnings per share (US cents)	<u><u>49</u></u>	

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. Such earnings per share is not comparable to amounts determined in 2007.

18. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction- in-progress	Total
Cost					
Balance at 31 December 2005	63,176	1,049,416	40,838	98,603	1,252,033
Additions	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
Balance at 31 December 2006	133,930	1,281,171	50,755	168,258	1,634,114
Additions	151,457	144,342	7,920	101,865	405,584
Transfers	-	88,622	-	(88,622)	-
Disposals	-	(30,749)	(896)	(552)	(32,197)
Disposed of on disposal of subsidiary	(239)	(765)	(984)	(1)	(1,989)
Effect of translation to presentation currency	16,090	101,622	3,944	12,768	134,424
Balance at 31 December 2007	<u>301,238</u>	<u>1,584,243</u>	<u>60,739</u>	<u>193,716</u>	<u>2,139,936</u>

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction- in-progress	Total
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2005	-	(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)
Balance at 31 December 2006	(119)	(219,232)	(13,405)	(5,753)	(238,509)
Charge for the year	-	(99,244)	(5,991)	-	(105,235)
Disposals	-	7,124	234	-	7,358
Impairment loss	-	(295)	(18)	-	(313)
Disposed of on disposal of subsidiary	122	760	713	1	1,596
Effect of translation to presentation currency	(3)	(19,791)	(1,188)	(419)	(21,401)
Balance at 31 December 2007	-	(330,678)	(19,655)	(6,171)	(356,504)
Net book value					
31 December 2006	<u>133,811</u>	<u>1,061,939</u>	<u>37,350</u>	<u>162,505</u>	<u>1,395,605</u>
31 December 2007	<u>301,238</u>	<u>1,253,565</u>	<u>41,084</u>	<u>187,545</u>	<u>1,783,432</u>

Mining assets at 31 December 2007 and 2006 include mineral rights of USD 534,451 thousand and USD 513,944 thousand, respectively.

Amortisation and depreciation capitalised during the years ended 31 December 2007 and 2006 amounted to USD 12,740 thousand and USD 6,560 thousand, respectively.

At 31 December 2007 and 2006, machinery and equipment with a carrying value of USD 3,236 thousand and USD 5,087 thousand, respectively, were held under finance lease agreement.

The balances of property, plant and equipment at 31 December 2007 and 2006 were recorded net of value added tax ("VAT") incurred on acquisition of exploration and evaluation and mining assets of USD 11,824 thousand and USD 10,945 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 YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS		
Non-current		
Loans advanced	1,731	1,592
Other	<u>416</u>	<u>403</u>
Total non-current	<u>2,147</u>	<u>1,995</u>
Current		
Available-for-sale equity investments	400,483	383,172
Bank deposits	280,648	364,438
Loans under repurchase agreements	201,719	111,373
Equity investments in listed companies held for trading	187,628	192,155
Promissory notes receivable	110,865	103,929
Investment deposit in Rosbank	<u>89,575</u>	<u>83,362</u>
Total current	<u>1,270,918</u>	<u>1,238,429</u>

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 311,657 thousand as of 31 December 2007 (31 December 2006: USD 290,531 thousand) were not guaranteed by the Bank.

Available-for-sale investments, carried at fair value

At 31 December 2007 and 2006, available-for-sale equity investments mainly 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 17,287 thousand (2006: USD 19,620 thousand) was recognised directly in equity.

Loans and receivables, carried at amortised cost

Bank deposits at 5.75-8.6% per annum were denominated in RUR and mature in November 2008.

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.

Investments, carried at amortised cost

Promissory notes at 6.0% per annum are repayable on demand.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
20. INVENTORIES		
Gold-in-process at net production cost	54,961	41,348
Refined gold at net production cost	<u>1,283</u>	<u>2</u>
Total metal inventories	56,244	41,350
Stores and materials at cost	170,373	129,094
Less: Allowance for obsolescence	<u>(2,408)</u>	<u>(973)</u>
Total	<u>224,209</u>	<u>169,471</u>

21. ACCOUNTS RECEIVABLE

Accounts receivable from third parties	21,699	19,043
Accounts receivable from related parties (refer to note 32)	<u>135</u>	<u>199</u>
	21,834	19,242
Less: Allowance for doubtful debts	<u>(8,357)</u>	<u>(7,366)</u>
Total	<u>13,477</u>	<u>11,876</u>

The Group sells gold produced to four customers on advance payment terms. As at 31 December 2007 and 2006 the Group did not have any outstanding amounts receivable in respect of gold sales.

Accounts receivable balance included amounts receivable from the customers of non-mining subsidiaries of the Group in respect of sale of other goods, electricity and other services.

In 2007 the average credit period for the customers of non-mining subsidiaries was 30 days (2006: 41 days). The Group has fully provided for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

The procedure of accepting a new customer include check by a security department for a business reputation, licenses and certifications. As at 31 December 2007, the Group's five largest customers individually exceeding 5% of the total balance represented 55% (2006: 34%) of the outstanding balance of accounts receivable.

The summary below shows the outstanding balances of the top five customers at the respective balance sheet dates:

Customer	Customer location		
JKH GUP Aldanskiy Region	Russian Federation	3,556	1,032
OJSC Aldanzoloto	Russian Federation	1,210	1,009
LLC Noviy Ugakhan	Russian Federation	1,018	356
MUP Teplovye Seti	Russian Federation	870	811
MUP Teplovodokanal	Russian Federation	<u>812</u>	<u>451</u>
Total		<u>7,466</u>	<u>3,659</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

At 31 December 2007 included in the Group's accounts receivable were balances of USD 4,956 thousand (31 December 2006: USD 2,377 thousand) which were past due but which management considers recoverable. The Group does not hold any collateral over these amounts. The average age of these receivables was 177 days (31 December 2006: 86 days).

	<u>2007</u>	<u>2006</u>
Aging of past due but not impaired receivables:		
Less than 90 days	1,726	1,768
91-180 days	1,021	345
181-365 days	2,209	264
Total	<u>4,956</u>	<u>2,377</u>

Movement in the allowance for doubtful debts:

Balance at beginning of the year	7,366	6,078
Increase in allowance	2,790	4,171
Amounts recovered during the year	(2,331)	(3,300)
Effect of translation to presentation currency	532	417
Balance at end of the year	<u>8,357</u>	<u>7,366</u>

22. ADVANCES PAID TO SUPPLIERS

Advances paid to third parties	26,088	26,171
Advances paid to related parties (refer to note 32)	116	40
Total	<u>26,204</u>	<u>26,211</u>

At 31 December 2007, advances paid to third parties were presented net of impairment loss of USD 2,459 thousand (2006: USD 2,547 thousand).

23. OTHER CURRENT ASSETS

Deferred expenditures	13,751	11,287
Other prepaid taxes	6,929	2,380
Total	<u>20,680</u>	<u>13,667</u>

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.

POLYUS GOLD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
24. CASH AND CASH EQUIVALENTS		
Bank deposits	163,005	244,519
Current bank accounts – RUR	40,113	47,856
– foreign currencies	690	1,413
Other cash and cash equivalents	<u>22,366</u>	<u>409</u>
Total	<u>226,174</u>	<u>294,197</u>

Bank deposits were denominated in USD and RUR and represented deposits in third and related party banks at interest rates of 4-9% per annum with maturity within three months.

25. SHARE CAPITAL

At 31 December 2007 and 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 2007 and 2006 were as follows:

Shareholders	<u>31 December 2007</u>		<u>31 December 2006</u>	
	Number of shares	% held	Number of shares	% held
CJSC “ING Bank Evrazia” (nominal)	59,982,175	33.7%	63,996,683	36.9%
Bristaco Holdings Co. Limited	24,866,670	14.0%	24,866,670	14.3%
Lovenco Holdings Co. Limited	24,866,670	14.0%	24,866,670	14.3%
NP “National Deposit Centre” (nominal)	16,541,447	9.3%	8,641,729	5.0%
OJSC “Rosbank” (nominal)	14,795,364	8.3%	-	-
CJSC “Depositary and Clearing Company” (nominal)	14,183,547	8.0%	-	-
CJSC “KM Invest”	14,100,053	7.9%	14,100,053	8.1%
Panolio Trading Limited	-	-	6,021,971	3.5%
Praderato Trading Limited	-	-	6,021,971	3.5%
Other	8,720,106	4.8%	24,965,220	14.4%
	<u>178,056,032</u>	<u>100.0%</u>	<u>173,480,967</u>	<u>100.0%</u>

On 29 June 2007 the Company declared a dividend of RUR 3.23, or USD 0.13 (at 29 June 2007 exchange rate) 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.

Share Option Plan

The Group granted 4,765,693 options to management in June 2007 at an exercise price of USD 14 per share. Share options granted under the share option plan were exercisable during three years from the date of grant.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

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 consolidated income statement. Fair value of the options was determined based on an internally developed model which included assumptions that the Group considered appropriate in estimating the fair value of the share-based payment awards.

In July 2007, management exercised their options for a total cash consideration of USD 64,051 thousand. 4,575,065 treasury shares of the Company were issued to management upon exercise of the options resulting in a decrease in treasury shares of USD 265,107 thousand and decrease in additional paid-in-capital of USD 72,496 thousand. As at 31 December 2007, there were 190,628 shares outstanding under the share option plan.

26. DEFERRED TAX LIABILITIES

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

	<u>2007</u>	<u>2006</u>
Net liability at beginning of the year – as restated	178,860	172,673
Recognised in the income statement (refer to note 16)	8,282	(11,638)
Change in deferred tax liabilities recognised on revaluation of available-for-sale investments	-	(583)
Acquired on acquisition of subsidiaries (refer to note 6)	-	1,674
Effect of translation to presentation currency	13,467	16,734
Net liability at end of the year	<u>200,609</u>	<u>178,860</u>

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	192,537	179,032
Deferred stripping costs	19,695	2,492
Investments valuation	(377)	1,267
Inventory valuation	4,930	4,234
Accrued operating expenses	(13,942)	(6,324)
Valuation of receivables	(2,234)	(1,841)
Total	<u>200,609</u>	<u>178,860</u>

At 31 December 2007 the unutilised tax losses of the entities at the development stage available for offset against the future taxable income amounted to USD 12,938 thousand (2006: USD 16,873 thousand).

In 2007 the Group has not recognised deferred tax assets in the amount of USD 10,866 thousand (2006: USD 8,672 thousand) in respect of tax losses carried forward for some of the Group's subsidiaries that may be available for offset against future taxable profit of these subsidiaries.

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 111,591 thousand (2006: USD 69,708 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
27. ENVIRONMENTAL OBLIGATIONS		
Decommissioning obligations		
Balance at beginning of the year	55,480	53,072
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)	3,975	3,579
Effect of translation to presentation currency	4,201	4,877
Balance at end of the year	<u>63,656</u>	<u>55,480</u>
Provision for land restoration		
Balance at beginning of the year	16,033	7,756
Charge to the income statement (refer to note 7)	482	7,318
Effect of translation to presentation currency	1,170	959
Balance at end of the year	<u>17,685</u>	<u>16,033</u>
Total environmental obligations	<u>81,341</u>	<u>71,513</u>
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:		
Within one year	479	542
Due from second to fifth year	1,147	1,000
Due from sixth to tenth year	2,008	1,751
Due from eleventh to fifteenth year	64,751	59,959
Due from sixteenth to twentieth year	1,317	1,721
Due thereafter	11,639	6,540
	<u>81,341</u>	<u>71,513</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
28. SHORT-TERM BORROWINGS		
USD-denominated borrowings	11,900	9,458
RUR-denominated borrowings	7,408	2,020
Obligations under finance lease	1,601	2,885
Other short-term borrowings	-	638
Total	<u>20,909</u>	<u>15,001</u>

At 31 December 2007, USD-denominated short-term borrowings included loans from Flemicort Consulting Inc. at the effective interest rate of 8% per annum, secured by the Company's guarantees maturing in January 2008.

At 31 December 2007, RUR-denominated short-term borrowings included loans from Rosbank Management Company, a related party, at the effective interest rate of 7% per annum, secured by investments in listed companies held for trading maturing in January 2008.

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.

29. TRADE PAYABLES

Trade payables to third parties	17,753	20,763
Trade payables to related parties (refer to note 32)	3,898	36
Total	<u>21,651</u>	<u>20,799</u>

In 2007 the average credit period for payables was 18 days (2006: 17 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
The table below summarises the maturity profile of the Group's trade payables as at 31 December 2007 and 2006 based on contractual undiscounted payments:		
Due within three months	18,919	18,304
Due from three to six months	2,563	1,394
Due from six months to twelve months	169	-
Due after twelve months	-	1,101
Total	<u>21,651</u>	<u>20,799</u>

30. OTHER PAYABLES AND ACCRUED EXPENSES

Wages and salaries	28,069	9,255
Accrued annual leave	16,482	14,316
Unsettled liabilities under share option plan	5,357	-
Interest payable	2,987	6,277
Other	31,037	19,866
Total	<u>83,932</u>	<u>49,714</u>

31. OTHER TAXES PAYABLE

Value added tax	7,420	5,184
Social taxes	4,321	3,613
Tax on mining	3,682	3,175
Property tax	3,213	2,848
Other taxes	2,551	3,395
Total	<u>21,187</u>	<u>18,215</u>

Contribution to Pension Fund of the Russian Federation recognised in the income statement for the year ended 31 December 2007 amounted to USD 25,816 thousand (2006: USD 24,408 thousand).

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 2007 and 2006, Group entered into the following transactions with related parties:

Gold sales

Rosbank	<u>540,755</u>	<u>437,096</u>
Total	<u>540,755</u>	<u>437,096</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
<i>Sale of property, plant and equipment</i>		
Kraus-M	16,287	-
Total	<u>16,287</u>	<u>-</u>
<i>Purchase of goods and services</i>		
Norilsk Nickel	88,969	11,121
Taimyrskaya Toplivnaya Kompaniya	71,973	50,269
Rosbank	37,703	56
Yeniseyskoe Rechnoe Parohodstvo	3,004	1,830
Insurance Company "Soglasie"	815	704
Kraus-M	280	17,260
Krasnoyarskenergosbyt	-	6,077
Total	<u>202,744</u>	<u>87,317</u>
<i>Purchase of interest in SVMC</i>		
KM Technologies Limited	-	300,167
Total	<u>-</u>	<u>300,167</u>
<i>Income from investments</i>		
Rosbank	3,750	10,370
Total	<u>3,750</u>	<u>10,370</u>
<i>Cash and cash equivalents</i>		
Rosbank	86,414	14,116
Total	<u>86,414</u>	<u>14,116</u>
<i>Investments in securities and other financial assets</i>		
Rosbank	201,404	359,621
Total	<u>201,404</u>	<u>359,621</u>
<i>Accounts receivable</i>		
Norilsk Nickel	67	17
Rosbank	46	2
Taimyrskaya Toplivnaya Kompaniya	16	16
Insurance Company "Soglasie"	6	6
Yeniseyskoe Rechnoe Parohodstvo	-	158
Total	<u>135</u>	<u>199</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

	<u>2007</u>	<u>2006</u>
<i>Advances paid to suppliers</i>		
Yeniseyskoe Rechnoe Parohodstvo	85	-
Insurance Company "Soglasie"	30	11
Other	1	29
Total	<u>116</u>	<u>40</u>
<i>Trade payables</i>		
Norilsk Nickel	3,525	-
Taimyrskaya Toplivnaya Kompaniya	371	15
Other	2	21
Total	<u>3,898</u>	<u>36</u>
<i>Other payables</i>		
Norilsk Nickel	2,573	6,741
Insurance Company "Soglasie"	17	2
Total	<u>2,590</u>	<u>6,743</u>

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 expected to be settled on a gross basis.

Compensation of key management personnel

Share-based payment	132,548	-
Short-term employee benefits	28,377	9,322
Total	<u>160,925</u>	<u>9,322</u>

33. CONTINGENCIES

Capital commitments

The Group's budgeted capital expenditures commitments as at 31 December 2007 in respect of exploration and evaluation works to be performed in 2008 amounted to USD 88,451 thousand, including USD 10,446 thousand of contractual capital commitments.

Operating leases: Group as a lessee

The Group leases certain office premises. The respective lease agreements have an average life of 3 years and no renewal option at the end of the term.

Future minimum rental expenses under non-cancellable operating leases as at 31 December 2007 amounted to USD 1,552 thousand (31 December 2006: nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

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 2007 of approximately USD 347 thousand (31 December 2006: USD 1,368 thousand). This amount has not been accrued as at 31 December 2007 as management does not believe the payment is probable.

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

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 2007 and 2006 cash and cash equivalents balance exceeded borrowings of the Group. Management of the Group believes that currently there are no risks associated with the capital structure.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable and loans advanced, cash and cash equivalents, and promissory notes and other investments.

	<u>2007</u>	<u>2006</u>
Financial assets		
<i>Financial assets held-for-trading</i>		
Investments in listed companies	187,628	192,155
<i>Held-to-maturity financial assets</i>		
Promissory notes receivable	110,865	103,929
<i>Loans and receivables, including cash and cash equivalents</i>		
Bank deposits	280,648	364,438
Cash and cash equivalents	226,174	294,197
Loans under repurchase agreement	201,719	111,373
Investment deposit in Rosbank	89,575	83,362
Accounts receivable	13,477	11,876
Loans advanced	1,731	1,592
<i>Available-for-sale financial assets</i>		
Investments in securities and other financial assets	400,899	383,575
Total financial assets	<u>1,512,716</u>	<u>1,546,497</u>
Financial liabilities		
Other payables	34,024	26,143
Contingent consideration on acquisition of subsidiaries	22,197	60,087
Trade payables	21,651	20,799
Short-term borrowings	20,909	15,001
Other non-current liabilities	-	1,802
Total financial liabilities	<u>98,781</u>	<u>123,832</u>

The main risks arising from the Group's financial instruments are commodity price, equity investments price, foreign currency, credit and liquidity risks. Due to the fact that the amount of borrowings is not significant, management believes that the Group is not exposed to interest rate risk.

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 YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

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.

Equity investments price risk

The Group is exposed to equity investments price risk. Presented below is the sensitivity analysis illustrating the Group's exposure to equity investments price risks at the reporting date.

If market prices for equity investments had been 5% higher/lower:

- Profit before tax for the year ended 31 December 2007 would increase/decrease by USD 20,040 thousand (2006: increase/decrease by USD 19,060 thousand) as a result of changes in fair value of securities held-for-trading ; and
- Investment revaluation reserve within equity balance would increase/decrease by USD 9,381 thousand (2006: increase/decrease by USD 9,608 thousand) as a result of changes in fair value of securities available-for-sale.

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. In 2007 favourable changes in market price of gold mitigated the adverse effect of appreciation of RUR against USD.

The carrying amount of the Group's monetary assets and liabilities denominated in USD as at the reporting dates were as follows:

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	35,718	241,287
Accounts receivable	46	12
Available-for-sale financial assets	-	380,023
Promissory notes receivable	-	103,929
Total assets denominated in USD	<u>35,764</u>	<u>725,251</u>
Liabilities		
Trade and other payables	47,137	15,943
Contingent consideration on acquisition of subsidiaries	22,197	60,087
Loans and borrowings	11,900	9,458
Total liabilities denominated in USD	<u>81,234</u>	<u>85,488</u>
Total net position	<u>(45,470)</u>	<u>639,763</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in thousands of US Dollars)

Currency risk is monitored on a monthly basis by performing sensitivity analysis in order to verify that the potential loss is at an acceptable level.

The table below details the Group's sensitivity to changes of exchange rate of the RUR to USD by 10% which is the sensitivity rate used by the Group for internal reporting purposes. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	<u>2007</u>	<u>2006</u>
Profit or loss	(4,547)	63,976

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 2007 and 2006 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.

As at 31 December 2007 and 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 2007 represented 38% (31 December 2006: 5 %) of total cash and cash equivalents.

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.

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The maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 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 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.

Increase of ownership in subsidiaries

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%. Under Russian legislation, Polyus has an obligation to make an offer to purchase the remaining shares held by minority shareholders. 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.

Execution of share option plan

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.

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.

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Sale of investment in OJSC “Vysochaishy”

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

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 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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36. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	Shares held		Effective % held ¹	
			2007	2006	2007	2006
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	419	419	100.0	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	113,441,640,810	88,021,708,092	99.4	99.2
OJSC "Lenzoloto"	Russian Federation	Market agent	952,532	1,014,535	64.1	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	64.1	68.2
CJSC "Lensib"	Russian Federation	Mining	610	610	39.1	41.6
CJSC "Svetliy"	Russian Federation	Mining	840	840	53.8	57.3
CJSC "Marakan"	Russian Federation	Mining	840	840	53.8	57.3
CJSC "Nadezhdinskoe"	Russian Federation	Mining	840	840	53.8	57.3
CJSC "Dalnaya Taiga"	Russian Federation	Mining	820	820	52.6	55.9
CJSC "Sevzoto"	Russian Federation	Mining	650	650	41.7	44.3
CJSC "Charazoto"	Russian Federation	Mining	640	640	41.0	43.6
CJSC "GRK Sukhoy Log"	Russian Federation	Mining	540	540	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	560,862	424,617	94.8	93.3
CJSC "Tonoda"	Russian Federation	Mining (development stage)	14,100	12,100	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)	704,986	584,986	100.0	100.0
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)	-	-	94.8	93.3
CJSC "Vitimenergo"	Russian Federation	Electricity production	225,764	225,764	100.0	100.0
LLC "Vitimservice" ³	Russian Federation	Procurement services	-	-	-	100.0
LLC "LZDT" ³	Russian Federation	Transportation	-	-	-	100.0
LLC "Lengeo"	Russian Federation	Geological research	-	-	100.0	100.0
OJSC "Sibzolotorazvedka"	Russian Federation	Geological research	-	1,497	-	100.0
LLC "MGRP"	Russian Federation	Geological research	-	-	94.8	93.3
LLC "KGRP"	Russian Federation	Geological research	-	-	100.0	100.0
LLC "AGRP" ²	Russian Federation	Geological research	-	-	100.0	-
LLC "YaGRP" ²	Russian Federation	Geological research	-	-	100.0	-
LLC "IGRP" ²	Russian Federation	Geological research	-	-	100.0	-
OJSC "Polyus Geologorazvedka" ²	Russian Federation	Geological research	6,000,000	-	100.0	-
Polyus Exploration Ltd. ²	British Virgin Islands	Geological research	16,250	-	100.0	-
Jenington International Inc.	British Virgin Islands	Market agent	1,000,000	1,000,000	100.0	100.0
Polyus Investments Ltd.	Cyprus	Market agent	1,000	1,000	100.0	100.0

¹ Effective % held by the Company, including holdings by other subsidiaries of the Group

² Established by the Group in 2007

³ Merged with OOO "LZRK" in July 2007