POLYUS

ANNUAL REPORT 2007

Personal data

Company	OJSC "Polyus Gold"
Address	15/1, Tvershoy blvd. Moscow, Russia, 123104
Tel.:	+7 (495) 641 3377
Fax:	+7 (495) 7854590
E-mail	info@polyusgold.com
web-site	www.polyusgold.com

POLYUS

Cautionary note regarding forward-looking statements

The 2007 Annual Report of Open Joint Stock Company, Polyus Gold (hereinafter, "OJSC Polyus Gold" or the "Company") and its subsidiary companies (hereinafter, "Polyus Gold" or the "Group"), consolidated in accordance with International Financial Reporting Standards ("IFRS") has been prepared based on information available at the date of issue.

The 2007 Annual Report contains or incorporates by reference certain information as to the Group's future financial or operating performance and, by its very nature, constitutes "forward-looking statements". All such statements, other than statements of historical fact, are forward-looking statements. Words such as "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements.

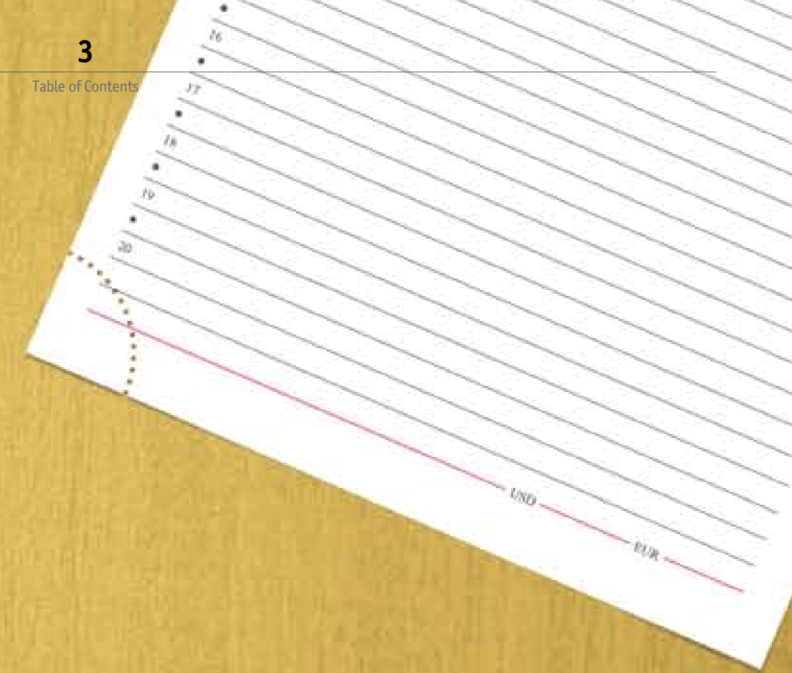
Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Polyus Gold, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements.

Such factors include, but are not limited to:

- fluctuations in the currency markets (such as the Russian rouble versus the US dollar);
- fluctuations in the spot and forward price of gold or certain other commodities (such as chemicals, diesel fuel and electricity);
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in Russia or other countries, in which the Group may conduct business in the future;
- business opportunities that may arise, or be pursued;
- Polyus Gold's ability to successfully integrate acquisitions;
- operating or technical difficulties in connection with mining or development activities;
- the speculative nature of gold exploration and development, including the risks of obtaining necessary licenses and permits;
- diminishing quantities or grades of reserves; and
- contests over title to properties, particularly title to undeveloped properties.

In addition, there are risks and hazards associated with the business of gold exploration, development and mining, including environmental hazards, industrial accidents, unusual or unexpected formations, pressures, flooding and gold bullion losses (and the risk of inadequate insurance, or inability to obtain insurance, to cover these risks).

Many of these uncertainties and contingencies can affect the Group's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by Polyus Gold. Readers are cautioned that forward-looking statements are not guarantees of future performance. All of the forward-looking statements made in the 2007 Annual Report are qualified by these cautionary statements. Polyus Gold disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by the applicable laws.



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1. A Brief Description of Polyus Gold

Open Joint Stock Company Polyus Gold was incorporated in March 2006 following a spin-off of the gold mining assets of Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel.

Polyus Gold is the largest gold producer in the Russian Federation and amongst the largest gold mining companies in the world, based on mineral resources and production volumes. The Group performs geological exploration and mines gold in the following five major gold-producing regions of the Russian Federation:

- Krasnoyarsk
- Irkutsk
- Republic of Sakha (Yakutia)
- Magadan
- Amur

The Group's mission is to develop natural resources and human values for the benefit of its shareholders, employees and society.

Shares of the Company are traded on leading Russian stock exchanges such as MICEX and RTS. American Depository Receipts ("ADRs") of the Company are listed on the main board of the London Stock Exchange ("LSE") and traded on over-the-counter ("OTC") market in the United States of America. Shares in the Company are included in the key Russian stock exchange indices of MICEX and RTS, as well as international stock exchange indices such as FTSE Gold Mines and MSCI Emerging Markets. The market capitalization of the Company at the end of 2007 was approximately USD 8.1 billion[1].

The Group's mission is to develop natural resources and human values for the benefit of its shareholders, employees and society as a whole.

[1] Not including 6.6% of stock held by Jenington International Inc., a subsidiary of CJSC Polyus.

The strategic vision of the Group is the following:

- An internationally recognized public company whose shares are traded on the world's leading stock exchanges.
- A leader in the Russian gold mining industry and included in the Top Five gold mining companies of the world in terms of market capitalization, mineral resource base and production.
- A modern transparent company, living up to the highest standards of corporate governance.
- A socially responsible company, which contributes to stable social development and environmental equilibrium in the areas where it conducts its operations and is able to attract and retain skilled employees.
- An innovative company, holding a sustainable competitive advantage achieved through continuous technological improvements.
- A reliable company, fulfilling its plans and commitments to its partners, and having long-term production and mineral base growth prospects.

The Group holds licenses for six of the ten largest gold deposits located in the Russian Federation including the largest deposit – Natalka. Polyus Gold also has a strong pipeline of exploration projects and holds mining or exploration licenses for various gold prospects located in the territory of the Russian Federation.

The Group's management structure includes:

- the Moscow Corporate Center, which performs the functions of the general governance body;
- five regional business units – Krasnoyarsk, Irkutsk hard rock mining, Irkutsk alluvial gold, Yakutia and Magadan (Kuranakh and Nezhdaninskoye), who perform the operational management of the Group's business in their respective geographical areas.[2]

[2] No business unit has been established for Amur region, as all the projects in this region are on the early stage of development.

Polyus Gold map of operations

Key assets of Polyus Gold

Region / deposit	Status of development	Gold production '000 oz 2007	Legal owner	Shareholding as at 31 December 2007
Krasnoyarsk				
Olimpiada	Production	861	CJSC Polyus	100%
Blagodatnoye	Feasibility study completed	–	CJSC Polyus	100%
Titimukhta	Feasibility study completed	–	CJSC Polyus	100%
Irkutsk				
Alluvials	Production	179	OJSC Lenzoloto	64.08%
Zapadnoye	Production	32	LLC LZRK	100%
Verninskoye	Feasibility study completed	–	LLC LZRK	100%
Chertovo Koryto	Exploration/Feasibility	–	LLC LZRK	100%
Yakutia				
Kuranakh	Production	142	OJSC Aldanzoloto GRK	99.40%
Nezhdaninskoye	Exploration/Feasibility	1	OJSC SVMC (South-Verkhoyansk Mining company)	100%
Kyutchus	Exploration	–	OJSC YMC	100%
Magadan				
Natalka	Feasibility	–	OJSC Matrosov Mine	94.80%
Amur				
Bamskoye	Exploration	–	CJSC Polyus	100%
Total gold production		1,215		

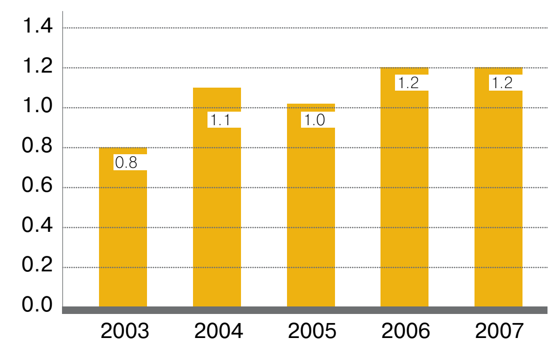
2.
Key features of 2007

Operational and financial
- achieved the gold production target of 1.2 million ounces;
- realized an average selling price of USD 706 per troy ounce of gold;
- revenue grew by 16% to USD 849 million;
- EBITDA grew by 9.4% to USD 335 million;
- capital expenditures in 2007 were USD 403 million as compared to USD 625 million in 2006.

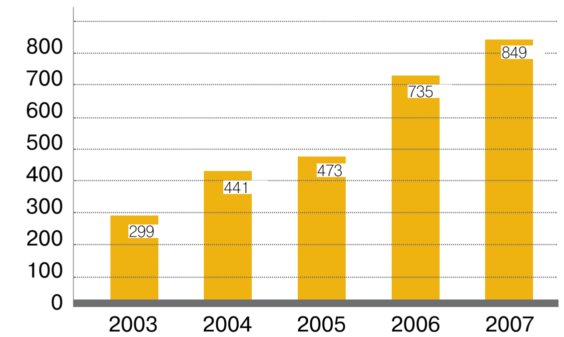
Geological exploration and mineral base development
- proved and probable reserves classified and estimated in accordance with the JORC code grew by 35% from 50.8 to 68.6 million ounces;
- 7 new exploration licenses were acquired, with total resources of 55 million ounces in accordance with the Russian GKZ classification code (P1+P2+P3 categories);
- reserves of the Natalka deposit were included in the state register;
- an audit in accordance with the internationally recognized JORG code was performed of the Natalka deposit.

Development of production and new projects
- the third mill with a capacity of 5 million tonnes of ore per year was commissioned at the Olimpiada mine in the Krasnoyarsk region;
- the Board of Directors considered and approved the feasibility studies for the Titimukhta, Blagodatnoye and Verninskoye projects.

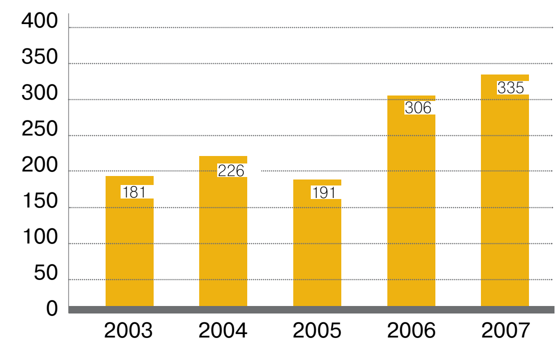
Corporate development
- some early stage geological prospects are being prepared for spin-off.



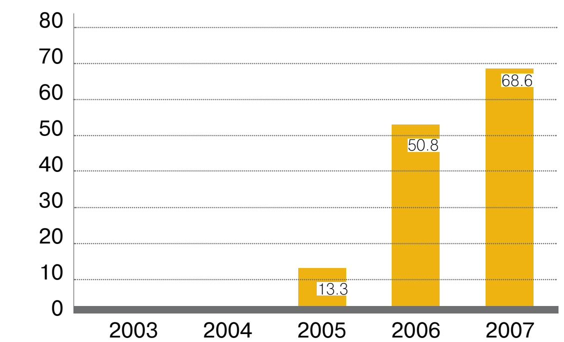
Group' Gold Production in 2003-2007, m oz



Group' Revenue (IFRS) in 2003-2007, USD million

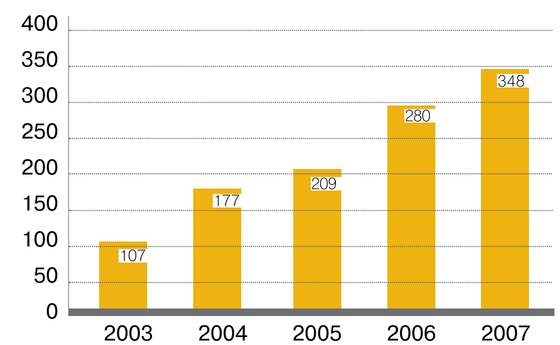


Group' Adjusted EBITDA in 2003-2007, USD million



Group' P&P reserves (JORC) in 2003-2007*, m oz

*The Group made its first reserves audit in accordance with JORC standards in 2005.



Group' Total Cash Costs in 2003-2007, USD/oz

3.

Letter from the Chairman of the Board of Directors

Dear shareholders,

The year 2007 may be called the year of Polyus Gold's emergence as the leader in the Russian gold mining industry. Over a short period of time, an array of disparate gold mining assets of OJSC "MMC Norilsk Nickel"[3], with a value almost unperceivable against the background of the market capitalization of the mining giant, have turned into Russia's largest gold mining company – Polyus Gold which has no rivals in the Russian gold mining industry, in terms of:

- production facilities;
- access to the richest gold resources in the Russian subsoil;
- professionalism of management and staff; and
- the potential to become one of the fastest growing and largest gold mining companies in the world.

Favorable market developments helped Polyus Gold to secure firm positions in the Russian and international arenas. Steady growth of gold prices boosted by growing demand from India and China, instability of international financial markets and increased attractiveness of gold as an investment instrument provided the preconditions for a very successful start of Polyus Gold as an independent market player. The Group made it into the top ten gold mining companies of the world by production and market capitalization, and into the top five owners of gold resources. A large mineral resource base together with anticipated long-term gold price growth enabled Polyus Gold to formulate what is one of the most ambitious strategies in the gold mining industry and took several important steps towards bringing it to life.

In the coming years, Polyus Gold plans to launch a number of large gold mining operations in several regions of Russia. The commissioning of all these facilities will enable the production output to increase from today's 1.2 million ounces to 4.6 million ounces by 2015 and secure a firm position as one of the top five global gold producers by volume. The estimated capital expenditure for this large-scale program will amount to some USD 5 billion to be incurred in the period from 2006 to 2015.

Polyus Gold has all the prerequisites for the successful implementation of this strategy. Large gold resources are one such prerequisites. Given the depletion of reserves globally, Polyus Gold today has one of the largest reserves bases in the world, which constitutes a unique competitive advantage. For many global gold producers reserves replacement is becoming an increasingly difficult challenge. New large gold deposits are being discovered, but very rarely. Hence Russia, which boasts the world's second largest gold resource base, and Polyus Gold, which has discovered several large gold deposits just in the last couple of years and demonstrated a fourfold growth of its mineral resource are now featuring more prominently in the global gold mining industry.

High class mining professionals which have already demonstrated to the market their ability to implement large scale projects – from large exploration projects, such as the discovery of the Blagodatnoye and Natalka deposits, to the launch of new operations, such as the commissioning of Russia's largest gold ore mill at the Olimpiada mine in the Krasnoyarsk region – serve as a guarantee of the successful implementation of the Polyus Gold strategy.

In the forthcoming years Polyus Gold will continue to prepare itself for the launch of its new facilities as part of its strategy implementation; the first large-scale facility will produce its first commercial gold output in 2010.

On behalf of the Board of Directors, I would like to thank management and all the staff of Polyus Gold for meeting operational targets successfully, and all the shareholders of the Company for their trust and support of the initiatives of the Board of Directors and management of the Company aimed at securing the sustainable, long-term growth of Polyus Gold shareholder value.

Mikhail D. Prokhorov — Chairman of the Board of Directors

[3] OJSC "MMC Norilsk Nickel" – is the world's leading producer of nickel and palladium, and one of the largest global producers of platinum and copper. OJSC "Polyus Gold" was formed as a result of restructuring of gold mining assets of OJSC "MMC Norilsk Nickel" in 2006.

4.

Letter from the General Director of Polyus Gold

Dear Polyus Gold shareholders,

In 2007, Polyus Gold continued to implement its long-term strategy approved by the Board of Directors in September 2006. Polyus Gold has achieved all the objectives and goals set for 2007 – geological exploration and resource growth, corporate development and the launch of new projects, both operational and financial. In 2007 the Group took a number of significant steps in realizing its strategic plans and successfully handled present day challenges.

In 2007, the Group's entities achieved its production targets and produced 1.2 million troy ounces of gold and kept production output at the same level as 2006.

All the key divisions of the Group demonstrated stability in production indicators.

In 2007 sales grew from USD 735 million to USD 849 million.

Despite switching from processing oxidized ore to refractory sulfide ore at the Olimpiada mine, the Group achieved production growth in this division due to the commissioning of a new mill (Mill No. 3). This, the largest of the Company's projects, was commissioned in July 2007. The new mill with a capacity of 5 million tonnes of ore is the largest gold ore mill in Russia and has enabled the Group to considerably extend the life of mine of the Olimpiada deposit. Mill No. 3 is the first plant to be launched as part of the corporate strategy and the lessons learned and the highly skilled team formed during the construction project will be used when implementing other construction projects in all the regions where Polyus Gold operates.

Gold output also increased at the alluvial operations in the Irkutsk region, where growth was driven by technical upgrade and structural changes.

The Kuranakh mine in Yakutia experienced some decrease in output as a result of the deteriorated gold grade of the ore. However, the mine is taking all the necessary measures to stabilize production and is now implementing an extended modernization program which will result in the gradual growth of output in the years to come.

Overall, the Group demonstrated positive production dynamics, with doré (unrefined) gold production growing by 1.6%.

In 2007 sales grew from USD 735 million to USD 849 million. With the volume of gold output remaining unchanged, the growth of revenue resulted primarily from a favorable market situation. In 2007, the average gold price amounted to USD 695 per troy ounce, which is 15.2% higher than the 2006 average of USD 603 per ounce.

The average selling price obtained by the Group amounted to USD 706 per troy ounce, as compared to USD 604 in 2006. It should be noted that the gold produced was sold with more success in 2007. During 2007, the weighted average selling price obtained by the Group exceeded the average evening fixing price in London by more than USD 11 per ounce, as compared to only USD 0.54 per ounce in 2006.

In spite of price increase for practically all materials and spare parts, we kept the profitability of the production at the level of 2006. Thus, EBITDA margin was 39%, net income was equal to USD 47.1 million.

In 2007 the Company made significant progress with the construction of gold facility projects in the leading gold mining regions of the Russian Federation – the Krasnoyarsk region, Irkutsk region, Republic of Sakha (Yakutia) and Magadan region – which will be commissioned in the foreseeable future and provide for a planned increase in gold production by the Company.

Projects for the development of the Blagodatnoye and Titimukhta deposits have been approved and the preparation of construction sites in the Krasnoyarsk region has begun.

A consortium of international consultants, which will prepare a pre-feasibility and a feasibility study for the largest project in the Company's strategy – the development and construction of the Natalka mine in the Magadan region – has been selected. In 2007 the Company performed a large amount of work to prepare the pre-feasibility for the project, during which the target production indicators of the future gold mining facility were increased. The proposed Natalka mine with a design production capacity of more than 60 tonnes (1.9 million ounces) of gold per year is expected to be commissioned in 2013. The project will require a capital investment of some USD 2.5 billion.

In 2007 a feasibility study for the construction of the Verninskoye mine in the Bodaibo district of the Irkutsk region was completed.

A number of important achievements were made in the area of exploration and reserves addition, which made Polyus Gold a top five company globally in terms of reserves base with proved and probable gold reserves of 68.6 million ounces. Therefore, one of the Group's strategic objectives – a 68-million-ounce reserves base – was reached 8 years ahead of schedule.

The reserves of the Natalka deposit in the Magadan region determined in accordance with the Russian classification system GKZ were listed with the state and were audited in accordance with an internationally acceptable framework i.e. JORC; reserves of the Titimukhta deposit in the Krasnoyarsk region determined in accordance with the Russian classification system GKZ were also entered into the state register.

Over the year Polyus Gold successfully participated in state tenders for new licenses, acquiring geological exploration licenses for 7 areas with aggregate resources of some 1,700 tonnes (55 million ounces) of gold determined in accordance with the Russian classification system GKZ. In 2007 the Group conducted active exploration in all the regions where it operates, with drilling volumes virtually doubling from 2006.

Corporate governance was actively enhanced in 2007.

In April 2007 the Board of Directors of Polyus Gold approved the Company's dividend policy, and in July and August 2007 dividends were paid for the financial year 2006. This was the first dividend distribution in the Company's history, but we are optimistic about the future and hope to continue the same dividend distributions in the years to come.

In addition to the disclosure principles prescribed by Russian federal legislation and the Federal Financial Markets Service (FFMS) requirements, the Company follows:

- the Public and Investor Relations Policy of the Company effective as of November 2006;
- recommendations of the Corporate Governance Code of the Federal Financial Markets Service (FFMS);
- requirements of the UK FSA;
- listing requirements for Russian and international stock exchanges.

The new mill with a capacity of 5 million tonnes of ore became the largest gold ore mill in Russia.

In 2007 the Group began to implement sustainable development principles in its operations and issued its first sustainable development report in May 2007. The report reflected the current level of implementation of sustainable development principles in the operations of Polyus Gold entities through indicators on the economic, social and environmental impact of the Group in the regions of its presence and defined the key directions for development in each area.

In 2007, the Group continued with the activities defined in the 2015 Strategy aimed at reducing the negative impact of the Group's production processes on the environment. The measures related primarily to reducing sodium cyanide consumption and implementing cyanide free leaching technology, as well as efficient resource utilization and effective recycling of production waste.

In 2007 the Group completed a number of charity programs in the regions where Polyus Gold is present, including continued cooperation with the Charity Fund of the Commercial Chamber of the Russian Federation and an eminent international non-commercial organization Charity Aids Foundation (CAF).

On behalf of the management of Polyus Gold, I would like to thank all shareholders for their trust and support of management initiatives aimed at maximizing the shareholder value of Polyus Gold and strengthening the Group's position among the leaders in the global gold mining industry.

Evgueni I. Ivanov — General Director

5. Operating highlights of Polyus Gold in 2007

Against a background of stable output of refined gold, the output of doré (unrefined) gold grew by 1.6% from 1,187 thousand ounces (36.95 tonnes) in 2006 to 1,207 thousand ounces (37.56 tonnes) in 2007, which confirms a positive trend in production volume growth.

5.1. Principal operations in 2007 (by business unit)

In 2007, Polyus Gold produced 1,214 thousand ounces (37.8 tonnes) of refined gold, the same as in 2006. The volume of gold produced in the year was affected by the following factors:

- commissioning of the third mill at the Olimpiada mine;
- deteriorated gold grade of the Kuranakh ore (Kuranakh mine);
- improving organizational and technical measures at the alluvial facilities in the Irkutsk region.

Against a background of stable output of refined gold, the output of doré (unrefined) gold grew by 1.6% from 1,187 thousand ounces (36.95 tonnes) in 2006 to 1,207 thousand ounces (37.56 tonnes) in 2007, which confirms a positive trend in production volume growth[4].

In 2007, Polyus Gold mined 9.4 million tonnes of ore as compared to 12.7 million tonnes of ore in 2006. The Group's entities processed 10.7 million tonnes of ore, as compared to 8.8 million tonnes the previous year. The volume of ore processed exceeded the volumes of ore mined because some feedstock was delivered to the mill from the ore warehouse in accordance with the previously approved production plan.

[4] The difference in refined and unrefined gold production arises due to the fact that not all the produced metal is refined in the current period, resulting in balances carried over to the next reporting period.

Key operational indicators of the subsidiary companies of the Group in 2005–2007

Ore mined ('000 tonnes or as noted)	2007	2006	2005
Krasnoyarsk / Olimpiada mine			
Ore mined			
Oxidized ore	928	1,646	1,631
Sulfide ore	3,545	6,389	3,562
Total Olimpiada mine	4,473	8,035	5,193
Average gold grade (g/t)			
Oxidized	14.20	14.30	8.60
Sulfide	5.30	4.30	3.30
Irkutsk / Zapadnoye mine			
Ore mined	750	803	623
Average gold grade (g/t)	1.97	1.97	1.61
Yakutia / Kuranakh mine (i)			
Ore mined	4,154	3,847	842[1] / 3,416[2]
Average gold grade (g/t)	1.37	1.51	1.67

Ore processed ('000 tonnes or as noted)	2007	2006	2005
Krasnoyarsk / Olimpiada mine			
Ore processed			
Oxidized ore	1,458	1,511	1,711
Sulfide ore	4,773	3,046	2,911
Total Olimpiada mine	6,231	4,557	4,622
Average gold grade (g/t)			
Oxidized ore	10.48	12.05	9.73
Sulfide	3.49	3.57	3.96
Irkutsk / Zapadnoye mine			
Ore processed	517.8	522	375
Average gold grade (g/t)	2.24	2.40	1.95
Yakutia / Kuranakh mine (i)			
Ore processed	3,905	3,737	688[1] / 3,162[2]
Average gold grade (g/t)	1.35	1.54	1.57
Irkutsk / Alluvial deposits			
Sand washed (million cubic meters)	9.1	9.4	10.8
Average gold grade (g/m^3)	0.60	0.60	0.60

Production of gold ('000 ounces)	2007	2006	2005
Olimpiada mine	861	854	783
Zapadnoye mine	32	32	15
Alluvial deposits	179	172	212
Kuranakh mine	142	156	27
OJSC Matrosov Mine (ii)		–	1
OJSC SVMC (iii)	1	1	1
Total production of gold	1,214	1,215	1,038

Notes:

(i) – 2005 ore mined and processed at Kuranakh mine are indicated:
1 – for the fourth quarter 2005 since the mine was incorporated within the Group;
2 – for the full year 2005. 2005 gold production by Kuranakh mine is indicated for the 4 quarter 2005 which was the first period when the entity was consolidated by Polyus Gold Group.
(ii) – 2004 indicators include OJSC Matrosov Mine, which was shut down in 2004 due to beginning of Natalka deposit exploration.
(iii) – Overall gold production indicators of Polyus Gold Group in 2007 include immaterial amounts of gold obtained as a result of cleaning-up of closed OJSC SVMC production facilities.

Krasnoyarsk business unit. Olimpiada mine

The Olimpiada mine is located in the Northern-Yeniseysky district 500 kilometer north of Krasnoyarsk. Currently it operates three mills:

- Mill No. 1, which was commissioned in 1996, uses the hydrometallurgical production technology to process rich oxidized ore and has a capacity of 1.5 million tonnes of ore per year. Once oxidized ore from Olimpiada deposits will cease to be processed in 2008, Mill No. 1 will be remodeled to process Titimukhta ores.
- Mill No. 2, which was commissioned in 2001, uses the biohydrometallurgical production (bio-oxidizing) technology to process refractory sulfide ores and has a capacity of 3 million tonnes of ore per year.
- Mill No. 3 was commissioned in 2007, with a design capacity of 5 million tonnes of ore per year.

The Group has outsourced the refining of gold from the Olimpiada mine to an independent precious metals refinery – Krasnoyarsk Non-Ferrous Metals Plant.

Olimpiada mine receives electric power from a subsidiary of RAO UES of Russia, OJSC Krasnoyarskenergo. It also uses its own generating facilities.

In 2007 the Olimpiada mine produced 4,473 thousand tonnes of ore compared to 8,035 thousand tonnes in 2006, in particular 928 thousand tonnes of oxidized ore and 3,545 thousand tonnes of sulfide ore with an average gold grade of 14.2 g/t and 5.3 g/t, respectively. The output was reduced according to the mine plan, as a considerable volume of ore food came to the mill from the ore stockpiles.

In 2007 the Olimpiada mine processed 6,230 thousand tonnes of ore compared to 4,557 thousand tonnes in 2006. The volume of sulfide ore processed increased in accordance with the production plan (due to commissioning of Mill No. 3) to 4,772 thousand tonnes as compared to 3,046 thousand tonnes in 2006.

In 2007 the Olimpiada mine produced 861 thousand ounces of refined gold (26.6 tonnes) compared to 854 thousand ounces (26.8 tonnes) in 2006. The growth of gold production in 2007 at the Olimpiada mine was enabled by the commissioning of Mill No. 3 which increased the sulfide ore processing capacity of the Olimpiada mine to 8 million tonnes per year. Mill No. 3 is described separately in this annual report on page 18.

In 2007 the Olimpiada mine produced 861 thousand ounces or 26.6 tonnes of refined gold.

The total annual pit output of mined rock on Olimpiada is 32.8 million cubic meters.

Characteristics of the deposit and the types of ores

Olimpiada hard rock gold deposit includes two sites – Zapadnoye (Western) and Vostochny (Eastern). Ore bodies No. 1, 2 and 3 have been explored in the Western section. Development of the second phase of the Zapadnoye pit will start in 2015. Vostochny pit develops ore body No. 4 which contains the bulk of ore and gold reserves, consist of oxidized and sulfide ore reserves, and are separately measured. Extraction of oxidized ores in the Vostochny pit ended in 2007, and their processing will be stopped in 2008.

Oxidized ores represent soft poorly consolidated siltstone. Gold is present in the ore in a finely dispersed and pulverized form. Some of it is combined with ferrous and manganese hydroxides, antimonic oxides, and some is found in a free state. The gold grade of the oxidized ores is between 8-10 g/t.

Sulfide ores represent metasomatic ore bodies with rare (3%-4%, and up to 10% in the most enriched sections) impregnations of sulfide minerals, mainly such as arsenic pyrite, pyrite, antimonite and pyrrhotite. The average gold grade of the sulfide ores is 3.5 g/t.

Mining technologies

Olimpiada mine works as an open pit mine with surface stockpiling.

Ore is excavated from the pits with a preliminary ripping method via a set of drilling and blasting operations, which is necessitated by the hardness of ore and host rock.

Mined ore is loaded on trucks by excavators, with waste rock transported to external dumps and ore transported to the sorting yard.

The total annual pit output of mined rock is 32.8 million cubic meters, and of mined ore (oxidized and sulfide) – approximately 8 million tons.

Oxidized ore processing technology

From the sorting yard the ore is delivered to the receiving bunkers, from here it is fed into two parallel lines of two stage grinding, and then on for sizing. The overflow from the sizing is fed into circular thickeners.

The thickened ground pulp is fed to columns for absorption leaching by sodium cyanide. During this process gold is diluted and absorbed on the ion exchange resin.

After detoxication the gold saturated resin is fed for regeneration to a chain of columns. Gold bearing regenerate is fed for electrolysis as a result of which the finest particles of gold settle on the bottom of electrolytic baths.

Gold bearing sludge is filtered, roasted and smelted in induction furnaces. The final product is doré gold bars and is sent for refining.

Sulfide ore processing technology

In sulfide ores gold is combined with sulfides and is not suitable for direct cyanide leaching. For this reason, additional technical operations are needed to recover gold from the rock.

The Olimpiada mine was the first in the world to apply the bacterial oxidation (bio-oxidation) technology to recover gold from refractory sulfide ores in the far north environment.

The ore, which is at first crushed and ground into pulp is fed for floatation, after which the sulfide floating concentrate is fed for bacterial oxidation in cascades of mechanical air reactors and the flotation tailings are fed for absorption leaching after preliminary thickening. After neutralization the oxidized concentrate is also fed for absorption leaching.

Otherwise, the gold extraction technology for sulfide ores is the same as the technology used in the oxidized ore processing section.

Irkutsk hard rock business unit. Zapadnoye mine

The Zapadnoye mine is located in the Bodaibo district of the Irkutsk region. The mine mines the Zapadnoye deposit which is adjacent on its east flank to one of the largest Russian hard rock gold deposits – Sukhoy Log.

Gold is currently produced at the mill that was commissioned in 2004 with a capacity of up to 0.8 million tonnes per annum.

The Group has outsourced the refining of gold from Zapadnoye mine to an independent precious metals refinery – Krasnoyarsk Non-Ferrous Metals Plant.

The Zapadnoye mine mined 750 thousand tonnes of ore in 2007 with an average gold grade of 1.97 g/t compared to 803 thousand tonnes in 2006.

In 2007 the Zapadnoye mine processed 517.8 thousand tonnes of ore compared to 522 thousand tonnes in 2006.

The Zapadnoye mine is currently the only Russian gold mining facility that has a customized industrial technology for the processing of ores similar to the ores of Sukhoy Log – one of the largest gold deposits in Russia and globally.

In 2007 the gold production by the mine amounted to 34 thousand ounces (1 tonne), the same level as in 2006[5].

[5] Refined gold output includes insignificant volumes of gold produced at the pilot facility on the Chertovo Koryto deposit.

The Zapadnoye mine is the only Russian gold mining facility that has a customized industrial technology for the processing of ores similar to the ores of Sukhoy Log – one of the largest gold deposits in Russia and globally.

Characteristics of the deposit and the types of ores

The Zapadnoye hard rock deposit is located in the Kropotkinsky municipality of the Bodaibo district 20 kilometers from the Kropotkinsky settlement, in the north east of the Irkutsk region.

The gold mineralization of Zapadnoye gold deposit is of vein-disseminated quartz-pyrite type with low-gold-content quartz vein bodies. The ores mainly contain placer gold.

Mining technologies

The Zapadnoye deposit is mined using the open pit method on the basis of drilling and blasting operations. The average rate of ore and host rock hardness determines the need to conduct drilling and blasting operations in preparing the rock for excavation. Mined rock is loaded on trucks by excavators, with waste rock transported to external dumps and ore to the sorting yard of the mill. Excavators are used for the stripping and excavating work. The ore is transported to the mill by dumpers with a lifting capacity of 30 tonnes.

The pit configuration, mining technology and type of equipment used are determined by the ore occurrence patterns, thinness of ore bodies and the relatively low gold grade of the ore.

Ore processing technology

More than 90% of the gold in the Zapadnoye deposit is in a mineral form; and only a small portion of it is found in pyrite and pyrrhotite in the shape of the thinnest of clots. The mill uses the gravitation technology with subsequent cyanidation of the concentrate.

Irkutsk alluvial gold business unit. Alluvial deposits

Polyus Gold is currently the largest gold producer from the alluvial deposits located in the Bodaibo district in the Irkutsk region.

The Group has licenses for 113 properties. The deposits are located deep, have high water content, are complicated by interfering bouldery sands, permafrost and industrial excavations. Gold grades are low. The mining involves the use of dredges and draglines with the bucket volume of 6 to 20 cubic meters, mining shovels with shovels of 5 cubic meters, over two hundred various class bulldozers, open-pit dump trucks and sluice boxes.

In 2007, the total gold production from the alluvial deposits amounted to 179 thousand ounces (5.58 tonnes) compared to 172 thousand ounces (5.32 tonnes) in 2006. The main factors which affected the performance in 2007 included:

- commissioning of new mine transportation equipment;
- structural changes in CJSC ZDK Lenzoloto (alluvial gold mining entity of the Group); and
- favorable climatic conditions (long, warm autumn).

Mining technologies

Alluvial gold operations use the separate and dredge methods.

Separate method

Stripping operations for the preparation of the mining grounds use combinations of technical schemes involving draglines, bulldozers and open-pit dump trucks. Gold sands from the grounds are fed to the washing machines.

Dredge method

The dredge technology facilitates a set of preparatory works. The peat is stripped, depending on the depth of the productive layer, by bulldozers or by excavation method with the use of draglines. The dredge method is the most economically effective in the development of alluvial deposits and ensures profitable mining with an average gold grade in the sands of approximately 0.3 g/m^3.

Sand extraction technology

Gold sands are processed at various types of washing installations with sluice enrichment technology.

Yakutia business unit. Kuranakh mine

Kuranakh mine is located in the Aldan district of the Republic of Sakha (Yakutia), several kilometers away from the Nizhny Kuranakh settlement. The Kuranakh mine, mines 11 hard rock gold deposits which form the Kuranakh ore field.

Gold is currently produced at the mill that was commissioned in 1965 with a capacity of 3.6 million tonnes per annum. The reconstruction of the mill initiated in 2007 will increase its production capacity to 4.5 million tonnes per annum.

The Group has outsourced the refining of gold from the Kuranakh mine to Prioksky Non-Ferrous Metals Plant (Ryazan region).

The Kuranakh mine mined 4,154 thousand tonnes of ore in 2007 with an average gold grade of 1.37 g/t compared to 3,847 thousand tonnes in 2006. The mine production increased because of the reduced gold grade of the ore.

In 2007, the Kuranakh mine processed 3,905 thousand tonnes of ore compared to 3,737 thousand tonnes in 2006[6]. Gold recovery remained almost at the same level of 85.6% in 2007 compared to 86.5% in 2006.

[6] Including ore processed by the heap leaching facility.

In 2007 the Kuranakh mine produced or 142 thousand ounces (4.4 tonnes) compared to 156 thousand ounces (4.8 tonnes) in 2006. The decrease of gold production by the Kuranakh mine relates primarily to the deterioration of the average gold grade of the processed ore. The modernization program conducted by the mine will result in a gradual production growth in the forthcoming years.

Characteristics of the deposit and the types of ores

Throughout the entire life of the mine, the Kuranakh ore field deposits have been mined considerably, mostly at its central part which contains the most stable parameters of ore bodies and higher gold grades.

The following deposits are estimated as having the largest reserves:

- Delbe (12.2 million tonnes);
- Severnoye (10 million tonnes);
- Yakokutskoye (10 million tonnes);
- Kanavnoye (8.9 million tonnes).

All the deposits of the Kuranakh ore field have the same geological, morphologic and lithologic characteristics. The ores are of the quartz pyritous type. The gold is represented mainly by microscopic (0.05-0.001 mm) and submicroscopic (less than 0.1 micron) particles, and is present in a free state and genetically combined with sulfides and ferrous and quartz hydroxides.

Mining technologies

The Kuranakh ore field deposits are mined using the open pit method with blasting operations. The top down transportation system is used in mining work with horizontal layers of up to 10 meters high.

In some cases bulldozer mining or preparation (ripping) of ore is used. Ore is mined by bulldozers in trenches with a bench height of up to 5 meters. Blasting operations use the basic explosives (igdanites).

The annual pit output of mined rock is approximately 13 million cubic meters, and approximately 4.2 million tonnes of mined ore.

Ore processing technology used by the Kuranakh gold extracting plant

The ores from all the deposits in the Kuranakh ore field are easily cyanided with a low input of sodium cyanide. The Kuranakh mill uses the cyanide leaching technology with the absorption of gold on the resin.

The mill is expected to be modernized and a new one to be constructed within the framework of the business case for the extension of the Kuranakh ore field production facilities, which are being currently being developed.

The reconstruction of the Kuranakh mill will increase its production capacity from 3.6 million tonnes of ore to 4.5 million tonnes of ore per annum.

5.2. Launch of Mill No. 3 at the Olimpiada mine

In July 2007 the Group completed a major investment project – the construction of the third gold ore mill at the Olimpiada mine in the Krasnoyarsk region.

The need to extend the sulfide ore processing capacity at the Olimpiada mine resulted from the depletion of the easily milled oxidized ore at the Olimpiada deposit, while significant reserves of more difficult primary sulfide ore remained outside the boundaries of the current pits. Moreover, oxidized ores of the Olimpiada deposit had an average gold grade of 13–15 g/t, whereas the primary sulfide ore has an average grade of 3–4 g/t.

Therefore, to preserve the gold output level, the Group had to process several times more ore. For example, in 2006 the mine had to process 3.7 tonnes of ore to produce one ounce of gold, and in 2007 – 5.2 tonnes.

For this purpose, the Group prepared a project of the Olimpiada mine extension to process up to 8 million tonnes of primary ore per year, in order to maintain stable gold production at a level of approximately 780 thousand ounces (24 tonnes).

The design of Mill No. 3 at the Olimpiada deposit was prepared by engineers from the Research and Design Center of CJSC Polyus (RDC). The primary ore is processed via a floating concentration with subsequent absorption cyanidation of the preliminarily bio-oxidized floating concentrate and doré alloy obtained from electrolytic sludge.

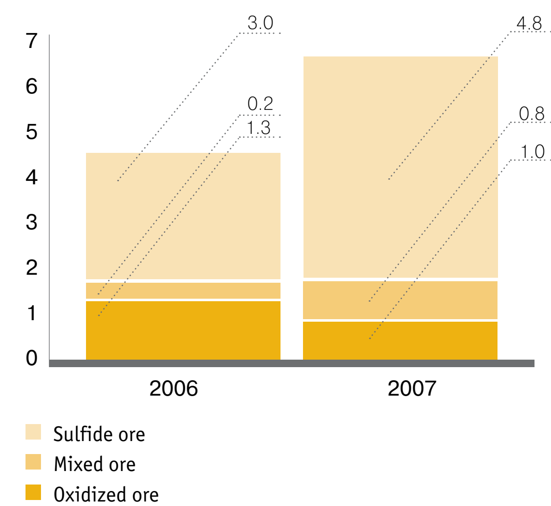
The project implementation period from design to commissioning took about 3 years, which is good compared to global benchmarks. Commissioned in 2007, the mill is continuing to operate in the ramp-up mode. The design capacity of 5 million tonnes of ore per year is planned to be reached in 2009.

The new mill uses proprietary primary ore floating concentrate bio-oxidation technology (BIONORD™) enabling a considerable increase in gold recovery rate. The bio-oxidation technology is tailored for use in Far North conditions and has been successfully implemented at the Olimpiada mine since 2001. The floatation tailings are not cyanided, and the concentrate absorption tailings with residual gold content are stored separately from floatation tailings in a "dry" form (filter cakes), which is a key difference of the new hydrometallurgical scheme. This solution reduces costs necessary to construct an additional tailing pit and permanent losses with tailings and enables the recovery of gold during the processing of absorption tailings in subsequent periods. Moreover, in order to increase gold recovery rates and prevent possible losses, the mill runs operations to recover control gravitation gold and gold bearing sulfide from waste floatation and absorption tailings.

The operation of Mill No. 3 will lead to an increase in annual sulfide ore processing volumes at the Olimpiada deposit, which will offset the reduction in ore processing resulting from the depletion of more rich and easy to mine ores and sustain a stable annual production of gold at the Olimpiada mine at the level of 780 thousand ounces (24 tonnes) from 2010.

For Polyus Gold, the construction of the third mill at the Olimpiada mine is the first large project implemented as part of the strategic development plan up to 2015. Experience gained during this large scale project will be used for the construction of gold mining assets in other regions. The highly skilled team formed over the years of Mill No. 3 construction will soon also be used for the construction of mines on the Blagodatnoye deposit in the Krasnoyarsk region, the Verninskoye deposit in the Irkutsk region and other projects identified by the strategic development plan of Polyus Gold.

Ore processing volumes at the Olimpiada mine,million tonnes



5.3. New projects

In September 2006 the Board of Directors of Polyus Gold approved a long-term development strategy for the Group up to 2015 which envisages a more than threefold growth of gold production and a considerable growth of the mineral resource base. The Group took a number of important steps in implementing this Strategy, of which it regularly informed its shareholders and the market.

Realization of the ambitious growth strategy presumes construction of several new mining facilities in all the key regions of the Group's operation – Krasnoyarsk, Irkutsk, Yakutia and Magadan.

Krasnoyarsk region. Construction of the Blagodatnoye mine

In November 2007, the Board of Directors approved a project for the construction of a new mine on the Blagodatnoye deposit in the Krasnoyarsk region. According to the project, the facility will be commissioned in 2010. The deposit will be mined using the open pit method. The mine's capacity will be about 6 million tonnes of ore per year. With an expected recovery rate of 88.6%, the mine's production will be about 412 thousand ounces (12.8 tonnes). The capital investment for the construction of the Blagodatnoye mine will be about USD 390 million, not including VAT. Total life of the mine will be from 2010 to 2026.

The Blagodatnoye deposit is located 26 kilometers north of the Olimpiada mine and was discovered as a result of in-house Polyus exploration efforts, which were completed in 2005 and became a geological exploration breakthrough not only for the Group, but also for Russia in general, as no new deposits were discovered in the country for more than 10 years. GKZ reserves of the Blagodatnoye deposit amount to 7.1 million ounces (222 tonnes) of gold with an average gold grade of 2.44 g/t. Proved and probable reserves (JORC) of the deposit amount to 8.08 million ounces with average gold grade of 2.4 g/t.

The proximity of the Olimpiada mine will allow utilization of some available social, maintenance and warehousing infrastructure when developing the Blagodatnoye deposit. Personnel and equipment released after the construction of Mill No. 3 will be used to construct Blagodatnoye mine.

In 2007, construction activity on the mill began, mining equipment deliveries started, and civil engineering facilities were built, such as a canteen for 200 people (completed) and a dormitory for 987 people (final stage of construction).

Development of the Titimukhta deposit

In November 2007, the Board of Directors approved a project for the development of the Titimukhta deposit in the Krasnoyarsk region. According to the approved feasibility study, the development will start in 2009. The mine capacity (the reconstructed mill No. 1 of the Olimpiada mine) will be 2.2 million tonnes of ore per year. With a recovery rate of 88% the annual production of gold (after full capacity is reached in 2010) will be about 170 thousand ounces (5.3 tonnes). The capital investment for the project is estimated at USD 99 million.

The Titimukhta deposit is located in the Severo-Yeniseysky district, 9 kilometer from the Olimpiada mine. During 2004–2007, geological exploration was conducted on the deposit which resulted in an increase in mineral reserves from 40 tonnes to 83 tonnes of gold in the B+C1+C2 categories. Proved and probable reserves estimated in accordance with the JORG code amounted to 1.1 million ounces with a gold grade of 3.7 g/t.

The close proximity to the Olimpiada mine allows for the using the Olimpiada mine facilities for the development of the Titimukhta deposit. The processing of rich oxidized ore of the Olimpiada deposit virtually stopped in 2007. The released production facility of Mill No. 1 will be used for Titimukhta ore processing, after reconstruction.

In 2007, mining was terminated at the Olenye deposit. The mining equipment from the Olenye deposit will also be used for Titimukhta development. Moreover, the close proximity of the Olimpiada mine will allow for the utilization of the available social and maintenance infrastructure when developing the Titimukhta deposit.

Reconstruction of Mill No. 1 of the Olimpiada mine and delivery of mining equipment started in 2007, and the access road to the deposit continued to be constructed.

Irkutsk region. Construction of a mining facility at the Verninskoye deposit

Planning and surveying work continued and the preparation of the site for the new Verninskoye mine construction began in 2007. In January 2008 the Board of Directors approved a feasibility study for the construction of a gold mining facility on the Verninskoye deposit in the Bodaibo district of the Irkutsk region.

The Verninskoye deposit is located in the Bodaibo district of the Irkutsk region 140 kilometer north of Bodaibo city, close to the Zapadnoye mine. Mineral reserves of the deposit amount to 107 tonnes (C1+C2) of gold with gold grade of 3.7 g/t. Proved and probable reserves of the deposit estimated in accordance with the JORC code amounted to 1.7 million ounces with an average gold grade of 3 g/t.

According to the approved feasibility study, the new Verninskoye mine will be commissioned in 2010. The mine capacity will be 2.2 million tonnes of ore per year. The annual production of gold (after full capacity is reached in 2011) will be about 218 thousand ounces (6.8 tonnes) with a recovery rate of 88.8%. The capital investment in the project will amount to some USD 216 million (not including VAT).

Magadan region. Natalka mine, construction of a large scale mining facility

In 2007, a consortium of international consultants embarked on the design work for the new Natalka mine.

In 2007, a consortium of international consultants, with Knight Piesold as the lead consultant, embarked on the design work for the new Natalka mine, which will be commissioned in 2013 and will more than double the current production of gold by the Group.

The hard rock Natalka deposit is located in the Tenkinsky district of the Magadan region (390 kilometer north west of Magadan) in the Omchak river basin. Originally the deposit was discovered in 1944, and was developed using the underground mine method. In 2004, the operation was closed down, due to inefficiency. From 2004 to 2006, Polyus geologists carried out a large scale geological exploration project on the Natalka deposit, which resulted in the state registration of the largest Russian hard rock gold deposit with B+C1+C2 category reserves of 48 million ounces (1,501 tonnes) with an average gold grade of 1.7 g/t and a cut-off grade of 0.4 g/t.

In September 2007, an audit of the Natalka deposit in accordance with an internationally recognized framework ("JORC") was completed, and the deposit was recognized among the three largest gold deposits in the world. Based on the audit, the total proved and probable reserves amount to 1,271 tonnes or 41 million ounces with an average gold grade of 1.13 g/t and a cutoff grade of 0.3 g/t.

The new Natalka mine, which is expected to be commissioned in 2013 will become the largest gold mine in Russia. For Polyus Gold, the start of production at Natalka will mean the beginning of a new era. With the commissioning of the Natalka mine the Group will secure a firm position amongst the top five gold producing mining companies in the world.

According to the approved feasibility study, the new Natalka mine with a capacity of some 40 million tonnes of ore and 1 million ounces (32 tonnes) of gold per year will be commissioned in 2013. The gold recovery rate is expected to be 87%. According to the feasibility study estimate, capital expenditure on the project will amount to about USD 1.5 billion.

However, according to preliminary estimates made by the consortium of international consultants that began the pre-feasibility study for the project, the potential of the deposit may be improved even more efficiently if the project scale is increased. Thus, annual gold production may be increased to at least 2 million ounces (60 tonnes). According to the consortium's preliminary estimate, capital expenditure on the project may amount to about USD 2.5 billion. The plans for 2008 include consideration and approval by the Board of Directors of this pre-feasibility study, on the basis of which management will take a decision on implementing the project.

Given that like many Russian gold deposits, Natalka is located in a remote region with poorly developed infrastructure, this largest project in Russia may be implemented either with the support from the state or in consortium with another gold mining company. Polyus has already succeeded in obtaining a preliminary approval from the State Investment Fund for the financing of the construction of the electric transmission line to the Natalka mine area. The electricity will be supplied to the Natalka mine from the Ust-Srednekanskaya HPP which is now under construction and from the Kolyma HPP which is already in operation. A new transmission line is planned to be built between the Kolyma HPP and the Omchak settlement, and the electric grid infrastructure facilities are planned to be extended along the ORU Ust-Srednekanskaya HPP – Orotukan settlement – ORU Kolyma HPP route.

5.4. Geological exploration in 2007

The Group considers geological exploration to be an important part of its business and employs a team of highly professional geologists with extensive experience, knowledge and skills, which is supported by innovative technology and up-to-date equipment.

The efforts of the Group's geologists resulted in the Group's mineral resource base increasing four times during the last three years. That is an unprecedented example for the Russian and international gold mining industry.

The list of prospects for geological exploration constantly grows, as the Group participates in government tenders and acquires new subsidiaries.

In May 2006 the Board of Directors approved the exploration program up until 2010. As a result of these activities, the Group's C1 and C2 GKZ reserves are expected to grow to 3,707 tonnes (119 million ounces) by 2010 (excluding the results of the geological exploration of the Natalka deposit), and prognostic P1 resources are expected to grow to 1,210 tonnes (38 million ounces) by 2010.

In 2007 the Group continued with the exploration activity set out in the program and the Group's geological unit performed work at 26 hard rock and

18 alluvial gold properties. In 2007 exploration costs increased to RUR 2,855 million (USD 111.6 million) from RUR 1,540 million in 2006 (USD 56.6 million). The volume of drilling amounted to 405 thousand meters as compared to 164.7 thousand meters in 2006.

As of 1 January 2008, the Group's GKZ reserves (B+C1+C2 categories) increased by 29.5 tonnes (taking into account depletion in the mine) and amounted to 2,991.9 tonnes of gold, as compared to the Group's mineral resources as of 1 January 2007 (2,962.4 tonnes).

In 2007 proved and probable gold reserves increased from 50.8 million ounces up to 68.6 million ounces in accordance with the JORC Code.

In 2007, the Group's geological exploration portfolio included 26 projects in 5 leading Russian regions: Krasnoyarsk, Irkutsk, Sakha (Yakutia), Magadan and Amur.

Krasnoyarsk region

In 2007 the Group carried out geologic exploration at 8 sites in the Krasnoyarsk region – the Quartzevaya Gora, Titimukhta, Blagodatnoye and Poputnenskoye deposits, and Panimbinskaya, Olimpiada, Zyryanovskaya and Razdolinskaya areas.

In December 2007, 65.1 tonnes of C1 category and 17.7 tonnes of C2 category of GKZ reserves were added to the state register for the Titimukhta deposit in the Olimpiada area. Off-balance reserves of C1 and C2 categories of 2 and 11 tonnes of gold, respectively, were also included.

In 2007 P&P gold reserves increased from 50.8 million ounces up to 68.6 million ounces in accordance with the JORC Code.

Quartzevaya Gora and Blagodatnoye deposit reserves were also measured in 2007 and amounted to 32 tonnes (with a gold grade of 0.9 g/t) and 28 tonnes (with a gold grade of 1.4–2.3 g/t), respectively.

In 2007, early stage geological exploration projects (Razdolinskaya, Panimbinskaya, Zyryanovskaya (including Poputnenskoye deposit)) were prepared for the re-registration of licenses in the name of the subsidiary geological exploration companies. The process of re-registration of mineral use rights for a number of properties is dealt with in more detail in subsection "5.4.1. Structuring of geological exploration assets".

Irkutsk region (hard rock deposits)

In 2007, exploration activity in the Irkutsk region was conducted at the Verninskoye, Chertovo Koryto and Zapadnoye hard rock deposits, and prospect appraisal activity at the Artemievskoye and Mukodekskoye ore fields.

On 5 December 2007 reserves of the Chertovo Koryto deposit were submitted for approval to GKZ. In April 2008 GKZ registered Chertovo Koryto reserves of 87 tonnes (C1+C2 categories) with a cut-off grade of 0.8 g/t and average grade of 2.34 g/t.

Ore body extension beyond the eastern boundary of the pit was discovered on the Zapadnoye deposit (the ore body was from 8 to 13 meters thick with an average gold grade of 2.0 – 4.25 g/t). For this extension, mineralization was traced to extend down to depth. The estimated accretion of mineral resources amounted to 9.1 tonnes of gold.

A block model was made for the Verninskoye deposit, limited to a 1 g/t grade envelope. Based on this model, the reserves amounted to 131 tonnes of gold, including 85.2 tonnes of gold within the pit boundary with an average gold grade of 3.76 g/t. The estimated growth of reserves for 2007 is 25 tonnes of gold.

Work on the Artemyevsky ore field was conducted for the first year; as a result, prospects of industrial ore reserves were confirmed for the Zheltuktinskaya, Verkhne-Kevaktinskaya and Illigirskaya areas. In the former area, a mineralization zone was discovered by trenching and drilling, with the nature of the ore body localization and mineral composition similar to the Chertovo Koryto mineralization zones. The zone is several dozens of meters thick, with an average gold grade in the hole of 2.8 g/t for the depth of 42 m.

Several thin gold veins and a high mineralization zone 15–20 m thick were discovered by trenching in the Verkhnevakhtinskaya area.

Gold mineralization in quartz veins was also discovered in the Illigirskaya area.

Prospect appraisal work performed for the Mukodek ore occurrence in the Irkutsk region will be described in section "5.4.1 Structuring of geological exploration assets".

Irkutsk region (alluvial gold deposits)

In 2007, Polyus Gold increased its exploration program of the alluvial gold deposits in the Irkutsk region. During recent years prospecting and exploration works have been carried out at 18 license areas, and mining exploration has been conducted at 27 license areas.

Although the Lenskaya gold mining province, where the Group's key alluvial assets are located, has a significant resource base, the explored alluvial gold resources have become depleted during the last decade due to intensive mining activities. Active exploration works are designed to replenish the mineral resource base of the alluvial deposits of Polyus Gold to ensure a stable production over the next few years.

As a result of geological exploration, C1+C2 category reserves increased by 2,938 kg and prognostic resources of P1+P2 categories by 625.7 kg.

Republic of Sakha (Yakutia)

In 2006, Polyus Gold carried out exploration of the deposits at its existing Kuranakh mine and three prospective gold sites:

C1+C2 category reserves of alluvial operations increased by 2,938 kg and prognostic resources of P1+P2 categories by 625.7 kg.

- Nezhdaninskoye deposit in the north-eastern part of Yakutia;
- Kyutchus deposit in the northern part of Yakutia; (See Kyutchus deposit description on page 26)
- Pininginskoye deposit in the southern part of Yakutia

(the latter two will be transferred to a separate business unit).

A pre-feasibility study was approved for the Nezhdaninskoye deposit. The first preliminary estimate of reserves for open pit mining equal to 200 tonnes of gold with an average grade of 3.6 g/t was made. Total reserves, including underground mining, amounted to 680 tonnes of gold.

Magadan region

The Natalka deposit is the most important project of the Group in the Magadan region. Originally the deposit was discovered in 1944, and it was developed using an underground mining method. In 2004 the operation was closed down, due to low efficiency, with the ownership rights held by Open Joint Stock Company Matrosov Mine. In spring 2005, CJSC Polyus, a subsidiary of OJSC Polyus Gold, acquired 93.29% in Matrosov Mine and began active geologic exploration activity of the Natalka deposit. From 2004 to 2006, Polyus geologists carried out a large scale geological exploration project on the Natalka deposit, which resulted in the state registration of the largest Russian hard rock gold deposit with B+C1+C2 category reserves of 1,449.5 tonnes (46.6 million ounces).

In 2007, an audit of the Natalka deposit in accordance with the JORC code was performed and the proved and probable reserves of the deposit amounted to 40.8 million ounces.

The licenses for geological exploration of some areas (the Degdekanskoye ore field, the Tokichanskoye (Eastern area) ore field and the Chai-Yurinsky ore cluster) were also prepared for re-registration (see section 5.4.1 "Structuring of geological exploration assets"). Furthermore, on 10 December 2007 LLC Magadanskoye GRP won a tender for the Doroninskoye deposit in the Magadan region. The license for the deposit was issued in 2008, at the time of the preparation of this annual report.

Amur region

In the Amur region, the Group holds exploration licenses for the Nevachanskaya hard rock gold area (Bamskoye deposit) and the Apsakanskoye hard rock gold area. Licenses for these areas will be transferred to a separate geological exploration company.

5.4.1. Structuring of geological exploration assets

In September 2006 the Board of Directors approved a Strategic development plan for 2006 to 2015. Point 12.1 of the Plan provides for the re-registration of the rights of a number of properties to specialist geological exploration subsidiaries. It also provides that the list may be extended if new licenses are to be acquired. Since then the Group made a number of new acquisitions, and by the end of 2007, in accordance with the decision of the Board of Directors, was ready to re-register the subsoil use rights for 12 geological exploration sites (the Doroninskoye deposit license was in the process of issue at the end of 2007) to a number of Group's entities.

In 2006 and 2007 six licenses were re-registered in the name of 5 regional exploration entities (LLC Krasnoyarskoye GRP, LLC Irkutskoye GRP, LLC Magadanskoye GRP). The license to the Kyutchus deposit remains with OJSC Yakut Mining Company ("YMC"), and to the Chai-Yurinskaya area – in the hands of LLC GRK Bargold. Three more licenses were re-registered in early 2008 (LLC Yakutskoye GRP, LLC Amurskoye GRP). The breakdown of licenses by exploration entities are as follows:

Property	Former holder	New holder	Expiry date
Panimbinsky ore cluster	CJSC Polyus	LLC Krasnoyarskoye GRP	01.11.2029
Razdolinsky (Poputnensky) ore cluster	CJSC Polyus	LLC Krasnoyarskoye GRP	01.11.2025
Zyryanovsky ore cluster	CJSC Polyus	LLC Krasnoyarskoye GRP	15.10.2030
Mukodek ore occurrence	LLC LZRK	LLC Irkutskoye GRP	01.04.2030
Piniginskoye deposit	OJSC Aldanzoloto GRK	LLC Yakutskoye GRP	15.02.2027
Kyutchus deposit	OJSC YMC	OJSC YMC	31.10.2008
Degdekanskoye ore field	OJSC Matrosov Mine	LLC Magadanskoye GRP	01.06.2030
Tokichanskoye (Vostochnaya area) ore field	OJSC Matrosov Mine	LLC Magadanskoye GRP	01.09.2030
Chai-Yurinsky ore cluster	LLC GRK Bargold	LLC GRK Bargold	20.04.2031
Doroninskoye deposit	–	LLC Magadanskoye GRP	17.02.2033
Nevachanskaya hard rock gold area (Bamskoye deposit)	CJSC Polyus	LLC Amurskoye GRP	15.04.2030
Apsakanskaya hard rock gold area	CJSC Polyus	LLC Amurskoye GRP	25.05.2032

On 12 November 2007, Polyus Exploration Limited was registered in the British Virgin Islands. In February 2008 it acquired 5 regional exploration entities, LLC GRK Bargold and OJSC YMC.

At the end of the reporting period, the distribution of deposits and prospective properties prepared for re-registration and carried on the balance sheet of the Company and its subsidiaries was as follows[7].

[7] In 2008, geological exploration was conducted on the licenses to be re-registered and licenses to be retained by the Company; therefore, by the time of the publication of this annual report reserves and resources may differ from reserves and resources at December 31, 2007.

Properties owned by OJSC Polyus Gold and Group's entities	Reserves ('000 tonnes)		Resources ('000 tonnes)			Properties prepared for transfer to Polyus Exploration Limited	Reserves ('000 tonnes)		Resources ('000 tonnes)		
	C_1	C_2	P_1	P_2	P_3		C_1	C_2	P_1	P_2	P_3
Krasnoyarsk											
Blagodatnoye (deposit)	58.9	163.5	117.4			Panimbinsky ore cluster			125.2		
Olimpiada deposit	276.0					Razdolinsky (Poputnensky) ore cluster			98.0	25.0	
Quartzevaya Gora (deposit)						Zyryanovsky ore cluster					100.0
Kuzeevsky (ore cluster)			8.8	37							
Olenye (deposit)	9.7										
Olimpiada area				1120							
Titimukhta deposit	65.1	17.7									
Magadan											
Natalka deposit	1262.9	186.7	41.7			Degdekanskoye ore field	0.3		254.5		
Omchak ore cluster			81.0			Tokichanskoye (Vostochnaya area) ore field	0.3	0.4	26.0		
						Chai-Yurinskaya area					100.0
						Doroninskoye ore field			5.5		
Irkutsk											
Artemievskoye ore field			5.0		126.9	Mukodek ore occurence			18.0		
Verninskoye and Pervenets deposit	38.7	10.1	53.3								
Zapadnoye (deposit)	9.2	0.5	35.0								
Kropotkinsky (Medvezhy Zapadnoye and Medvezhy Vostochny)				100							
Chertovo Koryto (deposit)		9.8	100.8								
Alluvial deposits	49.1	8.9	25.5								
Sakha (Yakutia)											
Kuranakh	98.8	7.2	6.6			Piniginskoye deposit		15.1	26.4		
Nezhdaninskoye	220.0	257.1	430.0			Kyutchus deposit	64.9	70.7	53.7		
Amur											
						Nevachanskaya hard rock gold area (including Bamskoye deposit)	11.6	2.1	18.0		
						Apsakanskaya hard rock gold area			7.0	3.0	158.0
Total	2088.4	737.1	1184.9	263.9	1120.0		77.1	88.27	632.3	28.0	358.0

Resources and reserves of prospective properties and deposits prepared for re-registration have been estimated at 632.3, 28 and 358 tonnes for P1, P2 and P3 categories, respectively, and at 77.1 and 88.27 tonnes for C1 and C2 categories, respectively.

The following results were obtained during the year at the properties reregistered in the name of Polyus Exploration Limited.

At the Poputnenskoye deposit in the Krasnoyarsk region a 212 meter thick ore body with an average gold grade of 2.69 g/t was delineated. The ore body was traced to the depth of 440 meters without indicators of pinching. The drilling started on the western site. According to the Company's estimated prognostic data, P1+P2 resources amounted to 123 tonnes of gold, i.e. increased by 52 tonnes during 2007.

Of the 5 sites on the Panimbinskaya area, 4 were categorized as prospective (Mikhailovsky, Zolotoy, Shalokit and Tavlik). Prognostic P1 resources for the Mikhailovsky and Zolotoy sites amounted to 125.2 tonnes as a result of exploration.

In the Magadan region, on the north-western site (Verny) of the Degdekan ore field an occurrence with estimated geological C2 category reserves of 107.5 tonnes of gold and P1 category resources of 147.0 tonnes of gold was delineated.

A prefeasibility study was prepared for the Kyutchus deposit in the Republic of Sakha (Yakutia): estimated geological reserves of the Glavnaya ore zone to a 700 m horizon amounted to 258 tonnes of gold, including 151.5 tonnes in the pit with a grade of 4.67 g/t. An industrial type mineralization in the Pervomaiskaya zone with reserves of up to 30 tonnes of gold and extending beyond the licensed area was defined.

In 2007, field work was completed on the Bamskoye deposit in the Amur region. In 2008, 100 tonnes of gold reserves are expected to be registered by GKZ.

Kyutchus deposit

Kyutchus is the largest of the list of subsoil areas to be re-registered (according to Polyus Gold's data, C1+C2 reserves amount to 216 tonnes of gold). For this reason we deem it necessary to describe this property in more detail.

Kyutchus deposit is located above the Polar Circle, in the north of the Sakha (Yakutia) region approximately 200 km from the north Arctic coast. The region has an extremely continental climate, with winter temperatures down to -60C.

The Group acquired OJSC YMC which holds a license for the geological exploration of the Kyutchus ore field at the end of 2005, together with two other Yakut companies – OJSC SVMC and OJSC Aldanzoloto GRK. The license was registered on 1 December 2003 and expires on 31 October 2008. In the future, the Company plans to obtain a license for exploration and production on the basis of the commercial discovery of the deposit. The deposit may be put out for a tender, as current legislation does not give a 100% guarantee that such a license will be granted.

As a potential deposit, Kyutchus was first discovered in 1963. Subsequent prospecting and appraisal of the deposit were performed in 1981–1999. In 2006–2007, OJSC YMC, which is now part of the Group, resumed large-scale geological exploration activity.

The main ore bodies of the deposit are associated with the Principal ore zone (Glavnaya), about 4 km long and 100 m to 500 m thick.

By mineral composition, the ore of the deposit may be classified as belonging to a low sulfide gold quartz formation, and is represented by spalling, bedded siltstone which contains veined quartz mineralization which takes 15-20% of the volume, and disseminated ore mineralization (6.7%). Principal gold concentrating minerals are arsenic pyrite and pyrite. Kyutchus deposit mineralization has similarities with the Maiskoye deposit mineralization located in the Chukotka. It is different in having a high content of antimony and mercury.

Geological exploration over the previous years was focused more on the examination of vein structures with high gold grades. The reserves of the deposit were approved in 1996 by the Reserve Committee of the Republic of Sakha (Yakutia), at 13.9 million tonnes of ore (135.6 tonnes of gold) of C1+C2 categories with a gold grade of 9.9 g/t. The reserves were measured on the basis of the prefeasibility study approved by the Committee in 1994. The prefeasibility study parameters are defined for underground mining only and do not reflect the real scale, structure and morphology of the occurrence.

The 1997 examination of reserves by the Committee noted differences between the initial macroeconomic data of the prefeasibility study and the actual indicators, lack of a real process flow for ore processing and inconsistency in defining the classification of the explored reserves. For the same reasons, the Russian Ministry of Natural Resources declined proposals made by the State Geological Committee of the Republic of Sakha (Yakutia) to register the deposit in the State register of mineral reserves.

Upon the participation in the project in September 2005, Polyus re-evaluated the geological model of the deposit and revised the exploration strategy.

During that period, geological exploration activity focused mainly on the re-assessment of the near-surface part of the deposit from an open pit mining perspective, and prospecting for new sites fit for open pit workings. The activity covered both the rich central mineralization zone and low grade flanks. As a result, the exploration of the near surface area and deep horizons of the Main ore zone of the deposit was completed for the conditions of combined open pit and underground mining. The prospect appraisal of a series of new ore bodies of the Pervomaiskaya ore zone was performed with a level of detail sufficient for measurement of C_2 reserves for open pit mining and a prefeasibility exploration study was developed for reserve measurement.

In-house estimations of reserves identified a potential to increase reserves to 47 million tonnes of ore (216 tonnes of gold), including for open pit mining – to 36.0 million tonnes or ore, 147 tonnes of gold, with an average thickness of 16.3 meters and a gold grade of 4.1 g/t.

The overall potential of the Glavnaya ore zone to a 700m horizon is estimated at 258 tonnes of gold. Pervomayskaya zone reserves are estimated to be at least 30 tonnes of gold. The mineralization goes beyond the boundary of the licensed property.

5.4.2. Ore reserves and mineral resources

Over the last few years Polyus Gold has been performing regular audits of its mineral resources pursuant to the internationally accepted JORC Code with a view to providing the investment community with information on ore reserves and mineral resources meeting global mining industry standards.

The first audit of Polyus Gold's ore reserves and mineral resources was performed in 2005 by SRK Consulting. The audit included an analysis of some of the Group's deposits in the Krasnoyarsk, Irkutsk and Magadan regions. In connection with the acquisition of certain assets in 2005 and the successful completion of several exploration projects, at the beginning of 2006 Polyus Gold's deposits in Krasnoyarsk region were re-audited and the first audit of the Group's ore reserves and mineral resources of the deposits located in Yakutia was performed by Micon International – an independent mining consultancy and engineering company.

In the fall of 2006 as part of preparatory work to list American Depository Receipts on the Main Board of the London Stock Exchange (LSE), Micon International prepared the Independent Expert's Report which included an assessment of all Polyus Gold's ore reserves and mineral resources in accordance with the JORC Code. The Independent Expert's Report was signed in December 2006 and included in the listing memorandum. It should be noted that to date this document is the only one of its kind in the Russian gold mining sector – no other industry leader in Russia discloses information about reserves in so much detail.

In the summer of 2007 Micon International performed an audit of the Natalka deposit in the Magadan region in accordance with JORC, where a large scale geological exploration program was completed in early 2007. The audit confirmed the proved and probable reserves of the deposit equal to 41 million ounces. Total reserves of the Group amounted to 69 million ounces.

In March 2008 JORC audit was completed at the Chertovo Koryto deposit in Irkutsk region. According to the Independent Experts' Report, proved and probable gold reserves of the deposit amount to 43.61 million tonnes of ore with a gold grade of 1.83 g/t and 79.96 tonnes of gold (2.6 million ounces). Measured and indicated mineral resources of the deposit amounted to 50.49 million tonnes of ore with a gold grade of 1.84 g/t and 92.95 tonnes of gold. In addition, inferred mineral resources of the deposit amounted to 2.09 million tonnes of ore with a gold grade of 1.64 g/t and 3.4 tonnes of gold. The resources were estimated with a cutoff grade of 0.8 g/t, and economic estimates assumed the gold price at USD 625 per ounce.

After the audit of the Chertovo Koryto deposit, the total proved and probable reserves of Polyus Gold grew to 71 million ounces.

Mineral resources according to the JORC Code as at 1 January 2007[1]

Deposit	Measured			Indicated			Total measured and indicated gold resources
	Ore (million tonnes)	Gold grade (g/t)	Gold ('000 ounces)	Ore (million tonnes)	Gold grade (g/t)	Gold ('000 ounces)	Gold ('000 ounces)
Existing operations							
Olimpiada	19.3	5.00	3,131	79.8	3.7	9,616	12,747
Olenye	–	–	–	0.4	7.4	100	100
Kuranakh	1.8	1.90	106	160.4	1.2	6,447	6,553
Zapadnoye	0.3	1.80	17	5.6	3.0	542	559
Lenzoloto	32.1[2]	0.20[3]	237	169.8[2]	0.4[3]	2,091	2,328
Subtotal	**85.6**	**1.30**	**3,491**	**585.8**	**1.0**	**18,796**	**22,287**
Projects							
Blagodatnoye	3.1	2.50	246	98.9	2.4	7,721	7,967
Natalka	163.9	1.74	9,166	626.9	1.52	30,543	39,709
Verninskoye	–	–	–	31.5	2.2	2,248	2,248
Titimukhta	–	–	–	8.2	4.2	1,102	1,102
Subtotal	**167.0**	**1.75**	**9,412**	**765.5**	**1.7**	**41,614**	**51,026**
Total	**202.6**	**1.98**	**12,903**	**1,351.3**	**1.4**	**60,410**	**73,313**

	Inferred		
	Ore (million tonnes)	Gold grade (g/t)	Gold resources ('000 ounces)
Existing operations			
Olimpiada	37.2	3.1	3,666
Olenye	0.7	6.9	150
Kuranakh	7.3	1.5	346
Zapadnoye	1.7	3.4	181
Lenzoloto	29.2[2]	0.6[3]	520
Subtotal	**106.2**	**1.4**	**4,863**
Projects			
Blagodatnoye	37.5	2.40	2,891
Natalka	472.4	1.42	21,538
Verninskoye	4.4	3.10	446
Titimukhta	1.2	5.20	191
Subtotal	**515.5**	**1.50**	**25,066**
Total	**621.7**	**1.50**	**29,929**

Notes:
[1] Resources include reserves.
[2] – '000 cubic meters (m^3);
[3] – grams per cubic meter (g/m^3) of recoverable gold.

Ore reserves according to the JORC Code as at 1 January 2007

Deposit	Proved			Probable			Total proved and probable
	Ore (million tonnes)	Gold grade (g/t)	Gold ('000 ounces)	Ore (million tonnes)	Gold grade (g/t)	Gold ('000 ounces)	Gold reserves (000' ounces)
Existing operations							
Olimpiada	19	4.9	3,005	87.0	3.6	10,041	13,046
Olenye	–	–	–	0.5	6.4	100	99
Kuranakh	–	–	–	32.0	1.6	1,646	1,646
Zapadnoye	–	–	–	4.4	2.8	394	394
Lenzoloto	12.5[1]	0.3[2]	128	104.8[1]	0.5[2]	1,603	1,731
Subtotal	**43.9**	**2.2**	**3,133**	**333.2**	**1.3**	**13,783**	**16,916**
Projects							
Blagodatnoye	3.2	2.5	254	101.8	2.40	7,826	8,080
Natalka	242.3	1.3	10,291	883.1	1.10	30,550	40,841
Verninskoye	–	–	–	17.1	3.00	1,657	1,657
Titimukhta	–	–	–	9.0	3.70	1,075	1,075
Subtotal	**245.5**	**1.3**	**10,545**	**1,011.0**	**1.27**	**41,108**	**51,653**
Total	**289.4**	**1.5**	**13,678**	**1,344.2**	**1.27**	**54,891**	**68,569**

Notes:
[1] – '000 cubic meters (m^3);
[2] – grams per cubic meter (g/m^3) of recoverable gold.

Total mineral resources and ore reserves according to the JORC Code as at 1 January 2007

Classification	Category	Ore ('000 tonnes)	Gold grade (g/t)	Gold (000' ounces)
Resources[1]	Measured	202.6	1.98	12,903
	Indicated	1351.3	1.40	60,410
	Total measured and indicated	1553.9	1.50	73,313
	Inferred	621.7	1.50	29,929
Reserves[1]	Proved	289.4	1.50	13,678
	Probable	1,344.2	1.27	54,891
	Total proved and probable	1,633.6	1.30	68,569

Note: [1] – for alluvial deposits, gravel volumes were converted using a bulk density of 2 t/m^3.

The mineral resources estimated for each deposit are given for the whole deposit and include the mineral resources attributable to minority shareholders' interests in the Polyus Gold group companies.

5.5. Operations on the capital market

Share capital

As of 31 December 2007, OJSC Polyus Gold issued share capital consisting of 190,627,747 ordinary shares with a par value of RUR 1 per share, of which 12,571,715 ordinary shares were held by Jenington International Inc, a subsidiary of the Group.

The Company's Charter has no provision for any preference or preferred shares.

The Company's securities on the stock market

The issued ordinary shares of OJSC Polyus Gold are included in Quotation List B on the leading Russian stock exchanges where they are traded under the PLZL ticker:

- MICEX;
- Russian Trading System (RTS).

A Level I American Depository Receipts (ADRs) program for the Company's shares was launched in July 2006. Under the ADR program, The Bank of New York acts as the Company's depository bank and ING Bank (Eurasia) acts as the custodian. One ADR provides the right for one ordinary share of OJSC Polyus Gold.

OJSC Polyus Gold is permitted by the Federal Financial Markets Service (FFMS) of Russia to have 66,719,711 ordinary shares which can circulate outside the Russian Federation and for which ADRs can be issued. This accounts for 34.99% of the total number of OJSC Polyus Gold issued ordinary shares.

As of 31 December 2007, 53,292,809 ADRs were issued, which amounted to 28% of the Company's issued share capital. The total capitalization of the ADR program as at 31 December 2007 amounted to USD 2.5 billion.

ADRs for the Company's shares are traded on the following international markets:

- Over-the-counter market ("OTC") in the United States, ticker OPYGY,
- Frankfurt Stock Exchange (not listed), ticker P6J2,
- London Stock Exchange (listed), Main Board, ticker PLZL.

The company's shares are included in the leading Russian and international stock indices, such as: RTS, MICEX, AK&M, MSCI and FTSE.

Dividends

Recommendations on the amount of dividends provided by the Board of Directors of OJSC Polyus Gold are based on the Regulation on Dividend Policy of OJSC Polyus Gold, approved by the Board of Directors on 3 April 2007.

At the Annual General Meeting of Shareholders held on 29 June 2007 it was decided that the 2006 net earnings of OJSC Polyus Gold would be distributed as follows:

- RUR 28,594,162.05 – to form the Reserve fund of OJSC Polyus Gold, in accordance with the Charter;
- RUR 615,727,622.81 – to distribute as dividends;
- RUR 340,712.58 – to retain at the Company's disposal.

It was decided to declare dividends of RUR 3.23 per ordinary share, based on the Company's financial results for 2006, and to establish that dividends should be paid by 28 August 2007 inclusively.

As of 31 December 2007, the Company paid interim dividends amounting to RUR 612,905,795.79.

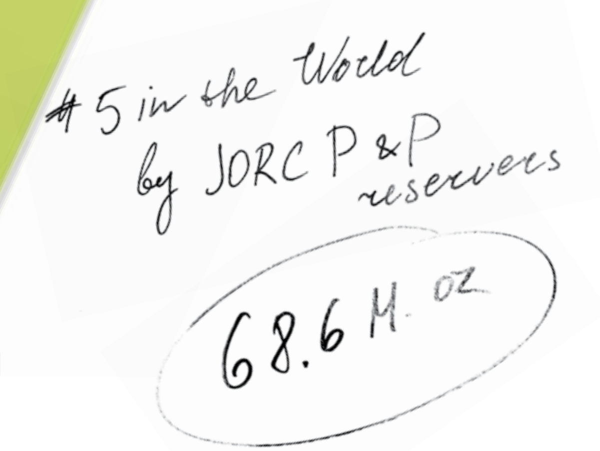
Share option plan

On 4 April 2007, the Board of Directors of OJSC Polyus Gold approved a share option plan to motivate the Company's management. The share option plan was approved in the amount of 9,531,380 ordinary shares of OJSC Polyus Gold, or 5% of the total issued ordinary shares. At the same meeting it was decided to create a temporary committee of the Board of Directors to determine the members of the share option plan and the number of shares allocated to each of them.

The exercise price of an option to buy one share is USD 14. The vesting period is 3 years. OJSC Polyus Gold ordinary shares held by Jenington International Inc. were selected as the source for the shares for the share option plan.

As of 31 December 2007, the Company paid interim dividends amounting to RUR 612,905,795.79

On 10 September 2007, the Board of Directors decided to reduce the share option plan to 4,765,693 shares, or 2.5% of the total number of issued ordinary shares, and approved the results of the share option plan in the amount of 4,575,065 ordinary nominal shares of OJSC Polyus Gold, or 2.4% of the total number of nominal ordinary shares placed. According to the decision of the Board of Directors, the remaining 0.1% stake of shares was allocated to a reserve of the share option plan, which remained unchanged as at the 2007 year end. In February 2008, half of this reserve was allocated under the option program, while the remaining 0.05% of outstanding shares continued to form the reserve of the plan.



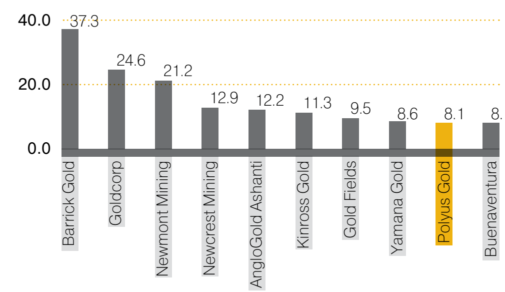
6.

Polyus Gold in the Russian and global gold mining sector

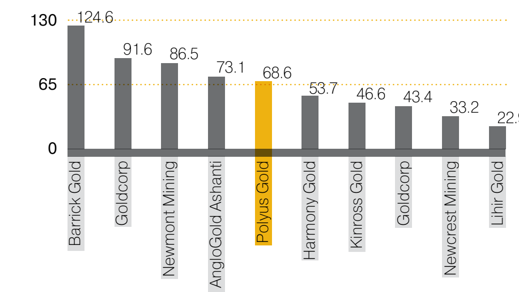
Polyus Gold is the biggest gold mining company in Russia and the only Russian gold mining company which is included in the world's top gold mining companies.

- In terms of market capitalization as at 31 December 2007, Polyus Gold is in 9th position in the world.
- In terms of ore reserves and mineral resources with 69 million ounces as at 31 December 2007, Polyus Gold is in 5th place in the world in terms of reserves, compared to 6th place in 2006. The impressive results demonstrated in the field of mineral resource base enhancement are a result of the successful completion of Natalka deposit exploration (Magadan region), proven and probable reserves of the Group according to JORC standards grew from 51 million ounces in 2006 to 69 million ounces in 2007.
- In terms of gold production for the year ended 31 December 2007 with 1,215 million ounces (37.8 tonnes) of gold, Polyus Gold is in 9th place in the world and 1st place in Russia.
- In terms of total cash costs of USD 348 per ounce of gold produced for the year ended 31 December 2007, Polyus Gold is one of the lowest cost producers in the world, despite an increase of 24% due to a decline in the average gold grade in ore, as well as inflation.

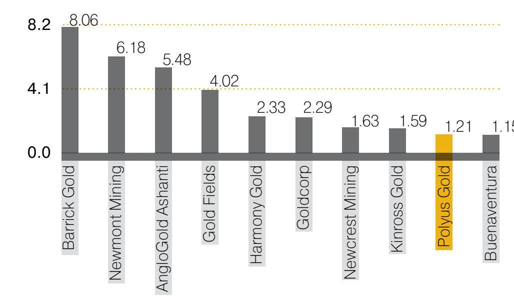
Largest global gold mining companies, in terms of Market capitalization, USD billion (as of 31 December 2007)



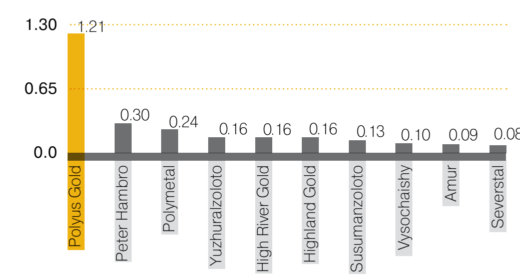
Companies with the largest gold reserves in the world in 2007 (JORC P&P), m oz (as of 31 December 2007)



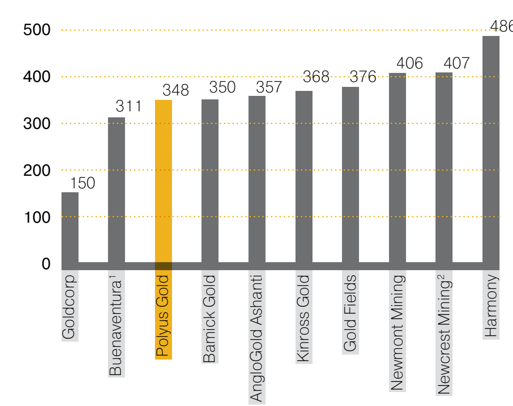
Largest global gold producers in 2007, m oz



Largest gold producers in Russia in 2007, m oz



Largest global gold producers – total cash costs (TCC) in 2007, USD/oz



[1] Weighted-average TCC for six operations in 2007.
[2] Average TCC for 1-4Q2007.

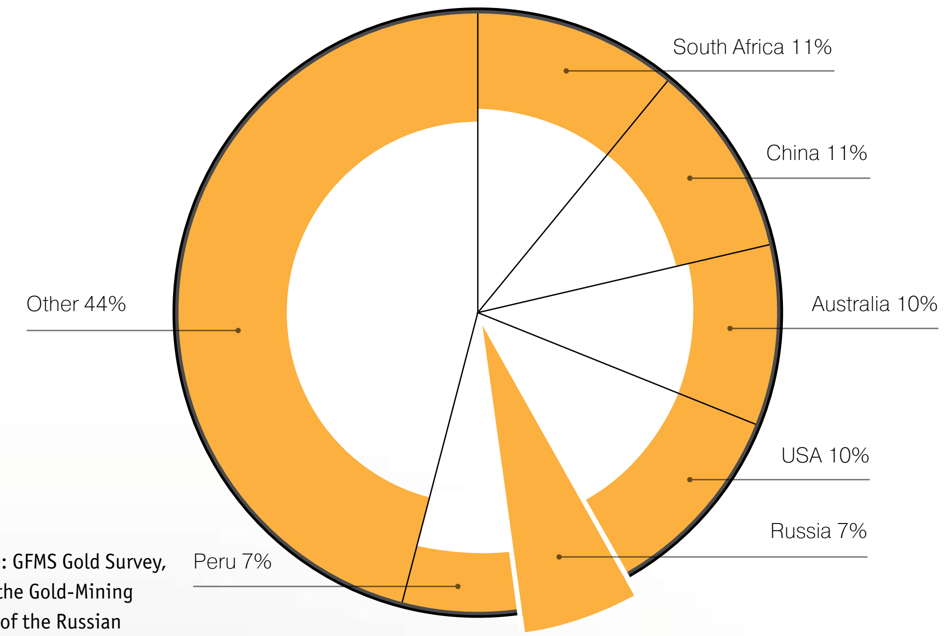
7.
The Gold Market in 2007

According to GFMS the total volume of gold mined in the world in 2007 amounted to 2,476 tonnes, which is a 1% decrease from the 2006 level. China for the first time became the largest producer of gold, thus ousting South Africa.

Last year South Africa cut gold production by 9% from 295.7 tonnes in 2006 to 269.9 tonnes, and according to GFMS lost its leading position in gold production for the first time since 1905. Whereas China increased metal output from 247.2 tonnes in 2006 to 280.5 tonnes in 2007.

According to GFMS, Russia remained the sixth biggest gold producer in the world with 169.2 tonnes of gold, which is slightly behind Peru with 169.6 tonnes of metal.

Largest gold producing countries in 2007



Source: GFMS Gold Survey, 2008, the Gold-Mining Union of the Russian Federation

In 2007, the only region demonstrating an increase in gold production was Asia, with China and Indonesia driving the growth. Other regions demonstrated a decrease in metal output, with South Africa suffering the steepest decline.

In 2007, gold prices continued to grow. The average gold price hit a record at USD 695.39 per ounce, which is 13% higher than the previous record of 1980 – USD 614.5 per ounce (in nominal values). The price peaked in November 2007 at USD 841.1 per ounce, failing to surpass the historic maximum of 1980, when the price of a gold ounce was USD 850. The main growth of gold prices in 2007 happened in the second half of the year, starting from mid August. This was caused by a number of macroeconomic events:

- near-crisis situation in the financial markets in July and August;
- mortgage bond prime rate crisis in the USA;
- continuing decline in the USD rate of exchange compared to numerous world currencies;
- high prices for non-ferrous metals;
- growth of oil prices.

At year end the price growth only strengthened due to increased concerns of investors regarding USD weakness, US mortgage crisis and liquidity shortage at the world financial markets, reinforced by unprecedented oil price growth.

In 2007, the costs of metals producers grew significantly. Thus, the world's average total cash costs (TCC) were 25% up, amounting to USD 395 per ounce.

According to the Gold-Mining Union of the Russian Federation, total mining and production (including by-products and secondary products) were 0.9% down from 2006, amounting to 162.8 tonnes, while the output of by-products and secondary products grew by 3.4% and 17.8%, respectively (the difference in estimates of GFMS and the Gold-Mining Union of the Russian Federation equals the output of the artisan sector, which is taken into account by GFMS and ignored by the Gold-Mining Union of the Russian Federation). On the whole, industrial gold mining from alluvial and primary ore deposits in Russia declined to 144.8 tonnes (4.7 million ounces), or by 1.9%.

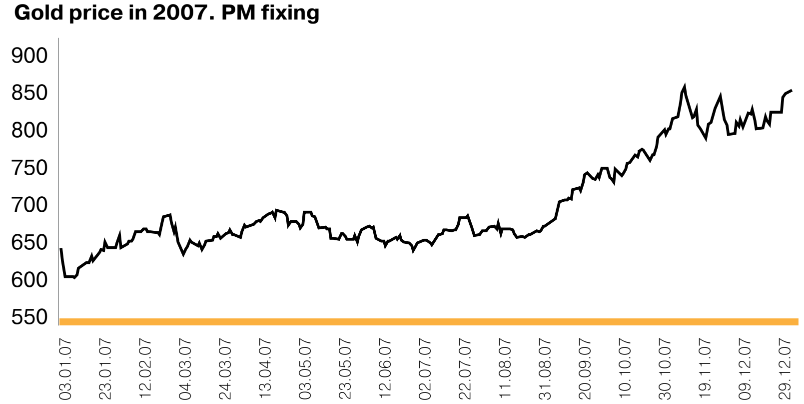
In 2007, hard-rock gold output went upwards by 0.6 tonnes (0.8%) to 85.6 tonnes (2.8 million ounces), alluvial gold output decreased by 3.5 tonnes to 59 tonnes (1.9 million ounces). The share of hard-rock gold, of the total output from Russia, increased by 1.6% from 57.5% to 59.1%. The share of gold produced by OJSC Polyus Gold exceeded 23% of the total Russian output.

According to Polyus Gold, the key drivers of gold prices in 2008 will be the unstable USD, weak world markets, reduced world gold output, depleted gold ore reserves, high oil prices, investors' demand, and increased geopolitical tension.

Demand

According to GFMS, world gold demand in 2007 declined by 2% to 3,912 tonnes (126 million ounces). This was due to the decrease of net investments into

Gold price in 2007. PM fixing



Source: LBMA

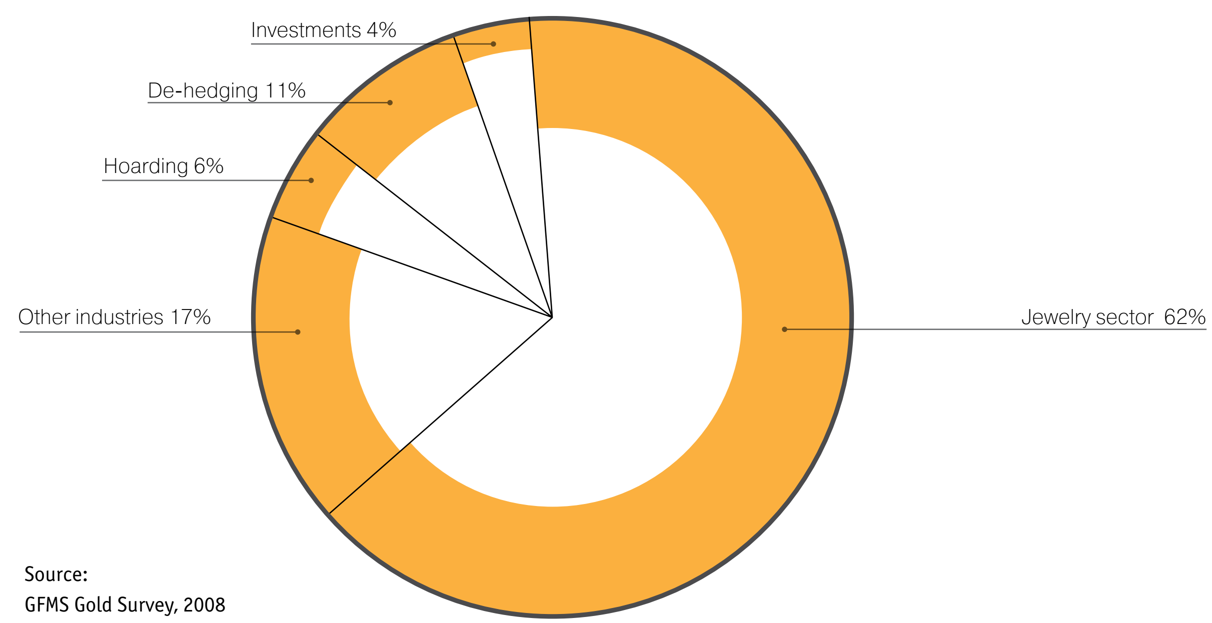
gold by 61% from 404 tonnes (13 million ounces) in 2006 to 158 tonnes (5.1 million ounces) in 2007, despite of increased consumption by 5% (from 2,284 tonnes to 2,401 tonnes) demonstrated by the jewelry sector and the growth of other industrial consumption of gold (manufacturing, dentistry, medals, coins) by 4% (from 648 tonnes to 671 tonnes).

China was second after India in terms of demand of the jewelry retail market – 302 tonnes, in Russia demand for jewelry was 11% up.

Supply

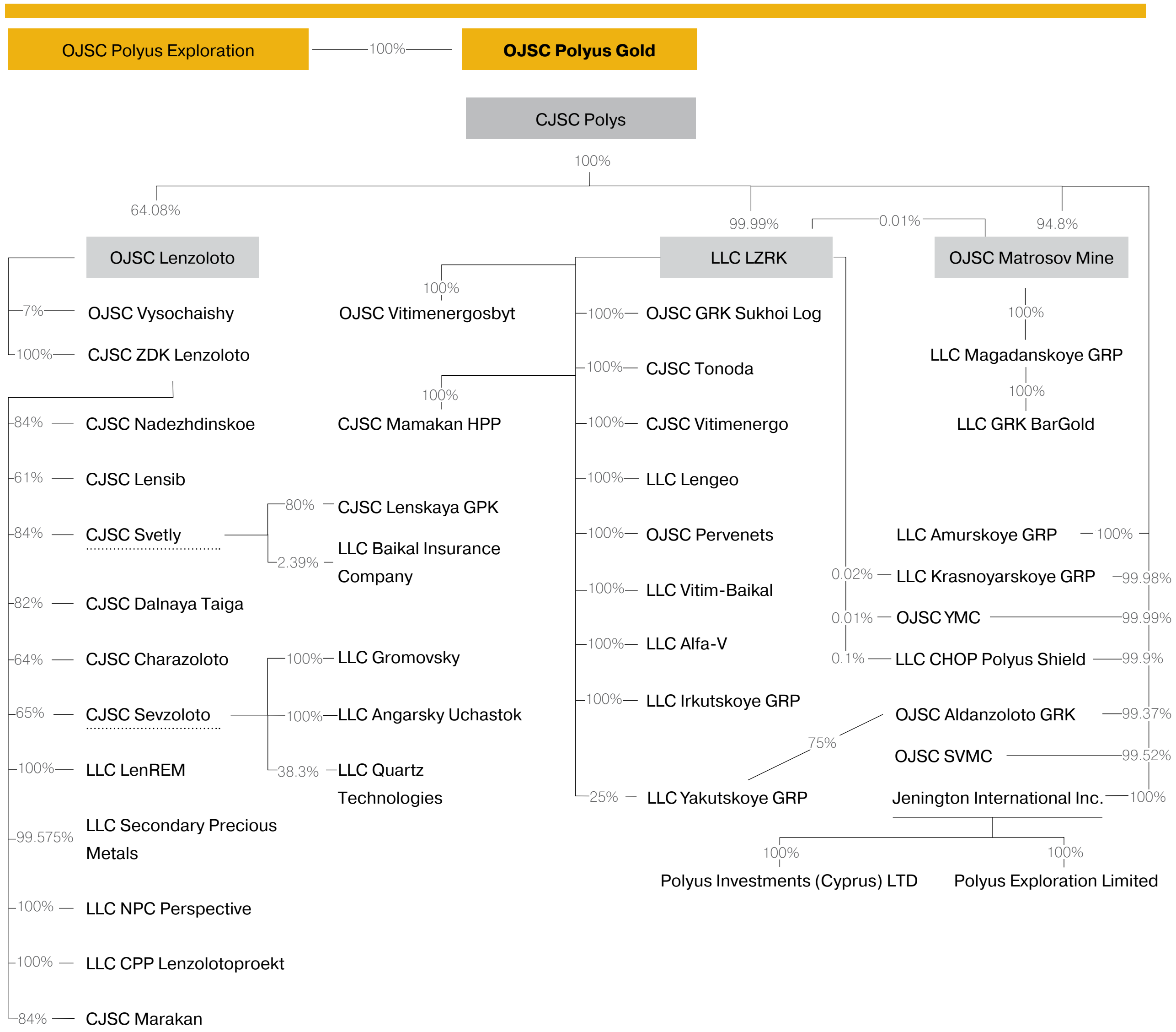
In 2007, supply went down by 2% from 3,982 tonnes (128 million ounces) to 3,912 tonnes (126 million ounces) as opposed to 2006. Output was slightly smaller from 2,486 tonnes (79.9 million ounces) to 2,476 tonnes (79.6 million ounces). Sales from the state funds' reserves amounted to 481 tonnes (15.5 million ounces), which is 30% higher than in 2006. Gold crap supply went down 15% from 1,126 tonnes (36.2 million ounces) to 956 tonnes (30.7 million ounces).

World gold consumption in 2007



Source:
GFMS Gold Survey, 2008

8.
About the Structure of Polyus Gold Group



As of 31 December 2007

Changes in the structure of Polyus Gold Group in 2007

Changes made as part of the restructuring of the Group's exploration business

In 2007, as part of the restructuring of the Group's exploration business, OJSC Polyus Exploration was established, which is a 100% subsidiary of OJSC Polyus Gold.

In addition, a number of subsidiaries in the Group's business units were created, to which a range of exploration projects at early stages were transferred. The following companies were established:

- LLC Irkutskoye GRP – a subsidiary of LLC LZRK engaged in gold mining at the Zapadnoye Mine in the Bodaibo district;
- LLC Amurskoye GRP – a subsidiary of CJSC Polyus in the Krasnoyarsk region operating at the Olimpiada Mine, and
- LLC Yakutskoye GRP – a subsidiary of OJSC Aldanzoloto GRK operating at the Kurnakh group mines in the Republic of Sakha (Yakutia).

In July 2007 the increase of LLC Magadan GRP share capital was paid by means of OJSC Matrosov Mine's interest in LLC GRK BarGold, resulting in the growth of the nominal value of OJSC Matrosov Mine's shareholding in LLC Magadan GRP to RUR 220,296,255; the title to 100% of the share capital of LLC GRK BarGold was transferred to LLC Magadan GRP.

Polyus Exploration Limited was founded by Jenington International Inc., a subsidiary of CJSC Polyus.

In November 2007, as a result of the increase in LLC Krasnoyarsk GRP's share capital, the shareholding of CJSC Polyus in LLC Krasnoyarsk GRP also grew from 99.90% to 99.98%, with a corresponding decrease in LLC LZRK's shareholding from 0.1% to 0.02%.

In November 2007 in the British Virgin Islands, Polyus Exploration Limited was founded by Jenington International Inc., a subsidiary of CJSC Polyus. In February 2008 Polyus Exploration became the owner of 7 companies: 5 regional GRPs (exploration entities), LLC GRK BarGold and OJSC YMC.

Other changes in the Group's structure

In June 2007 LLC LZRK was merged with LLC Lenzolotodortrans and LLC Vitimservice.

In February 2007 as a result of the sale of 61,003 preferred shares in OJSC Lenzoloto by CJSC Polyus, the interest of CJSC Polyus in OJSC Lenzoloto went down from 68.18% to 64.08%.

In October 2007 the private placement of an additional issue of OJSC Aldanzoloto GRK shares (25,419,931,908 ordinary nominal non-documentary shares with a par value of 1 kopek each and an offering price of 5 kopeks each) to CJSC Polyus resulted in the increase of CJSC Polyus' interest in OJSC Aldanzoloto GRK from 99.20% to 99.37%.

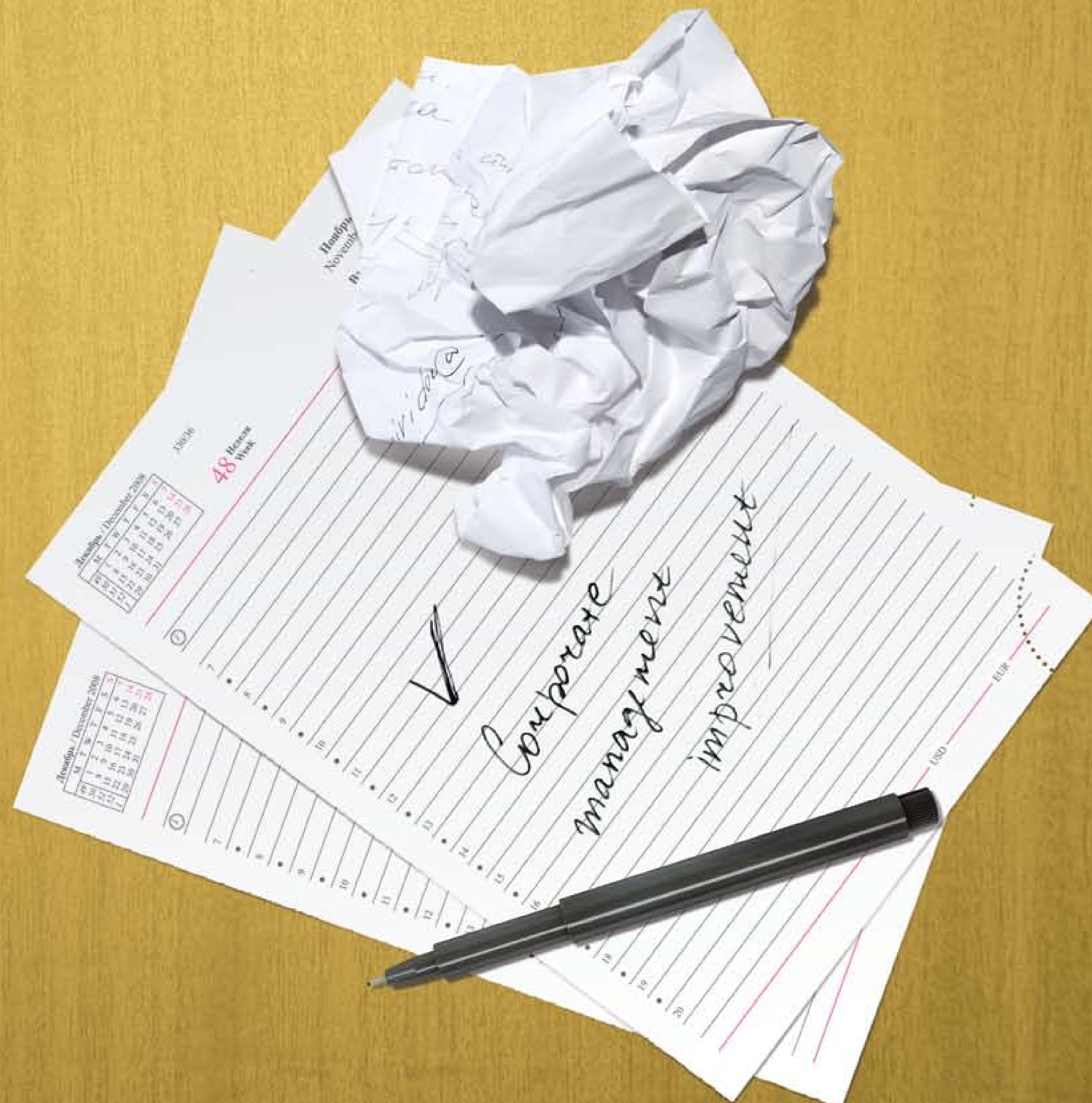
During the period from November to December 2007, the private placement of additional shares of OJSC SVMC (120,000 ordinary nominal non-documentary shares with a par value of RUR 100 each and an offering price of RUR 11,500 each) to CJSC Polyus resulted in the increase of CJSC Polyus' interest in OJSC SVMC from 50% to 58.51%, with a corresponding decrease in the interest of Jenington International Inc. from 50% to 41.49%.

In December 2007 the private placement of an additional issue of OJSC Matrosov Mine shares (136,245 ordinary nominal non-documentary shares with a par value of RUR 1 each and an offering price of RUR 13,555 each) to CJSC Polyus resulted in an increase of CJSC Polyus' interest in OJSC Matrosov Mine from 93.29% to 94.8%.

In April 2007 CJSC Polyus sold all the shares which it held in OJSC Sibzolotorazvedka.

9.
Corporate Governance Report

OJSC Polyus Gold is focused on the ongoing development of its corporate governance system in compliance with the best Russian and international practices, safeguarding all legal rights of the Company's shareholders, ensuring the transparency of procedures, the efficient operation of management and control bodies and the timeliness and reliability of financial reporting.



Information disclosure

Disclosing reliable information on all significant aspects, including financial position, operating results, ownership structure, affiliates, securities etc., OJSC Polyus Gold remains a reliable partner and investee. The disclosure principles of the Company are reflected in the Public and Investor Relations Policy of OJSC Polyus Gold effective November 2006.

Regarding statutory disclosures, Polyus Gold follows the requirements of regulatory documents, including:

- the Federal Law "On joint-stock companies",
- recommendations of the Code of Corporate Conduct,
- requirements of the Federal Financial Markets Service (FFMS) of Russia,
- requirements of the UK Financial Services Authority and
- listing requirements of Russian and international stock exchanges, including OJSC Russian Trading System Stock Exchange, CJSC MICEX and the London Stock Exchange.

Moreover, the Company issues a social report in accordance with Global Reporting Initiative guidelines (refer to Section No. 10 "Sustainable development" on page 52).

Board of Directors

The corporate governance system of OJSC Polyus Gold ensures reliable control is exercised by the Board of Directors over the Company's management. The main objective of the Board of Directors is to stimulate capitalization growth and the profitability of the Company, protect the interests of shareholders and maximize return on investments.

The Board of Directors acts on the basis of the Federal Law "On joint-stock companies", the Charter of the Company and the Regulation on the Board of Directors. The Board of Directors is elected at the Annual General Meeting of Shareholders and comprised of nine members.

Members of the Board of Directors

The Annual General Meeting of Shareholders of OJSC Polyus Gold that took place on 29 June 2007 elected the following members to the Board of Directors:

- Sergei Leonidovich Batekhin – Chairman of the Board
- Valery Nikolaevich Braiko
- Lord Patrick James Gillford
- Evgueni Ivanovich Ivanov
- Kirill Yurievich Parinov
- Mikhail Dmitrievich Prokhorov
- Valery Vladimirovich Rudakov
- Ekaterina Mikhailovna Salnikova
- Pavel Gennadievich Skitovich

Six members of the Board of Directors elected in 2006 retained their membership, and three new directors were elected: S.L. Batekhin (elected as Chairman), K.Y. Parinov and P.G. Skitovich, consequently A.A. Klishas, D.S. Morozov and Rodney B. Berens ceased to be the members of the Board of Directors.

On 16 October 2007 changes were made to the Board of Directors of the Company. The Board of Directors decided to re-elect the Chairman. Mikhail Prokhorov, President of ONEXIM Group, was elected the new Chairman.

Date of election and members of OJSC Polyus Gold Board of Directors:

3 March 2006	29 June 2007
M. D. Prokhorov *(Chairman)*	M. D. Prokhorov *(Chairman since 16 October 2007)*
V.N. Braiko	S.L. Batekhin *(Chairman until 16 October 2007)*
E. I. Ivanov	V.N. Braiko
A.A. Klishas	Lord Patrick Gillford
D.S. Morozov	E. I. Ivanov
Lord Patrick Gillford	K.Y. Parinov
Rodney B. Berens	V.V. Rudakov
V.V. Rudakov	E.M. Salnikova
E.M. Salnikova	P.G. Skitovich

Members of the Board of Directors of OJSC Polyus Gold

Mikhail Dmitrievich Prokhorov
Chairman of the Board of Directors
Holds no shares of OJSC Polyus Gold.
Date of birth: 3 May 1965.
Education: Higher education, the Moscow State Financial Institute, International Economic Relations, degree with honors.

- July 2001 – March 2007: OJSC Norilsk Nickel MMC (General Director);
- June 2003 – June 2007: OJSC Norilsk Nickel MMC (Member of the Board of Directors);
- since October 2005 – OJSC Football Club "Moscow" (Member of the Board of Directors);
- since June 2007 – LLC ONEXIM Group (President).

Sergei Leonidovich Batekhin
Date of birth: 22 September 1965.
Education: Higher education, Military Red Flag Institute of the USSR Ministry of Defense, Plekhanov Russian Academy of Economics, Finance and Credit, MBA, PhD in Economics.

- 2000 – 2004: OJSC Defense Systems (General Director);
- 2004 – 2005: LLC Continent-Service (General Director);
- 2005 – 2007: OJSC Power Machines (Chairman of the Board of Directors);
- 21.04.2005 – 21.10.2005: CJSC TELEPORT (Member of the Board of Directors);
- 2006 – 2007: OJSC Kaluga Turbine Plant (Member of the Board of Directors);
- 2006 – 2007: CJSC Race Telecom (Member of the Board of Directors);
- since 2005 – CJSC INTERROS Holding Company (Deputy General Director);
- since 29.06.2007 – CJSC Race Telecom (Chairman of the Board of Directors);
- since 29.06.2006 – PLUG POWER INC (Member of the Board of Directors);
- since 29.06.2007 – CJSC INTERROS Holding Company (Member of the Board of Directors).

Valery Nikolaevich Braiko
Date of birth: 12 February 1939.
Education: Higher education, the Tula Mining Institute, Mining Electrical Engineering, and the Academy of National Economy, Economics, Management and Planning.

- 1975 – 1982 Polyarninskiy mine of Severovostokzoloto gold mining company (General Director);
- 1985-1995 Severovostokzoloto gold mining company (General Director)
- Since 1995 – NGO the Russian Gold-Mining Union (Chairman).

Honored industry worker of the USSR; awarded with orders and medals of the USSR.

Lord Patrick James Gillford
Date of birth: 28 December 1960
Education: Higher education, 1974 – 1979 Eton College (UK); 1980 Royal Military Academy Sandhurst.

- since September 1993 – The Policy Partnership Limited (Director, Founding Partner);
- since November 2007 – EURASIA DRILLING COMPANY (Chairman);
- Cedar Partners (Counselor);
- AGM Transitions (Counselor).

Evgueni Ivanovich Ivanov
General Director
Date of birth: 29 September 1966.
Education: Higher education, the Moscow State Financial Institute (State Finance Academy) with a degree in international economic relations.

- since 2007 – OJSC Polyus Exploration (General Director, Member of the Board of Directors);
- 2004 – 2007: CJSC Polyus (President);
- since 2007 – present: OJSC Polyus Gold (General Director);
- since 28.11.2007 – CJSC Polyus (General Director, President);
- since 30.06.2006 – CJSC Gold Mining Company Polyus (Member of the Board of Directors);
- since 11.02.2008 – CJSC Gold Mining Company Polyus (President);
- since 2005 – OJSC YMC (Chairman of the Board of Directors);
- since 2005 – ROSBANK (Switzerland) S.A. (Member of the Board of Directors);
- since 2007– CJSC Gold Mining Company Lenzoloto (Chairman of the Board of Directors);
- since 11.03.2008 – OJSC Lenzoloto (Chairman of the Board of Directors).

In accordance with clause 6.3.3.10 of the Charter of OJSC Polyus Gold the amount of remuneration and benefits paid to the Company's General Director shall be defined by the Board of Directors.

Kirill Yurievich Parinov
Date of birth: 21 October 1967.
Education: Higher education, Lomonosov Moscow State University, Law.

- 2002 – 2004: CJSC INTERROS ESTATE (General Director);
- 2002 – 2004: CJSC INTERROS Holding Company (Legal Department Director);
- since 2004 – CJSC INTERROS Holding Company (Deputy General Director for Legal Issues, Member of the Management Board);
- 2005 – 2006: CJSC HC Invest (General Director);
- since 11.03.2002 – CJSC INTERROS Holding Company (Member of the Management Board).
- since 15.04.2005 – OJSC Open Investments (Member of the Board of Directors).

Valery Vladimirovich Rudakov

Date of birth: 06 June 1942.

Education: Graduated from the Moscow Mining Institute as a mining engineer.

- Since 2002 – the Chamber of Industry and Commerce of the Russian Federation (Chairman of the Committee for the support of entrepreneurship in the area of mining, production, processing and trade of precious metals and precious stones and their products).
- Since 2002 – CJSC Gold Mining Company Polyus (Chairman of the Board of Directors);
- Since 2004 – OJSC Matrosov Mine (Chairman of the Board of Directors);
- Since 2003 – OJSC Shchelkovo Secondary Precious Metals Plant (Member of the Board of Directors);
- Since 2007 – OJSC Polyus Exploration (Chairman of the Board of Directors).

Ekaterina Mikhailovna Salnikova

Date of birth: 14 July 1957.

Education: Higher education, 1979 – the Moscow Institute of Administration of Sergo Ordzhonikidze, Engineering and Management. 1997 - the Russian Academy of State Service under the President of the RF, Law.

- 1998 – 2007: CJSC UNIVERSALINVEST (General Director);
- 1998 – 2007: CJSC INTERROS Holding Company (Corporate Governance Director);
- 2005 – 2007: CJSC INTERROS Holding Company (Deputy Director of Finance Department for Corporate Governance);
- 2006 – 2007: OJSC Power Machines (Member of the Board of Directors);
- Since 2006 – OJSC Norilsk Nickel MMC (Member of the Board of Directors);
- Since 2007 – LLC ONEXIM Group (Deputy CFO).

Pavel Gennadievich Skitovich

Date of birth: 25 January 1965.

Education: Higher education, Moscow State Institute of International Relations, International Relations.

- 2002–2003: OJSC Power Machines (Vice-President, Corporate Issues Director);
- 2003–2006: OJSC Power Machines (Deputy General Director for Strategy and Corporate Issues);
- 2006–2007: CJSC INTERROS Holding Company (Member of the Management Board);
- May 2007 – October 2007: OJSC Polyus Gold (General Director);
- August 2007 – October 2007: Chairman of the Board of Directors of OJSC Polyus Exploration;
- June 2007 – December 2007: CJSC Gold Mining Company Lenzoloto (Member of the Board of Directors);
- June 2007 – October 2007: CJSC Polyus (Chairman of the Board of Directors);
- Since 2007 – Member of the Board of Directors of OJSC Matrosov Mine.

Independent Directors

The presence of independent directors on the Board of Directors of Polyus Gold is to increase the efficiency of the Board by creating optimum conditions for shaping an objective, well thought out position on the issues discussed, which ultimately ensures the strengthening of investors' trust in the Company.

Mr. V.N. Braiko and Lord Patrick James Gillford are independent members of the Board of Directors. The Company uses the criteria based on recommendations of the Code of Corporate Conduct of the FFMS of Russia and stipulated by the Charter of OJSC Polyus Gold to determine the independence of members of its Board of Directors.

Remuneration to the Board of Directors

In 2007 Mr. Rodney B. Berens (until 29.06.2007), Mr. V.N. Braiko and Lord Patrick James Gillford as independent members of the Board of Directors received remuneration for board service and reimbursement of respective expenses.

The rate of payments was approved by the General Meetings of Shareholders of OJSC Polyus Gold held in September 2006 and October 2007. According to the decision of the shareholders' meetings, the value of remuneration equaled USD 25,000 quarterly (payable in RUR at the exchange rate of the Central Bank of Russia established at the last date of the respective quarter). Besides, the Company passed a resolution on the reimbursement of expenses connected with the fulfillment of their duties as members of the Board of Directors in the amount of up to RUR 2,000,000 a year each.

No remuneration was paid to other members of the Board of Directors in 2007.

Activities of the Board of Directors in 2007

In 2007 the Board of Directors of OJSC Polyus Gold held 20 meetings, 12 of which were held in absentia.

The Board of Directors considered OJSC Polyus Gold strategy issues relating to:

- approval of the exploration work plan for 2007 – 2010;
- approval of the Company's business plan and budget for 2007;
- establishment of OJSC Polyus Exploration Limited;
- dividend policies;
- regulation on the Sponsorship and Charity Activities of the Company;
- stock option plan to motivate and remunerate the Company's managers;
- consideration of the Company's financial and business performance;
- status of the Blagodatnoye and Titimukhta investment projects;
- approval of related party transactions.

Audit Committee of the Board of Directors

For the purpose of preliminary consideration of the most difficult issues within the competence of the Board of Directors, the Audit Committee of the Board of Directors is functioning in OJSC Polyus Gold.

The key objective of the Audit Committee is to assist the Board of Directors in supervising financial and operating activities through preliminary consideration of issues and the preparation of recommendations to the Board of Directors regarding the Company's cooperation with auditors, the review of financial statements and the assessment of the Company's internal controls, thus facilitating the operation of the internal control system and the cooperation between external auditors and internal controllers.

The Committee fosters the immediate involvement of Board members in exercising control and establishing their personal awareness of the Company's business.

The Committee is governed by the respective Regulation approved by the Board of Directors.

In 2007 the Audit Committee held three meetings. It considered the development of recommendations for the Board of Directors regarding the completeness and accuracy of data reported in the financial statements and corporate annual report, the evaluation of the auditor's opinion provided by independent auditor LLC Rosekspertiza for 2006, and candidates for the position of the auditor of the company's financial statements for 2007. Besides, at the meetings the consolidated financial statements of OJSC Polyus Gold for 2006 were the subject of preliminary consideration.

The presence of independent directors on the Board of Directors of Polyus Gold is to increase the efficiency of the Board

Members of the Audit Committee

Members of the Committee active until 29 June 2007

- Rodney B.Berens – Chairman
- D.S. Morozov
- E.M. Salnikova

Members of the Committee elected by the Board of Directors of OJSC Polyus Gold 6 July 2007

- Lord Patrick James Gillford
- E.M. Salnikova
- E. I. Ivanov

On 18 December 2007 the Board of Directors of OJSC Polyus Gold ceased the authorities of Mr. E.I. Ivanov as a Member of the Audit Committee and elected Mr. V.N. Braiko to the post. Lord Patrick James Gillford was elected the Chairman of the Audit Committee.

Corporate Secretary

The key task of the Corporate Secretary is to ensure the compliance of the Company's executive bodies with legal requirements and internal regulations, guaranteeing the realization of rights and the interests of the Company's shareholders.

The Charter and Regulation on the Secretary of OJSC Polyus Gold approved by the Board of Directors in March 2006 serve as the regulatory basis for the actions of the Corporate Secretary.

Until November 2007 Dmitri Vyacheslavovich Bolgov acted as the Corporate Secretary and the Secretary of the Board of Directors.

In November 2007 Anna Olegovna Solotova was appointed Corporate Secretary and Secretary of the Board of Directors.

Shareholders of OJSC Polyus Gold

Information about the major (more than 5%) registered shareholders as per the register of holders of OJSC Polyus Gold securities as of 31 December 2007:

Shareholders	Shares (million)	% of total shares
CJSC ING Bank (Eurasia) (nominal holder), out of them	60.0	31.5%
The Bank of New York International Nominees, as depositary bank for ADR program (nominal holder)	53.3	28.0%
OJSC JSCB "Rosbank" (nominal holder)	14.8	7.8%
Bristaco Holdings Co. Limited	24.9	13.0%
Lovenco Holdings Co. Limited	24.9	13.0%
CJSC KM Invest	14.1	7.4%
CJSC Depositary and Clearing Company (nominal holder)	14.2	7.4%
Non-commercial partnership National Depository Centre (nominal holder)	16.5	8.7%
Other	21.2	11.2%
Total	190.6	100.0%

Management of Polyus Gold

Operational management of the Group is performed by the management team led by the General Director of Polyus Gold. Managers for principal business activities of the Company at the corporate center in Moscow as well as managers of business units in the regions where the Group has production sites and new projects report to the General Director. Polyus Gold management team includes the following managers:

Evgueni Ivanovich Ivanov

Mr. Ivanov's short biography can be found in the Section "Board of Directors".

Dmitry Alexandrovich Glotov

Deputy General Director for Economy and Finance
Born in 1965.
Graduated from the Moscow Financial Institute with a degree in international economic relations.

- In 1989–1993 worked at the foreign exchange and economic department of the Ministry of Finance of the USSR, and at Ingosstrakh insurance company.
- In 1993–1997 worked at Coopers&Lybrand audit firm in Germany.
- In 1996 obtained CPA certificate.
- In 1997 served as chief specialist of the Entities development department at Interros.
- In 1998 was appointed Financial Director at OJSC Unexim Bank, then Head of the consolidated financial statements department of the OAO AKB Rosbank.
- In 2002–2007 served as Deputy General director for financial regulation and international financial statements at OJSC MMC Norilsk Nickel.
- In August 2007 was appointed as Vice-President for Economics and Finance of CJSC Gold Mining Company Polyus, and since July 2007 holds the same position in OJSC Polyus Gold.

German Rudolphovich Pikhoya

Deputy General Director for Strategy and Corporate development
Born in 1970
Graduated with honors from the Urals State University with a degree in history. Then conducted post-graduate research in modern history in the Bowdoin College (Brunswick, Maine, USA). Then graduated from the Russian Academy of State Service under the President of the Russian Federation as an Economist.

- In 1994–1995 worked as a project manager at CJSC Mosexpo exhibition company.
- In 1995–1997 acted as General Director of CJSC Palamos.
- In 1994–1998 served as General Director of OJSC Eurogold Financial and Industrial Group Managing Company.
- In 1998–2002 acted as deputy head of the representative office and new business development manager of the Canadian gold mining company Placer Dome International Ltd.
- In 2002 joined CJSC Polyus as Deputy General Director.
- From 2004 was appointed Vice-President for Corporate Development of CJSC Gold Mining Company Polyus. From June 2007 – deputy General Director for Strategy and Corporate development of OJSC Polyus Gold.

Dmitry Anatolievich Steshchenko
Chief Accountant of OJSC Polyus Gold
Born in 1967.
Mr. Steshchenko graduated from the Kharkov Institute of Engineers and Economists.

- In 1991–1993 worked as deputy Chief accountant of the Halaktyr flight and maintenance complex.
- In 1994 – Leading economist of the external economic activities and foreign exchange operations department of the Kamchatka Commercial Agroprombank Kamchatkomagroprombank.
- In 1995–1999 Mr. Steshchenko worked as Chief Accountant at OJSC Dal' Telecom International.
- In 2000–2005 – Chief accountant at OJSC Vympel Kommunikacii.
- In October 2006 – May 2007 – Chief accountant of CJSC Polyus
- In May 2006 joined OJSC Polyus Gold as Chief accountant.

Vladimir Kushukovich Sovmen
General Director of CJSC Polyus
Born in 1957.
Graduated from Khabarovsk Polytechnic Institute as construction engineer and Krasnoyarsk State University of Non-Ferrous Metals and Gold as mining engineer.

- From 1983 to 1995 worked as Head of construction for Polyus gold mining cooperative.
- From 1995 to 2002 he occupied positions of Vice President, General Director, First Vice President of CJSC Polyus in Krasnoyarsk.
- Since 2004 serves as First Vice President and Executive Director of Polyus Gold.
- Since 2007 serves as General Director of CJSC Polyus.

Yuri Alexandrovich Lonshakov
General Director of LLC Lena Gold Mining Company (LZRK)
Born in 1953.
In 1975 graduated from the Irkutsk Polytechnic Institute as a mining engineer.
For more than 10 years he led strip and miner rotary Complex, served as deputy chief engineer for drilling and blasting of the cross section Berezovsky at the production association Krasnoyarskugol.

- From 1998 served at the gold producer Polyus (Krasnoyarsk) as the Chief engineer.
- From January 2006 has been acting as General Director of the LLC Lena Gold Mining Company.

Valery Fedorovich Konstantinov
General Director of OJSC Lenzoloto.
Born in 1954.

- In 1977 graduated from the Irkutsk Polytechnic Institute as a mining mechanic engineer.
- From 1977 till 1988 served at the Marakan gold-mine of the Production association Lenzoloto as Head of mining preparation shop, then Chief engineer and Gold-mine director.
- In 1988–1990 served as Head of the Executive committee of the Bodaibo Town Council of People's Deputies.
- From 1990 till 1998 served as Deputy Mining director of the Production association Lenzoloto and as Mining director of AOZT Lenzoloto.
- From 1998 till 2006 occupied the position of Executive director and then acted as Director of CJSC Marakan.
- Since November 2006 – General director of CJSC GMC Lenzoloto.
- In January 2007 Mr. Konstantinov was also appointed General Director of OAO Lenzoloto by the Board of Directors of OJSC Lenzoloto.

Valery Semenovich Naydeshkin
General director of OJSC Aldanzoloto GRK
Born in 1953.

- From 1970 till 1972 served as worker.
- From 1972 till 1974 – Military service.
- In 1979 graduated from the Krasnoyarsk Institute of Non-Ferrous Metals as a mining engineer.
- From 1979 till 2000 worked at the Angidrit mine (Norilsk) in various positions from miner to chief engineer of the mine.
- From 2000 till 2007 served at Norilskproekt Institute as chief mining specialist, chief project engineer, was responsible for design work on Skalisty and Mayak mines.
- In 2007 worked at CJSC Gold Mining Company Polyus.
- Since October 2007 – General Director of OJSC Aldanzoloto GRK.

Mikhail Pavlovich Kazimirov
General director of OJSC Matrosov Mine
Born in 1951.
Graduated from the Moscow Mining Institute as a mining construction engineer. Later received a candidate of science degree at the Moscow Mining Institute in mining process control.

- From 1975 worked as a mining foreman at the Matrosov Mine.
- In 1981–1985 – Chief engineer and Head of Dukat mine constructions.
- In 1985–1986 worked as chief engineer and then head of the Dukat mine.
- In 1986–1989 acted as General Director of the Iultinsky GOK in the Chukotka region.
- In 1990–1994 acted as general director of the USSR-US joint venture Severovostokzoloto Alaska at Magadan.
- In 1994–1995 acted as General Director of TOO Razvitie Mestorozhdeni.
- In 1995–2002 acted as General Director of CJSC Razvitie Mestorozhdeni Invest and director of mining and processing technologies and investments for the US company Astron Minerals Incorporated.
- In 2002 joined CJSC Polyus as a Deputy General Director.
- In 2003 was appointed General Director of OJSC Matrosov Mine.

10. Sustainable Development

In all aspects of its activities Polyus Gold strives to implement Sustainable Development principles presented in 1992 at the United Nations Conference on Environment and Development in Rio de Janeiro and incorporated in the Global Reporting Initiative ("GRI").

Immediately after its foundation in 2006 Polyus Gold prepared a GRI report to manifest its commitment to Sustainable Development principles. Commitment to Sustainable Development is realized in three key areas:

- support of local communities in the regions where the Company operates,
- support of employees, and
- environmental responsibility and industrial safety.

Support the local communities where the Group's operations are rendered through regular programs in the following areas: support of primary and secondary education, healthcare, employment and leisure programs, assistance to socially vulnerable people, preservation of cultural heritage and living environment of indigenous and smaller peoples, etc.

Polyus Gold supports its employees by creating comfortable working conditions at all entities and implementing comprehensive career development and training programs.

Polyus Gold strives to minimize the environmental impact of its production activities and ensure industrial safety. This is achieved by implementing resource saving and environmentally friendly technologies, regular modernization of production facilities, implementation of environmental management system and timely rehabilitation of land, etc.

Support of local communities

In the majority of operating locations the Group's entities are major employers and taxpayers. Thus, business development of the Group's regional entities may be a driver of regional development through the creation of new jobs, growing tax contributions, investments into infrastructure, and purchase of services provided by local small and medium enterprises.

Polyus Gold – CAF grant competition

In 2007, OJSC Polyus Gold and Charity Aid Foundation (CAF) announced the launch of a competition to win a joint grant from Polyus Gold and CAF. The two-year program is to identify and support social initiatives, programs and projects of non-commercial organizations in all operating locations of the Group.

The Program provides for the competitions of projects of non-commercial entities. The donations of Polyus Gold to CAF Russia serve as the key source of funds for the Program.

Polyus Gold in cooperation with CAF developed five priorities of the small grants competition, which most adequately meet the needs of the regions, namely:

- raise the quality and accessibility of social services;
- raise the quality and accessibility of education;
- increase the employment rate;
- develop youth leisure and sports, promote healthy lifestyle;
- ecology and environmental protection.

In September, the small grants competition was announced in the Magadan and Irkutsk regions.

91 project applications were submitted, including 19 approved by the expert commission as meeting the program's priorities and deserving support. The total budget of supported projects amounted to RUR 1.3 million.

The program participants in both regions were provided with the assistance of the regional program coordinators. In the Magadan region that function was performed by the Women's Informational and Educational Center, while in the Irkutsk region it was performed by the Siberian Regional Development Fund. Support was provided to the projects of those organizations aimed at the distribution of new social technologies and raising the quality of social programs through expert support of the projects, which were designed to promote public initiative and involvement into implementation of social projects bringing improvement into the life of the local communities in the regions where the Program was implemented. Total donations to expert support programs amounted to RUR 480 thousand.

In the majority of operating locations the Group's entities are major employers and taxpayers.

From September to December 2007, three advisory workshops were held for participants in the small grants competition. During the workshops ideas of the participants were shaped into projects and materialized in applications to receive grants. In December 2007, winners of the competition attended a seminar on project management, where they were provided with explanations of how to achieve the project objectives.

An expert project of the Magadan Environmental Center has been operating in the Magadan region since October 2007, designed to create and establish a local community fund in the region. The local community fund is a social technology uniting the efforts of the local community to resolve social issues of the region. It has a proven record in Russia and abroad, which is why we can expect that it will adapt to local conditions and yield positive results in the Magadan region.

In 2008, competition for the grants continues. This year Yakutia and the Krasnoyarsk region will join the Program.

Joint project of OJSC Polyus Gold and the RF CCI Charity Fund

On 17 November 2006, the Company signed a long-term contract with the Russian Federation Chamber of Commerce and Industry's Center of Support to Homeless Children, whereby Polyus Gold is to donate to the Fund RUR 5 million annually during 3 years.

The funds will be used to implement a joint project, which will provide training and education for orphanage graduates in the Republic of Sakha (Yakutia), Krasnoyarsk, Irkutsk, and Magadan regions at vocational training schools, technical schools, colleges, and educational centers.

The first tranche (RUR 5 million) was paid on 9 April 2007.

As agreed between the Ministry of Science and Professional Education of the Republic of Sakha (Yakutia) and OJSC Polyus Gold, Aldansky Polytechnic College (state educational center of secondary professional education) was selected to provide training courses for orphanage graduates in the professions required at OJSC Aldanzoloto GRK and OJSC SVMC:

- technical operation and maintenance of electrical and electromechanical equipment;
- mining industry, open-pit works;
- electric power plants, networks, and systems;
- concentration of mineral resources;
- crusher, mill and assembly line operators.

Modern professional equipment costing around RUR 5 million was purchased for Aldansky Polytechnic College from NPO "Rosuchpribor", a leading manufacturer and developer of educational equipment.

Polyus Gold views personnel as a primary resource and focuses on its effective development.

The first stage of the program is planned for completion by the end of Q2 2008. In the next academic year graduates of orphanages will be able to start training in well-equipped laboratories and workshops to receive much needed professions to secure their further employment. Target funding of the joint professional training program gives a chance to the graduates of orphanages to find their place in life. Nowadays the next stage of the program is being developed.

Personnel development and training

Polyus Gold views personnel as a primary resource and focuses on its effective development. The ambitious targets facing the Group will require ongoing improvement of the professional qualification of all employees of the Group.

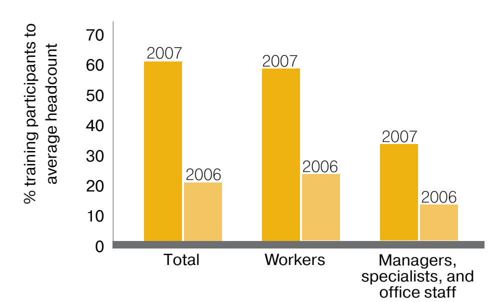
In 2007, over 4,800 employees of the Group took part in training, which accounts for around 60% of the average headcount. The launch of new production facilities and intensive mining were the drivers of training intensification, when compared with 2006.

As a result of 2007 training, around 30% of participants in training programs improved their qualification and were promoted. Over 80% of training was conducted internally, including training at work stations.

In order to coordinate efforts, develop consistent approaches to business problem-solving, align competences of management and specialists of the group, in 2007 the Company for the first time organized corporate workshops attended by management and specialists of subsidiaries and affiliates. There were 11 of such events attended by 179 employees.

As the modern economy dictates the need for a rapid update of employees' knowledge, which results in more intensive training, traditional ways of training cannot ensure the requisite qualification of staff. Thus, it is necessary to implement innovative forms of training. Because of the Group's wide geographical reach, many entities are located far from scientific and educational centers, and the Group initiated a project to provide distance learning to its employees using Intranet and Internet technologies.

Training participants to average headcount ratio 2007 and 2006



Over 90 employees participated in distance learning courses, including 11 people who finished a program of proprietary SkillSoft training courses in the field of project management. They were awarded certificates.

Partners of the Group in the field of personnel training are reputable educational organizations, such as the Center for Business Skills Development (CBSD), MTI, STATUT Law School, SRC, Logistics and Marketing Institution (scientific and educational center), CJSC Business Seminars, and others.

In 2007, the Group followed a tradition of cooperation with the leading national universities – the Siberian Federal University, the Irkutsk Technical University, the Magadan University, etc. The Group regularly conducts internships for students of fellow universities to adapt them to the corporate culture and secure their further employment in the Group. In 2007, over 250 students were engaged as interns at the Group's production entities. Moreover, cooperation with universities is further extended to the engagement of professors into the staff training process, participation of university staff in research and development projects, involvement of the leading specialists and managers of the enterprises in the educational activities of the universities.

Since management quality is directly connected with the qualification of managers, the Group is focused on their professional development. With a view to ensure succession planning and minimize the adaptation period of the newly appointed employees, the Group formed a pool of successors from its personnel. The selection of candidates into the pool was based on contemporary appraisal methodologies focusing on the potential of employees.

In 2007, the Human resources function started to create a development program for the managers included into the HR reserves. During implementation of the pilot project as a result of the analysis of the proposed training programs there was chosen a module intramural and distance learning program "Strategic Management", organized by the Novosibirsk ROSSPA Institute and the Stockholm School of Economics. The final module of the program took place in Sweden, which enabled the Group's managers to get the knowledge of the best international practice in the field of management of production entities.

Environmental protection, health and safety

OJSC Polyus Gold is focused on minimizing the environmental impact of its operating activities and ongoing improvement of the production process from the health and safety point of view.

In 2007, the total expenditure of the Group on environmental protection and occupational safety was around USD 22 million (RUR 535 million), including over RUR 100 million spent to enhance occupational safety, that is 3.5 times as much as in 2006.

Activities aimed at reducing environmental impact are laid down in the Corporate Strategy until 2015. They include development of technological methods that ensure significant reduction of sodium cyanide use and implementation of cyanide-free leaching. In particular, at Mill 3 of Olimpiada Mine (Krasnoyarsk region) partial cyanide leaching of processed products is used, while in laboratory conditions potential implementation of chloride and bromide reagents and thiourea to replace sodium cyanide was studied.

In 2007, the Group tested and implemented new deactivation methods for cyanide wastewater. In order to reduce the place occupied by industrial waste, the options for dry storage of concentration products were considered.

Authorized specialists and functions responsible for the compliance with government standards and regulatory requirements as well as the Group's internal environmental and occupational safety regulations act in all business units of the Group.

The majority of entities have established production control committees based on collective bargaining agreements with employees; authorized staff representatives or public occupational safety controllers act at the majority of the Group's entities.

Monthly occupational safety inspections and periodic comprehensive targeted reviews of occupational health and safety compliance were carried out at all entities of the Group in 2007. Continuous monitoring was performed by authorized employees, engineers, medium-level and junior management.

The Group focuses on the rational use of natural resources and raw materials.

The efficiency of environmental protection activities is ensured by the environmental monitoring systems, which continually monitor the air, surface and subsurface water and soil condition.

The results of last year's analysis demonstrated a stable environmental condition in operational regions of the Group's entities; this was confirmed by inspections of the controlling agencies.

In 2007, the Krasnoyarsk business unit started to develop a program for the implementation of an integrated system of environmental protection management in accordance with the international standard ISO 14000.

Rational use of natural resources

The Group focuses on the rational use of natural resources and raw materials. Raw materials are repeatedly used, where possible, and waste is reclaimed, for instance, with energy generation. The optimization of the use of natural resources and the reduction of power and fuel consumption are top priorities of the Group.

In 2007, at Olimpiada mine the Group continued the construction of a new pump station servicing the pit and the Mill and finished the reconstruction of the productive heating plant under the power plant. A water-cooling tower was built to ensure re-circulation of the water supply in the turbo generator's cooling system.

Protection and rehabilitation of land

All entities of the Group have a rather long history, and the volume of affected land was significant in 2007, particularly in the Irkutsk alluvial business unit. The Group's entities are actively engaged in the reclamation and rehabilitation of the disturbed land.

In order to reduce the environmental impact, in 2007 the Group started the construction of a landfill for the disposal of solid consumer waste and a landfill for industrial waste at the Olimpiada mine in accordance with project solutions. The landfills were located at the site of the waste piles of the pit's overburden, to ensure rational use of land.

During the construction of the Group's facilities forest protection is ensured in accordance with the requirements of the Russian Forest Code, in particular, protection against fire, illegal deforestation, violation of the established forest exploitation procedure and other activities damaging forest resources.

Gold production waste treatment

Waste of hazard class V (nontoxic) represents the major part of the waste generated at the Group's production facilities and includes overburden, waste generated from the wash-out of sand and other uncontaminated soils and tail pulp waste.

Overburden and other unpolluted rock are accumulated and used in the course of reclamation of the exhausted land; tail pulp waste is located in the properly equipped liquid waste burial sites – tailing pits.

In order to reduce the environmental impact, in 2007 at Olimpiada mine the Group decided to implement the dry storage of sorption tailings, as an alternative to the existing dumping of tailings as pulp into a tailing pit. This allows a decrease in the size of the land occupied by tailings' pulp by 2.5 times and minimizes the impact of waste on underground water.

A significant portion of waste of other hazard classes was reclaimed internally or processed in special plants (mercury lamps, hazard class I). Sulphuric acid waste (hazard class II), waste oil (hazard class III) and timber waste (hazard class IV) were reclaimed internally by the Group.

No penalties and fines for the violation of environmental laws were imposed on the Group's entities in 2007.

Water use and water resource protection

Water is widely used in the technological process and for other purposes in gold production companies. In 2007, the rational water use was ensured as follows:

- monitoring and minimization of leakage from water pipelines and heating pipes;
- reduction of fresh water intake for production purposes.

A number of systems for the re-circulation of water supply were used at the Group's entities to ensure the rational use of water resources: re-circulating the water supply from the tailing pit (external water turnover); internal water turnover of the concentrator; re-circulating the water supply through waste treatment facilities and other methods. Rain water, melt water, drain water and other associated water were used for technological purposes.

Silt-detention basins, re-circulation of water supply as well as working in closed pits with diverted river beds outside the mining areas were used to reduce the pollution of water with suspended substances (soil particles).

For water safety purposes, in 2007, the Irkutsk ore business unit performed the construction of the 2nd stage of a retention pond for the Zapadnoye Mine and the 2nd stage of the Zapadnoye Mine tailing pit.

A high safety standard of hydraulic structures is ensured at all the entities of the Group.

In accordance with the safety reports, the tailing pits have an adequate stability factor, sufficient dam height and acceptable filtration; tailing exploitation and tailing conditions comply with regulatory requirements.

Protection of atmospheric air, energy efficiency and emissions of greenhouse gases

In the process of gold ore production key sources of atmospheric emissions are drilling and blasting operations and open-pit equipment. The bulk of harmful emissions consists of suspended substances (dust), fuel combustion products and incompletely burned blasting agents (sulfur and nitrogen oxides, carbon oxide).

To reduce the dust level the open pit roads and shovel / bulldozer operation areas are watered in the summertime. To reduce gas and dust emissions in the course of blasting work several technologies are used, including blasting agents with close to zero oxygen balance; blasting the shells with air gaps; neutralizing additives for stemming purposes; spraying blasted rock after the blast.

To reduce atmospheric emissions at the ore processing stage various air purification systems are used: aspiration systems, battery cyclones, foam gas purifiers, exhaust neutralizers.

Actual emissions of atmospheric pollutants from organized and non-organized sources in 2007 throughout the Group did not exceed the maximum admissible levels.

11.

Management's discussion and analysis of financial condition and results of operations for 2007

Management's discussion and analysis of financial condition and results of operations for 2007 represents management's opinion in relation to the Group's operating and financial results, including discussions of:

- key performance indicators of certain business units and subsidiaries;
- financial position as at 31 December 2007;
- issues of liquidity, solvency and capital sources; as well as
- significant events of the Company.

This discussion should be read in conjunction with the consolidated financial statements for 2007 and 2006, prepared in accordance with International Financial Reporting Standards (IFRS).

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11.1. The Group's operating results

11.1.1. Summary of performance results

USD thousand	2007	2006 (restated)[8]	2006
Gold sales revenue	849,023	734,559	734,559
Other revenue	18,096	18,127	–
Cost of gold sales	(509,158)	(422,512)	(422,512)
Other costs	(25,866)	(18,816)	–
Gross profit, including:	332,095	311,358	311,358
Gross profit on gold sales	339,865	312,047	312,047
Gross profit margin, including:	39%	42%	42%
Gross profit margin on gold sales	40%	42%	42%
Operating expenses	(278,322)	(99,266)	(99,975)
Operating profit	53,773	212,092	212,072
Operating profit margin	6%	28%	29%
Income/(expenses) from financial and investment activities	64,491	1,021,734	1,018,253
Income before taxation	118,264	1,233,826	1,230,325
Pretax margin	14%	–	–
Income tax expense	(71,177)	(74,385)	(73,087)
Net profit for the year	47,087	1,159,441	1,157,238
Minority interest	5,999	(414)	(732)
Net profit attributable to shareholders of the parent	41,088	1,159,855	1,157,970
Net profit margin	5%	–	–
EBITDA	334,814	305,964	300,817
EBITDA margin	39%	41%	41%

11.1.2. Gold sales revenue

In the reporting year Polyus Gold's revenue from gold sales reached a historical high and totaled USD 849,023 thousand, having increased by 15.6% as compared to 2006.

The positive revenue dynamics resulted solely from favorable market conditions. This year Polyus Gold produced 1,214 thousand ounces (37.8 tonnes) of refined gold, almost the same as in 2006 (1,215 thousand ounces). The Company sold 1,210 thousand ounces in 2007, which is 6 thousand ounces less than in 2006 (1,216 thousand ounces).

During the reporting period the global price of gold increased by more than 30%. On 2 January 2007, the first business day in the market, the gold price was fixed at USD 639.75[9] per ounce, and on 28 December 2007, the last business day in the market, the gold price was fixed at USD 833.75[9] per ounce.

The Company's policy of selling gold at spot market prices (without using any type of hedging instruments) made it possible to reflect the growth in the gold price in full in the financial results for 2007. Thus, the weighted average selling price in 2007 was USD 706.48 per ounce as compared to USD 604.00 per ounce in 2006.

It should be noted that the weighted-average selling price for 2007 exceeded the average evening fixing price in London by more than USD 11 per ounce, as compared to only USD 0.54 per ounce in 2006.

The sales structure changed significantly. Whereas in 2006 export accounted for almost 30% of sales, in 2007 gold was largely sold in the domestic market to Russian banks (87% of sales). The increase of sales in the domestic market is explained by more favorable contracts terms concluded with Russian banks.

Like in prior years, some gold was sold under contracts which stipulated the delivery of fixed volumes at regular intervals during the year, at the same time, there was an increase in

the share of gold sold under once-off deals within master agreements. Within the centralized distribution system CJSC Polyus sold both its own gold and the metal of its subsidiaries on the basis of agency agreements concluded with the subsidiaries.

[8] Where in the tables hereinafter the year 2006 is not presented with a breakdown into restated and audited, the restatement does not affect the indicators in such tables.
[9] The evening fixing of the gold price in London.

	2007	2006	Change
PGold sales (USD thousand)	849,023	734,559	15.58%
Gold sales (thousand troy ounces)	1,210	1,216	(0.49%)
In the domestic market	1,050	874	20.14%
For export	160	342	(52.92%)
The weighted-average gold selling price (USD per troy ounce)	706.48[10]	604.00[10]	16.97%
The average evening fixing price in London (USD per troy ounce)	695.39	603.46	15.23%
Excess of average selling price over average evening fixing price, USD	11.09	0.54	–

Some gold was sold under an export contract which was concluded for one year. In compliance with Good Delivery standards of the London Bullion Market Association, the gold bullion was delivered directly to the buyer's storage.

11.1.3. Cost of sales

In 2007 cost of sales increased by USD 86,646 thousand and totaled USD 509,158 thousand.[11]

External market factors affecting the cost of sales

All the costs included in the Group's cost of sales, and many operating costs directly or indirectly depend upon the prices for the four main consumable products, i.e. oil, steel and energy, as well as the exchange rate of the national currency to USD.

In 2007 all four consumable components saw a significant movement as compared to 2006:

	2007	2006	Change
Oil (Brent brand) (USD per barrel)	72.5	65.1	11.4%
Steel (hot rolled), (USD per tonne)	563.2	499.4	12.8%
Energy (average level of tariffs approved by energy suppliers to wholesale market) RUR/ MWth	666.9	579.9	15.0%
Average USD/RUR rate	25.5772	27.1852	(5.9%)

Source: Bloomberg, RAO UES of Russia, Central Bank of Russian Federation

Changes in the oil price always impact the prices of diesel fuel, gasoline and lubricants for mining and construction equipment and tipper trucks. The Olimpiada mine will be severely affected with its own power plant which operates on crude oil, and the Nezhdaninskoye deposit which operates an oil-fired plant.

Steel forms the basis for the price of all rolled metal products, pipes, machinery and vehicles.

[10] The weighted-average selling price in USD is calculated per each day, while the IFRS revenue in USD is calculated based on the Group's functional currency (Russian rouble) at the average exchange rate for 2007.

[11] We also provide a breakdown of cost growth by each Group entity in Section 3 "Financial results by structural business units".

The Group buys large volumes of energy from regional generating companies which set their own tariffs depending on how the region is supplied with energy and the efficiency of the distribute networks. However, the Federal Tariff Service establishes the limits for average tariffs. In the regions where the Group operates the lowest tariffs for energy in 2007 were effective in the Irkutsk region (32.47 kopecks/KWth), where the Group also owns the Vitimenergo hydro power plant. The highest tariffs were charged in the Magadan region.

The Group receives settlements with respect to gold sales either in USD or based on USD whilst most of the Group's costs are denominated in Russian Roubles. The devaluation of the USD versus the Rouble results in a decrease of profitability.

Furthermore, the Group's productive facilities are equipped with coal-based boiler houses. Blagodatnoye deposit is planned to be equipped with a coal-fired station, instead of oil-fired station provided in the project materials, as we expect higher growth in oil prices. The coal prices directly impact the tariff setting by energy generating companies.

Cash operating costs

The main reason for the increase in cost of sales is the increase of cash operating costs within all the Group's production entities. During 2007, cash operating costs included in cost of sales amounted to USD 442,224 thousand.

The largest item included in cash operating costs is materials and spare parts used during the mining, concentration and smelting processes. The materials and spare parts which the Group procures consist of spare parts for mining and construction machines, fuel, lubricants, rolled metal products, cables, and technological materials for the gold mill.

The cost of materials and spare parts consumed in 2007 totaled USD 200,601 thousand as compared to USD 152,854 thousand in 2006 (an increase of 31%). The growth is primarily due to the increase in ore volumes processed. The biggest increase of approximately 33% was registered at the Group's largest mining entity – the Olimpiada mine (more than 60% of the Group's cost of materials and spare parts in 2007 and 2006).

Moreover, the cost of some materials and spare parts which the Group procured in the reporting year also increased. Provided below is a comparative table which shows the main materials purchased by the Krasnoyarsk business unit:

No.	Description	Unit of measurement	2007		2006	
			Volume	Cost USD thousand	Volume	Cost USD thousand
1	Summer diesel fuel	tonne	49,947	29,500	39,440	24,000
2	Winter diesel fuel	tonne	33,951	22,700	30,121	20,300
3	Spare parts for tipper trucks and digging machines	tonne		12,200		8,000
6	Grinding balls	tonne	7,218	6,800	2,600	1,500
9	Pipes for current operations	tonne	752	1,300	525	800
10	Spare parts for road-building machines			1,000		1,300
11	Metal rolling products for current operations	tonne	718	800	717	500
13	Ai-80 gasoline	tonne	420	300	420	300
14	Ai-92 gasoline	tonne	312	200	240	200
Total				74,800		56,800

As can be seen from the table above, the procurement of materials and spare parts by the Krasnoyarsk business units in USD terms grew by 31.8% from USD 56,900 thousand to USD 74,800 thousand.

The volume of purchases in physical terms increased mainly on account of diesel fuel and grinding balls (due to the commissioning of Mill No. 3). In monetary terms the increase was due to purchase of spare parts.

General review of the materials and spare parts purchased by the Krasnoyarsk business unit shows that prices increased for pipes, metal rolling products and grinding balls. Conversely, the prices for diesel fuel and gasoline in 2007 were somewhat lower than in the previous year which is explained by tough regulation on prices for oil products in Russia rather than by market conditions.

The second largest item in cash operating costs is payroll expense. Whereas in 2006 the payroll expenses for production staff amounted to USD 104,358 thousand (including USD 77,808 thousand for mining staff payroll and USD 26,550 thousand for concentration and smelting staff payroll), in 2007 these expenses increased to USD 144,008 thousand.

The 38% increase is higher than the increase in labor costs across Russia (~ 20% in 2007), is aimed to offset the inflationary component. The reason for this is that in 2007 the employees of the Olimpiada mine received bonuses for early commissioning of Mill No. 3. Moreover, all the Group's production entities are located in the Far North regions or the regions which are equivalent to the Far North, as a result of which the Group is obliged to pay additional compensation.

Due to the increase in the gold price the Group paid USD 51,138 thousand in tax on mining, which is USD 8,777 thousand more than in 2006. In accordance with Chapter 26 of the Tax Code of the Russian Federation, the tax on mining base includes concentrate or any other semi-product containing precious metal obtained by extraction of this metal from ore, alluvial or industrial deposits, i.e. the gold produced by the Group. Concentrates and other semi-products containing gold are liable to the tax at the rate equal to 6% of the cost of these semi-products. The cost is determined based on the taxpayer's selling prices for the relevant tax period.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment included in cost of sales increased by 18% from USD 73,718 thousand to USD 87,196 thousand. This amount includes depreciation accrued using the straight-line method (USD 71,097 thousand) and amortization of the mineral rights (USD 16,180 thousand). The increase resulted mainly from commissioning of new mining and metallurgical facilities, including Mill No. 3.

11.1.4. Selling, general and administrative expenses

Selling, general and administrative expenses represent 94% of operating costs and amount to USD 261,776 thousand. During 2007 the Group's selling, general and administrative expenses increased by 229% from USD 79,678 thousand.

Payroll

The payroll for administrative staff increased by USD 32,272 thousand to USD 76,291 thousand. All the Group's entities demonstrated an increase in administrative staff payroll. Thus, the Krasnoyarsk business unit (the Olimpiada mine) accounting for 46% of these expenses, demonstrated a 43% increase. The Irkutsk hard rock business unit (Zapadnoye mine) demonstrated a 17% increase in administrative staff payroll costs.

Taxes, other than tax on mining and income tax

In addition to tax on mining and income tax the Group pays property tax, VAT, unified social tax and other taxes. In 2007 the Group expensed USD 20,724 thousand to the Russian federal budget and the regional budgets in the form of tax payments other than tax on mining and income tax. It is almost 83% more than in 2006. This is due to an increase of non-recoverable VAT. The amount of non-recoverable VAT increased significantly at CJSC Polyus (Krasnoyarsk business unit) which made contributions to the share capitals of new subsidiaries in non-monetary form and for this reason reversed VAT for a total amount of about USD 2,700 thousand.

USD thousand	2007	2006
VAT	10,092	3,377
Property tax	8,231	5,135
Other taxes	2,358	2,708
Tax penalties	43	102

Share option plan

In April 2007 the Board of Directors passed a resolution to implement a share option plan. As at 31 December 2007 4,575,065 shares were sold, which is 2.40% of the Company's issued share capital. In 2007 the costs associated with the implementation of the share option plan totaled USD 132,548 thousand.

Other selling, general and administrative expenses

Other selling, general and administrative expenses which for the purpose of this review include rental and communication costs, professional and banking service fees, and repair and maintenance costs increased by USD 8,666 thousand and amounted to USD 28,244 thousand.

Other selling, general and administrative expenses increased mainly due to product selling costs, for instance, the costs for transportation of finished products increased more than 5 times to USD 1,027 thousand. The Group's expenses for professional service fees of auditors, lawyers and consultants also increased by more than 21.5% and totaled USD 8,288 thousand in 2007.

11.1.5. Research and development, exploration and mining costs

These costs decreased by USD 1,357 thousand and amounted to USD 6,217 thousand mainly due to the decrease of exploration and mining workings costs overall within the Group.

11.1.6. Other operating gains and expenses

During 2007 the Group's other operating expenses amounted to USD 7,696 thousand which is USD 5,602 thousand more than in 2006. The increase is due to changes in the provision for long-term VAT recoverable (+USD 3,641 thousand). Moreover, in 2007 the Group reached an amicable settlement with one of its creditors, as a result of which it was released from payment of interest on a loan totaling USD 4,055 thousand.

Other operating expenses increased by 27.8% to USD 18,025 thousand. Key expenses in this group in 2007 included:

- losses arising from property, plant and equipment write-off – USD 6,421 thousand. Compared to 2006 the losses increased fourfold, which is mainly due to the difference in property, plant and equipment valuation in accordance with RAS and IFRS;
- charity expenses amounted to USD 3,868 thousand in the reporting year, or more than twice as much as in 2006;
- increase in losses due to the impairment of inventories.

11.1.7. Finance costs

In 2007 the finance costs did not change significantly and amounted to USD 6,629 thousand.

11.1.8. Investment income/(expense)

Investment income in the reporting period amounted USD 61,537 thousand, which is twice lower than the restated investment income for 2006 in the amount of USD 121,649 thousand (income is adjusted for the once-off income arising from the sale of Gold Fields shares in the amount of USD 980,462 thousand). Decrease of income from investing activity relates primarily to a reduction of income from interest on bank deposits and a reduction of the effective yield on money placed in asset management. At the year-end 2007, bank deposits amounted to USD 443,653 thousand as compared to USD 608,957 thousand at the end of 2006.

11.1.9. Foreign exchange gain/(loss)

During 2007 the Group recognized a foreign exchange gain of USD 9,583 thousand, as compared to a loss of USD 73,924 thousand in 2006. During 2006, net foreign exchange loss from investing activity of the Group amounted to USD 82,321 thousand and related mainly to the effect of translation of foreign operations, which is recognized in the statement of changes in equity from 2007.

11.1.10. Income tax

During 2007 the Group accrued USD 71,177 thousand in income tax. The effective income tax rate (ratio of current and deferred tax to IFRS income before tax and minority interest) in 2007 was 60%, whereas the statutory income tax rate in Russia established in 2007 was 24% (refer to note to financial statements No.16).

11.1.11. Other revenues and cost of sales

Revenues received by the Group from the sale of other products (other than gold) and services virtually did not change from 2006 and amounted to USD 18,096 thousand. This revenue includes sales of electricity, revenue from transportation, handling and warehousing services, and other revenues.

In 2007 the cost of sales of other products and services was higher than the revenue from their sale and amounted to USD 25,866 thousand. This had a negative effect on the Group's gross profit, which was USD 332,095 thousand as compared to USD 339,865 thousand, without non-core operations.

A gross loss on sale of other products and services amounted to USD 7,770 thousand, which is explained by the fact that revenue and cost of sale include heterogeneous works and services.

Thus, sale of electricity to third parties accounts for most of other revenues – USD 8,066 thousand. For comparison, in 2006 the Company sold energy only for several USD thousands.

At the same time, the most considerable items of the other cost of sales include materials and payroll costs.

11.2. Calculation of key performance indicators not stipulated by IFRS standards

For analysis of financial statements many analysts and investors use key performance indicators which are not envisaged by IFRS but which are nevertheless calculated on the basis of financial statements prepared in accordance with IFRS.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

EBITDA is a key performance analytical indicator comprising of income before interest expenses, payment of taxes and depreciation charges.

The Group's EBITDA in 2007 was USD 334,814 thousand, which is USD 28,850 thousand more than in 2006. The Group calculates EBITDA as follows:

USD thousand	2007	2006 (restated)	2006
Income for the year	47,087	1,159,441	1,157,238
+ Income tax paid	71,177	74,385	73,087
+ Depreciation and amortization for the period	92,415	78,477	79,025
+ Interest expense[12]	2,574	6,453	6,453
– Interest income	51,493	107,616	107,616
– Income on disposal of investments	9,898	987,696	987,696
–/+ Foreign exchange gain/(loss)	9,583	(73,924)	(73,924)
+ Loss from disposal of property, plant and equipment and work-in-progress	6,421	1,494	1,494
+ Impairment of property, plant and equipment	313	–	–
+ Reversal of environmental obligations	–	2,094	2,094
+ Excess of the acquisition price of the subsidiary over the fair value of net assets acquired at date of acquisition	–	2,194	–
+ Change of provision for VAT receivable	–	2,814	2,814
+ Losses from stock option plan obligations	132,548	–	–
+ Excessive stripping	53,254	–	–
EBITDA	**334,814**	**305,964**	**300,817**

[12] Excluding interest remission.

Total cash costs ("TCC")

TCC is a key performance indicator reflecting the cost of goods sold adjusted for non-cash costs for depreciation, change of provision for vacation payments and provision for land rehabilitation, and stated in the report per troy ounce of the gold sold.

	2007	2006
Cost of sales (USD thousand)	509,158	422,512
– property, plant and equipment depreciation (USD thousand)	87,196	73,718
– provision for annual vacation payment (USD thousand)	4,190	2,663
– provision for land rehabilitation (USD thousand)	482	7,318
+ non-monetary changes in inventories (USD thousand)	3,944	1,167
TCC, (USD thousand)	421,234	339,980
Gold sales, thousand troy ounces	1,210	1,216
TCC, USD/oz.	**348**	**280**
TCC without excessive stripping, USD/oz.	304	280
TCC without excessive stripping, RUR/oz.	7,775	7,612

Management deems it reasonable to present TCC calculation net of excessive stripping. Starting 2007, the Group significantly increased the volume of stripping work at one of its key mining entities, Olimpiada mine. This fact relates to depletion of oxidized ore reserves and beginning of sulfide ore mining. Sulfide ore has a lower gold grade.

In order to mine sulfide ore, the Group began a major program of mine preparation work which does not relate to the ore mined in the period and is called excessive stripping. Until now, the Group accounted for this work in the cost of gold produced and sold for the period for the purposes of IFRS consolidated financial statements.

Currently, the Group is analyzing the current practice of accounting for excessive stripping in accordance with IFRS, in particular, is evaluating possible approaches and options of recognizing this work as capital expenditure with subsequent depreciation.

Furthermore, it is practical to analyze TCC taking into account USD devaluation. When presenting the TCC (net of excessive stripping) in Russian roubles, we see that the actual growth of TCC amounted to only 2.1%, whereas without changing the rate it amounted to 8.6%.

Capital expenditures ("Capex")

Capex represent the Company's investment into the purchase and modernization of property, plant and equipment and the costs connected with the service of loans used for the purchase of property, plant and equipment.

USD thousand	2007	2006 (restated)	2006
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	–	307,667	307,667
+ Deferred payments for acquisition of subsidiaries	38,228	61,817	61,817
– Proceeds from disposal of subsidiary, net of cash disposed of	–	–	–
+ Purchase of property, plant and equipment	382,802	267,551	261,856
– Proceeds from sale of property, plant and equipment	17,952	12,030	12,030
+ Interest expenses capitalized	-	–	–
Total capital expenditures	403,078	625,005	619,310

11.3. Financial results by structural business units

This section deals only with the review of financial results of business units. Operating activities, key operation indicators, and technology of mining and processing operations are reviewed in Section 5.1 Operating activities in 2007 (by business unit).

11.3.1. Summary table of performance results by business-units

	Revenue USD '000	Production '000 oz	Sales '000 oz	TCC USD/oz.
Krasnoyarsk business unit	603,649	861	856	307
Irkutsk hard rock business unit	23,231	32	33,5	471
Irkutsk alluvial gold business unit	124,111	179	179	491
Yakutia business unit	98,032	142	142	452
Group total	849,023	1,214	1,210	348

11.3.2. Krasnoyarsk business unit (Olimpiada mine)

USD thousand	2007
Revenue	603,649
Cost of sales	(311,557)
Gross profit	292,092
Gross profit margin	48.4%
Operating expenses	(71,852)
Operating profit	220,240
Operating profit margin	36.5%
Financial and other non-operating losses	(17,746)
Income tax	(63,312)
Net profit	174,674
Net profit margin	28.9%

The Krasnoyarsk business unit is the Group's leading mining operation. In 2007, revenues of the Krasnoyarsk business unit were USD 603,649 thousand.

In 2007 the entity sold 856.2 thousand ounces of gold from 861 thousand ounces of gold produced during the reporting period. 81% or 695.6 thousand ounces of gold were sold in the domestic market and the remaining 160.6 thousand ounces of gold were exported. Some of the gold for export was sold under a contract which was concluded for a one-year period. In compliance with Good Delivery standards of the London Bullion Market Association, the gold bullion was delivered directly to the buyer's storage.

The mine's TCC in 2007 amounted to USD 307 per ounce compared to USD 210 per ounce in 2006. The increase in TCC was mainly due to complication with mining and geological conditions.

Primarily this refers to the transition to the sulfide ores processing. Whereas in 2006 sulfide ores represented 67% of the total volume of ores processed, in 2007 this figure increased to 73%. As the Group anticipates, in 2009 the Olimpiada mine will completely convert to the processing of sulfide ores.

Sulfide ores represent metasomatic ore bodies, which are refractory in nature, with the average gold grade several times lower than in oxidized ores, and that require a special processing technology. To produce one ounce of gold the entity has to process much larger quantities of such ore compared to oxidized ore. For instance in 2006 to produce one ounce of gold the Olimpiada mine processed 3.7 tonnes of ore, while in 2007 5.2 tonnes of ore were required for the same purposes.

Secondly, there was an increase in the volume of stripping works. During 2007 we observed a 30% growth with respect to these types of work owing to the fact that upon transition to production of sulfide ores the entity significantly extended the pit boundary.

However the Krasnoyarsk business unit remains one of the most profitable entities of the Group and the Olimpiada mine's TCC indicator is one of the lowest in the world gold production sector. The gross margin during 2007 was 48.4%. Operating costs increased from USD 48,000 thousand in 2006 to USD 71,852 thousand in 2007. This is primarily explained by the growth of general and administrative expenses.

During the reporting period Krasnoyarsk business unit's (Olimpiada mine) investment income amounted close to USD 14,000 thousand and the exchange rate gains amounted close to USD 9,000 thousand. This resulted in recognition of a net profit margin in the amount of 28.9%.

11.3.3. Irkutsk hard rock business unit (Zapadnoye mine)

USD thousand	2007
Revenue	23,231
Cost of sales	(23,776)
Gross loss	(545)
Gross profit margin	–
Operating expenses	(1,535)
Operating loss	(2,080)
Operating profit margin	–
Financial and other non-operating losses	(488)
Income tax	(2,409)
Net loss	(4,977)
Net profit margin	–

The Irkutsk business unit (Zapadnoye mine) mines Zapadnoye deposit in the Bodaibo district of the Irkutsk region.

The Zapadnoye mine's IFRS revenue amounted to USD 23,231 thousand, which is somewhat more than in 2006. In 2007 the Irkutsk business unit mined 750 thousand tonnes of ore as compared to 803 thousand tonnes in 2006; however, it produced 1 tonne (34 thousand ounces) of gold retaining production at 2006 level. Thus, insignificant revenue growth is associated solely with growth of gold price in the reporting period.

In 2007 the Irkutsk business unit sold 33.5 thousand ounces of gold, which is more than the volume produced in the reporting period (gold was also sold out of stock).

The Zapadnoye mine's TCC in 2007 amounted to USD 471 per ounce compared to USD 408 per ounce in 2006. TCC grew by 15.4% primarily due to inflationary growth of the cost of sales.

During 2007, Zapadnoye mine incurred a net loss of USD 4,977 thousand. The gold mill at Zapadnoye mine was commissioned in 2004 only, primarily for the purpose of the development of ores of the Sukhoy Log ore field. The mill is in the process of improving mining work technology, which is a normal process during the first years of operations. Application of state-of-the-art technologies, and implementation of a system of transportation flows management will allow Zapadnoye mine not only to develop the Sukhoy Log's ores but also to become a profitable company in the nearest future.

11.3.4. Irkutsk alluvial gold business unit (Alluvial deposits)

USD thousand	2007
Revenue	124,111
Cost of sales	(101,952)
Gross profit	22,159
Gross profit margin	17.9%
Operating expenses	(14,841)
Operating profit	7,318
Operating profit margin	5.9%
Financial and other non-operating losses	(57)
Income tax	(342)
Net profit	6,919
Net profit margin	5.6%

The Irkutsk alluvial gold business unit develops a number of alluvial deposits in the Irkutsk region.

In 2007, revenues of the Irkutsk alluvial gold business unit amounted to USD 124,111 thousand. In 2007 the total gold production from the alluvial deposits amounted to 5.58 tonnes or 179 thousand ounces compared to 5.32 tonnes or 172 thousand ounces in 2006.

In 2007 the Irkutsk alluvial gold business unit sold 178.9 thousand ounces of gold from 179 thousand ounces of gold produced within the reporting period. Both the parent, OJSC "Lenzoloto", and its subsidiaries sell the gold.

Alluvial deposits' TCC in 2007 amounted to USD 491 per ounce as compared to USD 514 per ounce in 2006. The TCC reduction by 4.5% is primarily due to the fact that the entity managed to increase production volumes with costs being comparable to the 2006 level, as well as to the fact that during the reporting year the entity' costs for land rehabilitation were lower than usual.

The net profit of the Irkutsk alluvial gold business unit amounted to USD 6,919 thousand, and net profit margin to 5.6%.

11.3.5. Yakutia business unit (Kuranakh mine)

USD thousand	2007
Revenue	98,032
Cost of sales	(76,319)
Gross profit	21,713
Gross profit margin	22.1%
Operating expenses	(11,693)
Operating profit	10,020
Operating profit margin	10.2%
Financial and other non-operating losses	(2,953)
Income tax	(1,791)
Net profit	5,276
Net profit margin	5.4%

The Kuranakh mine holds licenses for the development of 11 hard rock gold deposits in the Aldan district of the Republic of Sakha (Yakutia).

IFRS revenue of the Yakutsk business-unit totaled USD 98,032 thousand compared to USD 94,656 thousand in 2006. The revenue growth is associated solely with the growth of the selling price; the physical production of refined gold by the Kuranakh mine in 2007 went down and amounted to 4.4 tonnes or 142 thousand ounces compared to 4.8 tonnes or 156 thousand ounces in 2006. The decrease of gold production by Kuranakh mine relates primarily to deterioration of the average gold grade of the processed ore.

In 2007 the Yakutia business-unit sold 141.8 thousand ounces of gold from 142 thousand ounces of gold produced within the reporting period.

Kuranakh mine's TCC in 2007 amounted to USD 452 per ounce compared to USD 411 per ounce in 2006. Growth of TCC by 10.0% relates to growth of transportation costs (transportation, handling, warehousing).

The operating margin in 2007 was 10.2% compared to 13.9% in the previous year.

The Kuranakh mill was commissioned in 1965 and is one of the oldest enterprises in the industry. Obsolete production facilities explain gradual reduction of profitability. In 2007-2008 the Company is implementing a modernization program which will result in gradual increase in profitability and production in the nearest future. In 2007 a decision was taken to increase the Mill's capacity from 3.6 million tonnes of ore per year to 4.5 million tonnes of ores per year; and an agreement was signed with the general designer. We anticipate that the works on Mill modernization will be completed by October 2008.

The net profit of the Yakutia business unit amounted to USD 5,276 thousand, and net profit margin to 5.4%.

11.4. Review of financial sustainability and solvency

11.4.1. Analysis of balance sheet items

Assets

Non-current assets

In 2007 the Group's assets structure did not go through significant changes. Whereas in 2006 non-current assets accounted for 43% of all the assets, in the reporting period their share increased up to 49%.

It is primarily due to the increase of the carrying value of all types of property, plant and equipment. In 2007 the Group was actively involved in geological exploration and construction works, therefore the capitalized expenses for exploration and evaluation works (125%) and assets used in construction-in-progress works (15%) increased more than any other property, plant and equipment. The value of the most significant group of assets – mining assets – increased by 18% and amounted to USD 1,253,565 thousand.

Current assets

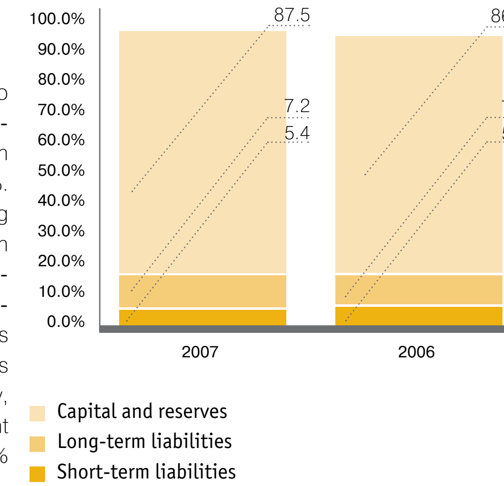
In the reporting period there was an increase in the most significant groups of current assets, such as investments in securities and other financial assets, inventories and accounts receivable, while cash and cash equivalents, on the contrary, decreased.

As at 31 December 2007 the value of short-term investments into securities and other financial assets increased by almost 3% and amounted to USD 1,270,918 thousand. This primarily refers to loans under repurchase agreements which grew by USD 90,000 thousand, bank investment deposits and investments in securities available for sale also grew significantly.

Cash and cash equivalents on the Group's accounts decreased by almost USD 70,000 thousand. As at 31 December 2007 the Group's balance sheet included USD 226,174 thousand of cash compared to USD 294,197 thousand at the end of 2006. This is explained by the growth of investments in securities and a capital expenditure program. Such an intensive program of capital expenditure required significant investments. The Group's management pursues a policy of using its own current assets to finance the program in order to retain OAO Polyus Gold's financial sustainability and to delay debt financing as long as possible.

Inventories increased by 37% and amounted to USD 231,985 thousand. Materials and spare parts which amount to 73% of the total inventories value, increased by 32% compared to 2006 to USD 170,373 thousand. The volumes of diesel fuel, grinding balls and spare parts purchased for mining equipment significantly increased. It is explained by the fact that there was a several times increase in the volumes of processing at the Olimpiada mine. The cost of gold under processing also increased and amounted to USD 62,414 thousand compared to USD 40,706 thousand.

Capital and liabilities



It follows from the chart that the structure of the Group's capital and liabilities did not significantly change compared to 2006.

Share capital and reserves

As at 31 December 2007 the share capital and reserves amounted to USD 3,236,183 thousand, compared to USD 2,834,269 thousand in 2006.

The value of treasury shares at the end of the reporting period amounted to USD 730,450 thousand, which is 27% less than at the end of 2006. This is due to the fact that during the reporting period the company sold 4,575,065 shares out of earlier purchased shares under the stock option program.

The additional paid-in capital decreased insignificantly and totaled USD 2,118,165 thousand (compared to USD 2,190,661 thousand in 2006).

During the reporting period the company paid out dividends based on 2006 results for the first time; the amount of dividends paid was approximately USD 24 million.

Long-term liabilities

The largest group of non-current liabilities is represented by deferred tax liabilities which at 31 December 2007 amounted to USD 183,356 thousand compared to USD 176,495 thousand in the previous year.

The rest of non-current liabilities changed insignificantly.

Current liabilities

The current liabilities structure slightly changed. First of all, the Group retained liabilities under the unrealized stock option plan in the amount of USD 5,357 thousand, which corresponds to the fair value of the option for 0.1% of issued shares representing the reserve for the stock option plan.

Trade payables virtually did not change and amounted to USD 21,651 thousand. Other payables and interest payable as at 31 December 2007 were USD 78,575 thousand, which is 58% more than in the previous year. This relates mainly to an increase in the volumes of property, plant and equipment purchases. Furthermore, the Group's outstanding amounts on payroll settlements as of the year end were USD 28,069 thousand compared to USD 9,255 thousand as at 31 December 2006, which is mainly explained by technical difficulties – complexity of non-cash settlements at the end of the financial year.

Current tax liabilities as at the end of 2007 amounted to USD 33,850 thousand, which is 32% more compared to 2006. The growth mainly occurred on account of income tax (+68%) and VAT (+43%) liabilities.

11.4.2. Analysis of profitability indicators

USD mln., unless otherwise indicated	2007	2006 (restated)	2006
Net profit	47,087	1,159,441	1,157,238
Net profit adjustment	132,548	(980,462)	(980,462)
Adjusted net profit	179,635	178,979	176,776
Assets	3,699,165	3,271,168	3,644,002
Equity attributable to shareholders of the parent	3,188,996	2,801,622	3,085,097
Non-current and current loans and borrowings	20,909	15,001	12,116
Return on assets, %	4.86%	5.47%	4.85%
Return on equity, %	5.63%	6.39%	5.73%
Return on invested capital, %	5.60%	6.35%	5.71%

For the purpose of profitability calculation we use adjusted net income: 2007 net income adjusted for USD 132.5 million (option plan expenses); 2006 net income adjusted for USD 980.5 million (gain on sale of investments in Gold Fields Ltd)

Profitability of assets and equity as well as invested capital did not significantly change but had a slight tendency to decrease. It is explained by the general profitability decrease within the sector due to the growth of inflationary costs which is not fully offset by the growth of product prices.

11.4.3. Cash flow analysis

USD thousand	2007	2006
Cash provided by operations	187,010	147,037
Cash provided by/(used in) investing activities	(311,110)	695,490
Net cash (used in)/ provided by financing activities	42,337	(632,895)
Effect of translation to presentation currency	13,740	56,157
Cash, beginning of year	294,197	28,408
Cash, end of year	226,174	294,197

In 2007 net cash provided by operations increased by USD 39,973 thousand up to USD 187,010 thousand. Growth of net inflow of cash from operations resulted from a USD 39,710 thousand reduction in current income tax provision.

During 2007 the Group used USD 311,110 thousand in investment activities[13] while in 2006 it received USD 695,490 thousand from investment activities.

Total change of net cash flows from investment activities amounted to USD 1,006,600 thousand and was mainly caused by the following:

- during 2006 the Group sold Gold Fields shares which were purchased in 2005, which made it possible to recognize income in the amount of USD 1,925,402 thousand;
- during the year ended 31 December 2006 the Group received interest income of USD 109,078 thousand (USD 82,382 thousand more than in 2007) and final dividends for 2005 from Gold Fields in the amount of USD 6,420 thousand;
- during 2007 the company was actively purchasing property, plant and equipment. The total amount spent for these purposes totaled USD 382,802 thousand.

Cash received from financing activities for the year ended 31 December 2007 totaled USD 42,337 thousand compared to cash used in financing activities in the amount of USD 632,895 thousand. Net cash outflow in 2006 was mainly explained by the redemption by the Group of OJSC Polyus Gold shares issued in November 2006 for the amount of USD 995,557 thousand, which was partly offset by cash inflows from OJSC MMC Norilsk Nickel in the amount of USD 360,197 thousand in the process of spin-off. During the reporting year under the stock option plan implementation the Group received cash from the sale of its shares in the amount of USD 64,051 thousand.

[13] Capital expenditure represents part of cash used in investing activity.

12.

Key Risk Factors associated with Polyus Gold Operations

Operations of OJSC Polyus Gold (hereinafter, the "Group") are associated with a number of risks, which, under certain circumstances, may affect the Group's operating results and the value of OJSC Polyus Gold securities.

Operating Risks

Production-related risks

Principal operations of the Group are conducted in remote areas with severe climate, which imposes the need to address complex technical issues in conducting geological exploration and mining work. For work in difficult geological environments, in areas with extreme climates the Group uses state-of-the-art mining and transport equipment and technology, including those developed by the Group. However, the Group may be unable to overcome difficulties related to weather and climate with commercially viable costs, which may have a material negative effect on the principal operations of the Group. Major accidents involving energy supply systems, pits, and concentrators may have a negative effect on the financial results of OJSC Polyus Gold. Moreover, the remoteness of the main operating locations results in transportation difficulties, which may also affect the cost of the finished products.

The Group is subject to mining risks

Operations of the Group, as well as those of other mining companies, are subject to hazards and risks inherent in the exploration, development and production of mineral resources, and may lead to insufficient production or lead to damage to third parties, their property and the environment. The Group is engaged in mining from an open pit. The risk factors connected with open-pit mining include: inundation; quarry bank and wall sloughing; accidents connected with the operation of mining and transport equipment in the quarry; accidents connected with the preparation and performance of large-scale blasting work in the quarry; reduction of output due to natural conditions; risks related to the reclamation of mineralized waste water such as pollution of subterranean waters and water flows. An accident resulting from any of these hazardous factors may lead to the suspension of production, increased cost of production, injuries to people and damage to the environment.

Project-related risks

During implementation of investment projects of the Group market, technical and production, and organizational project risks may materialize. Market risks are associated with fluctuations in gold prices, strengthening of the Russian rouble, and inflation, and can make a project unprofitable. Technical, production, and organizational project risks, such as: the risk of an untimely launch of equipment into operation, a violation of operating conditions as a result of design and assembly errors, errors and negligence committed during construction, the risks of accidents, fire, breakdowns, environmental risks, risks related to errors in management, problems of internal production management systems, badly developed work rules and regulations may lead to the project going over budget or make the operation of an item impossible, which will affect the operating results of the Group and may influence the price of its securities.

Market risks are associated with fluctuations in gold prices, strengthening of the Russian rouble, and inflation, and can make a project unprofitable.

Market Risks

The Group's financial results largely depend on the price of gold

A principal source of the Group's income is revenue from the sale of gold. Gold is usually sold at market prices under both long-term contracts and on the spot market. Therefore the Group's financial results largely depend on the price of gold. The gold market is of a cyclical nature, susceptible to general economic trends and may demonstrate significant price fluctuations.

Gold price depends on a number of factors, the majority of them being out of the Group's control. The significant sustained reduction of the gold price may lead to a decline in profitability or even to non-profitable production and/or exploration work performed by the Group, and may have a material negative impact on the Group's activities, operating results and financial position.

Increase in real RUR / USD exchange rate and inflation may have a material adverse impact on the Group's operating performance.

Gold produced by the Group is tied to the USD-denominated gold price on international markets, whilst the bulk of the Group's direct expenses are incurred in RUR. Growth in the RUR / USD exchange rate in real terms will lead to a growth in the Group's expenses relative to income, that will adversely affect the Group's operating performance. Besides, some expense items of the Group are affected by inflation. Further growth of the real RUR / USD exchange rate, especially in combination with inflation, may have an adverse impact on the financial position and operating performance of the Group.

Significant influence of inflation on the Company's operating performance.

All production entities of the Company are situated in Russia. From the early 90-s, inflation remains high in Russia. The most significant increase took place after 1998 financial crisis.

This year inflation was 84.4%. The inflation rate remains high today: 11.7% in 2004, 10.9% in 2005, 9 % in 2006, and 11.9% in 2007. The Company suffers from inflationary growth of the cost of raw materials and supplies, as well as the cost of labor. This may negatively influence its operating and financial performance.

Legal Risks

Tax legislation risks

The Group's companies, like all Russian gold mining companies, pay a large number of taxes and make statutory charges, that include, in particular, the following: corporate income tax; value-added tax (VAT); import duties on the purchase of imported equipment and materials; unified social tax; tax on mining; corporate property tax, land tax and leasehold ground rent; water rates; personal income tax; transportation tax; environmental pollution charges; obligatory social insurance against work-related accidents, injuries and occupational diseases; advertisement tax, etc. The Russian tax situation is complicated by the fact that different governmental bodies have often introduced rules contradicting one another or applicable retrospectively. In particular tax legislation is not sufficiently clear regarding the deductibility of certain expenses for income tax purposes. As a result, the Group could have assessed and paid taxes in accordance with the tax legislation, effective within respective periods in the past, but the correctness of such tax calculation may be disputed by the tax bodies in the future. Despite actions being taken, the legislative uncertainty potentially exposes the Group to the risk of material fines, penalties and other sanctions, which may increase the tax liabilities and lead to suspension or revocation of licenses.

Changes in the environmental legislation

Russian environmental rules and regulations are applicable to the Group's operations. The Group is also subject to comprehensive environmental control and regulation as its operations are connected with the use of reagents harmful to the environment, as well as the emission of waste and pollutants, land disturbance, potential damage to wildlife and other environmental impacts.

Adoption of new laws and regulations, toughening of licensing requirements, stricter enforcement or new interpretation of the effective environmental legislation, regulations or license terms, identification of a previously unknown case of pollution may require the Group to incur additional costs for the adjustment of the production process, installation of purification equipment, performance of purification work, to suspend or terminate production, pay duties, penalties and other charges for emissions or other violations of the environmental legislation.

Country Risks

Emerging markets, such as Russia, are subject to higher risks than the developed markets, including, in some cases, material legal, economic and political risks.

Investors in emerging markets should take into account that these markets are subject to higher risks, than economically developed nations, including serious legal, economic, and political risks. Moreover, turmoil on the financial markets of any emerging economy usually affects stock markets of the rest of emerging economies, since investors in such cases are prone to transfer their money to more stable markets. As it has happened before, financial problems or increased risks associated with investments into emerging economies, as a rule, negatively influence foreign investments into Russia and the Russian economy in general.

Crime and corruption may expose the Company to additional risks.

Local and international press informs about high criminal activity in Russia, including organized crime. Moreover, local and international press has repeatedly discussed the high level of corruption of the Russian authorities, including bribery and abuse of power for corrupt purposes. There have been repeated announcements in the press about biased materials published in numerous Russian media for remuneration. A negative image may affect the effectiveness of the Company's operations.

13.

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 page 80, 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 judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking 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 6 June 2008 by:

Ivanov E. I.
General Director

Glotov D. A.
Deputy General Director

Moscow, Russia
6 June 2008

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" and its subsidiaries (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 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 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' judgement, 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

Without qualifying our opinion, we draw attention to the fact that comparative information for the year ended 31 December 2006 has been retrospectively adjusted for the changes in accounting policies, as further discussed in note 5 to the consolidated financial statements.

Moscow, Russia
6 June 2008

Deloitte & Touche

Consolidated income statement for the year ended 31 december 2007 (in thousands of US Dollars)

	Notes	2007	2006 As restated[1]
Gold sales		849,023	734,559
Other sales		18,096	18,127
Total revenue		**867,119**	**752,686**
Cost of gold sales	7	(509,158)	(422,512)
Cost of other sales		(25,866)	(18,816)
Gross profit		**332,095**	**311,358**
Selling, general and administrative expenses	11	(261,776)	(79,678)
Research and exploration expenses		(6,217)	(7,574)
Other operating income	12	7,696	2,094
Other operating expenses	12	(18,025)	(14,108)
Operating profit		**53,773**	**212,092**
Finance costs	13	(6,629)	(6,453)
Income from investments	14	61,537	1,102,111
Foreign exchange gain/(loss), net	15	9,583	(73,924)
Profit before income tax		**118,264**	**1,233,826**
Income tax	16	(71,177)	(74,385)
Profit for the year		**47,087**	**1,159,441**
Attributable to:			
Shareholders of the parent company		41,088	1,159,855
Minority interest		5,999	(414)
		47,087	**1,159,441**
Earnings per share			
Basic and diluted (US cents)	17	23	78

[1] The comparative information for the year ended 31 December 2006 reflects adjustments made in connection with the changes in accounting policies (refer to note 5) and completion of initial accounting of acquisition of subsidiary (refer to note 6).

CONSOLIDATED BALANCE SHEET
at 31 december 2007
(in thousands of US Dollars)

	Notes	2007	2006 As restated[1]
ASSETS			
Non-current assets			
Property, plant and equipment	18	1,783,432	1,395,605
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
		1,797,403	**1,408,545**
Current assets			
Inventories	20	231,985	168,829
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
		1,901,762	**1,862,615**
TOTAL ASSETS		**3,699,165**	**3,271,160**
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		420,157	259,876
Retained earnings		1,337,346	1,320,151
Equity attributable to shareholders of the parent company		**3,188,996**	**2,801,622**
Minority interest		**47,187**	**32,647**
		3,236,183	**2,834,269**
Non-current liabilities			
Deferred tax liabilities	26	183,356	176,495
Environmental obligations	27	81,341	71,513
Obligations under finance lease and other non-current liabilities		–	1,802
		264,697	**249,810**
Current liabilities			
Deferred consideration on acquisition of subsidiaries		37,943	75,833
Unsettled liabilities under share option plan		5,357	–
Short-term borrowings	28	20,909	15,001
Trade payables	29	21,651	20,799
Other payables and accrued expenses	30	78,575	49,714
Income tax payable		12,663	7,519
Other taxes payable	31	21,187	18,215
		198,285	**187,081**
TOTAL LIABILITIES		**462,982**	**436,891**
TOTAL EQUITY AND LIABILITIES		**3,699,165**	**3,271,160**

[1] The comparative information for the year ended 31 December 2006 reflects adjustments made in connection with the changes in accounting policies (refer to note 5) and completion of initial accounting of acquisition of subsidiary (refer to note 6).

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007
(in thousands of US Dollars)

	Notes	2007	2006 As restated[1]
Operating activities			
Profit before income tax		**118,264**	**1,233,826**
Adjustments for:			
Share option plan		132,548	–
Amortisation and depreciation		92,495	79,025
Finance costs		6,629	6,453
Loss on disposal of property, plant and equipment		6,421	1,494
Loss on disposal of preferred shares of a subsidiary		2,962	–
Change in allowance for doubtful debts		991	1,288
Impairment of advances paid (reversed)/recognised		(244)	1,586
Change in provision for land restoration		482	7,318
Impairment of property, plant and equipment		312	383
Impairment of goodwill		–	2,194
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		(9,583)	73,924
Other		1,089	848
Operating profit before working capital changes		**287,188**	**309,042**
Increase in inventories		(50,138)	(32,919)
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 value added tax		1,067	(32,285)
Increase in trade payables		715	12,450
Decrease in environmental 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		**238,868**	**240,486**
Interest paid		(1,671)	(3,552)
Income tax paid		(50,187)	(89,897)
Net cash generated from operating activities		**187,010**	**147,037**

[1] The comparative information for the year ended 31 December 2006 reflects adjustments made in connection with the changes in accounting policies (refer to note 5) and completion of initial accounting of acquisition of subsidiary (refer to note 6).

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007 (continued)
(in thousands of US Dollars)

	Notes	2007	2006 As restated[1]
Investing activities			
Acquisition of subsidiaries and increase of ownership in subsidiaries	6	–	(307,667)
Proceeds from disposal of subsidiaries		1,320	–
Repayment of deferred consideration on acquisition of subsidiaries		(38,228)	(61,817)
Purchase of property, plant and equipment		(382,802)	(267,551)
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		**(311,110)**	**695,490**
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**

[1] The comparative information for the year ended 31 December 2006 reflects adjustments made in connection with the changes in accounting policies (refer to note 5) and completion of initial accounting of acquisition of subsidiary (refer to note 6).

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	Invest-ments re-valuation reserve	Trans-lation reserve	Retained earnings	Total		
Balance at 31 December 2005 – as previously reported		**5**	**1,837,330**	**–**	**816,709**	**8,350**	**446,169**	**3,108,563**	**29,632**	**3,138,195**
Change in accounting policy	5	–	–	–	–	75	(3,629)	**(3,554)**	130	**(3,424)**
Balance at 31 December 2005 – as restated		**5**	**1,837,330**	**–**	**816,709**	**8,425**	**442,540**	**3,105,009**	**29,762**	**3,134,771**
Increase in fair value of available-for-sale investments	17	–	–	–	19,620	–	–	**19,620**	–	**19,620**
Acquisition of non-controlling interest in subsidiary		–	–	–	–	–	(281,720)	**(281,720)**	–	**(281,720)**
Effect of translation to presentation currency		–	–	–	–	251,451	–	**251,451**	2,775	**254,226**
Total income/(loss) recognised directly in equity – as restated		–	–	–	19,620	251,451	(281,720)	**(10,649)**	2,775	**(7,874)**
Profit for the year – as restated		–	–	–	–	–	1,159,855	**1,159,855**	(414)	**1,159,441**
Recognised gain on available-for sale investments		–	–	–	(816,709)	–	–	**(816,709)**	–	**(816,709)**
Total recognised income and expense for the year – as restated		**–**	**–**	**–**	**(816,709)**	**–**	**1,159,855**	**343,146**	**(414)**	**342,732**
Issue of shares of OJSC "Polyus Gold"		6,866	353,331	–	–	–	–	**360,197**	–	**360,197**
Buy back of issued shares	25	–	–	(995,557)	–	–	–	**(995,557)**	–	**(995,557)**
Increase in minority interest due to increase in share capital of a subsidiary		–	–	–	–	–	(524)	**(524)**	524	**–**
Balance at 31 December 2006 – as restated		**6,871**	**2,190,661**	**(995,557)**	**19,620**	**259,876**	**1,320,151**	**2,801,622**	**32,647**	**2,834,269**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2007 (continued) (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	Invest-ments re-valuation reserve	Trans-lation reserve	Retained earnings	Total		
Balance at 31 December 2006 – as restated		**6,871**	**2,190,661**	**(995,557)**	**19,620**	**259,876**	**1,320,151**	**2,801,622**	**32,647**	**2,834,269**
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		–	–	–	–	208,325	–	**208,325**	3,088	**211,413**
Total income/(loss) recognised directly in equity		–	–	–	17,287	163,913	–	**181,200**	3,088	**184,288**
Profit for the year		–	–	–	–	–	41,088	**41,088**	5,999	**47,087**
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		**–**	**–**	**–**	**–**	**–**	**41,088**	**41,088**	**10,223**	**51,311**
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**	**420,157**	**1,337,346**	**3,188,996**	**47,187**	**3,236,183**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2007

1. GENERAL

Organisation

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

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

The immediate shareholders of the Company as at 31 December 2007 and 2006 are presented in note 25.

The principal beneficial shareholders of the Group at 31 December 2007 and 2006 were Mr. Vladimir Potanin and Mr. Mikhail Prokhorov.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all new and revised standards and interpretations that are mandatory for adoption in the annual 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)

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 35).

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.

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 Presentation of Financial Statements (amendment)	1 January 2009
IAS 23 Borrowing Costs (amendment)	1 January 2009
IAS 27 Consolidated and Separate Financial Statements (amendment due to revision of IFRS 3)	1 July 2009
IAS 28 Investments in Associates (amendments due to revision of IFRS 3)	1 July 2009
IAS 31 Investments in Joint Ventures (amendments due to revision of IFRS 3)	1 July 2009
IAS 32 Financial Instruments: Presentation (amendment)	1 January 2009
IAS 36 Impairment of Assets (amendment)	1 January 2009
IAS 38 Intangible Assets (amendment)	1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement (amendment)	1 January 2009
IAS 40 Investment Property (amendment)	1 January 2009
IAS 41 Agriculture (amendment)	1 January 2009
IFRS 2 Share-based Payment (amendment)	1 January 2009
IFRS 3 Business Combinations (revised on applying the acquisition method)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IFRIC 11 IFRS 2: Group and Treasury Share Transactions	1 March 2007
IFRIC 12 Service Concession Arrangements	1 January 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

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.

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 previous financial year, except that the Group has adopted new accounting policies in respect of general and administrative overhead costs attributable to exploration and evaluation activities, and accounting for acquisition and disposal of additional interest in subsidiaries from minority shareholders (refer to sections Accounting for acquisition and Exploration and evaluation assets 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 incorporate 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 in excess of 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

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.

In 2007, management of the Group changed its accounting policy for acquisition of additional shares of subsidiaries from minority shareholders. According to the new policy, difference between the carrying value of acquired minority interests and the fair value of consideration paid is recognised directly in equity and attributed to shareholders of the parent.

Under the previous accounting policy, the Group recognised any excess of consideration paid over the acquired interest in the fair value of subsidiary's net assets at the date of increase in ownership as goodwill (or mineral rights in respect of mining subsidiaries). Any excess of the Group's share in the fair value of subsidiary's net assets acquired at the date of increase in ownership over cost of acquisition was recognised in the income statement.

The Group has applied new policy retrospectively. The effect of change in accounting policy on the consolidated financial statements for the years ended 31 December 2007 and 2006 is presented in note 5.

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 historical cost.

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.

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

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

	2007	2006
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.

Exploration and evaluation assets

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

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

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

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

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

The Group applied this policy retrospectively. The effect of change in accounting policy on the consolidated financial statements for the years ended 31 December 2007 and 2006 is presented in note 5.

Impairment of exploration and evaluation assets

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

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

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

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

Mining assets

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

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

Non-mining assets

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

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

Capital construction-in-progress

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

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the related lease obligation to the lessor.

Impairment of tangible assets, other than exploration and evaluation assets

An impairment review of tangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

Deferred expenditures

Certain 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.

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

Work-in-process

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

Stores and materials

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

Financial assets

Financial assets are recognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, net of 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.

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 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 35.

Held-to-maturity investments

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

AFS financial assets

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

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

Gains and losses arising from changes in fair value are recognised directly in equity with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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.

Effective interest method

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

Derecognition of financial liabilities

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

Interest on borrowings

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

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 not 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.

Revenue recognition

Gold sales revenue

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

Other revenue

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

Operating leases

The lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms.

Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Segmental information

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

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated.

Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

Provision for land restoration, representing the cost of restoring land damaged after the commencement of commercial production, is estimated at the net present value of the expenditures expected to settle the obligation. Increases in provision are charged to the income statement as a cost of production.

Ongoing restoration costs are expensed when incurred.

3. Critical accounting estimates and judgements

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; recognition of exploration and evaluation assets; impairment of tangible assets; calculation of allowances; initial accounting for acquisition of subsidiaries; environmental obligations, renewal of a license and tax matters.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- Changes of proven and probable ore reserves;
- The grade of mineral reserves varying significantly from time to time;
- Differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- Unforeseen operational issues at mine sites; and
- Changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Exploration and evaluation assets

Management's judgement is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploitation or sale. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. 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 judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances

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

Initial accounting for acquisition of subsidiaries

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

Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Renewal of a license

The Group's geological research license for Kyutchus field expires on 31 October 2008. 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.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

4. Reclassifications

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2006 has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2007.

The effect of the reclassifications is summarised below:

	After reclassifications	Before reclassifications	Difference
CONSOLIDATED INCOME STATEMENT			
Other sales	18,127	–	18,127
Cost of other sales	(18,816)	–	(18,816)
Other operating income	2,094	–	2,094
Other operating expenses	(14,108)	(9,222)	(4,886)
Finance cost	(6,453)	(5,217)	(1,236)
Income from investments	1,102,111	1,019,790	82,321
Other non-operating expenses	–	(3,481)	3,481
Foreign exchange gain/(loss), net	(73,924)	7,161	(81,085)
			–
CONSOLIDATED BALANCE SHEET			
Non-current assets			
Investments in securities and other financial assets	1,995	848	1,147
Current assets			
Other current assets	13,667	123,073	(109,406)
Income tax prepaid	8,228	–	8,228
Accounts receivable	11,876	13,023	(1,147)
Reimbursable value added tax	101,178	–	101,178
			–
Current liabilities			
Obligations under financial lease	–	2,885	(2,885)
Short-term borrowings	15,001	12,116	2,885
Income tax payable	7,519	–	7,519
Other taxes payable	18,215	25,734	(7,519)
			–

5. Change in accounting policies

In 2007, management of the Group has changed its accounting policy for acquisition of additional shares of subsidiaries from minority shareholders. According to the new policy, difference between the carrying value of acquired minority interests and the fair value of consideration paid is recognised directly in equity and attributed to shareholders of the parent. Management believes that after control over a subsidiary is obtained, changes in the Group's ownership interest should not affect the measurement of assets acquired and liabilities assumed at the date of initial acquisition, therefore change in accounting policy will better reflect the economic substance of transactions for acquisition of non-controlling interest in subsidiaries. The change in accounting policy has been applied retrospectively. Effect of change in accounting policy on the financial position and results of operation of the Group for the years ended 31 December 2007 and 2006 is presented in table below.

In addition, management of the Group changed its accounting policy for general and administrative overhead costs directly attributable to exploration and evaluation activities. In accordance with new policy, such costs, which previously were recognised in the income statement as incurred, are capitalised within exploration and evaluation assets. The reason for the change was to make accounting policy consistent with the substance of expenses and the way the Group manages its exploration and evaluation activities. Management believes that new policy is consistent with the common industry practices and will result in more accurate information about expenditure related of exploration and evaluation activities. The change in accounting policy has been applied retrospectively. Effect of change in accounting policy on the financial position and results of operation of the Group for the years ended 31 December 2007 and 2006 is presented in table below.

The impact of changes in accounting policies on the consolidated financial statements is summarised below:

	2007	2006
Income statement for the year ended 31 December		
Decrease in selling, general and administrative expenses	20,804	5,408
Decrease in research and exploration expenses	–	287
Increase in deferred income tax expense	(4,993)	(1,298)
Net increase in profit for the year	**15,811**	**4,397**
Balance sheet at 31 December		
Increase/(decrease) in property, plant and equipment	21,677	(369,942)
(Increase)/decrease in deferred tax liabilities	(5,203)	88,899
(Increase)/decrease in retained earnings	(15,811)	281,838
(Increase)/decrease in translation reserve	(664)	240
Increase in minority interest	–	(238)

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 a cash consideration of USD 300,167 thousand. As at 31 December 2006, acquisition of additional shares of SVMC was accounted for in the consolidated financial statements using provisional values. Provisional values of mineral rights and attributable deferred tax liabilities acquired amounted to USD 370,684 thousand and USD 88,964 thousand, respectively.

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

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)
Net assets acquired	**7,500**	**5,306**
Goodwill arising on the acquisition	–	2,194
Total consideration	**7,500**	**7,500**
Satisfied by cash	(7,500)	(7,500)

Goodwill that arose on acquisition of GRK BarGold was immediately impaired based on the results of valuation performed by the independent professional appraiser.

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 an increase of minority interest by USD 524 thousand.

7. Cost of gold sales

	2007	2006
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
Change in provision for land restoration (refer to note 27)	482	7,318
Increase in gold-in-process and refined gold	(20,744)	(6,736)
Total	**509,158**	**422,512**

8. On-mine costs

	2007	2006
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)	**256,074**	**212,623**

9. Smelting and concentrating costs

	2007	2006
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)	**131,443**	**89,766**

10. Amortisation and depreciation of operating assets

	2007	2006
Mining	59,503	50,209
Smelting and concentrating	27,693	23,509
Total (refer to note 7)	**87,196**	**73,718**

11. Selling, general and administrative expenses

	2007	2006
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	**261,776**	**79,678**

12. Other operating income and expenses

Other operating income

	2007	2006
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	**7,696**	**2,094**

Other operating expenses

	2007	2006
Loss on disposal of property, plant and equipment	6,421	1,494
Donations	3,868	1,768
Loss on disposal of preferred shares of a subsidiary	2,962	–
Change in allowance for doubtful debts	991	1,288
Impairment of advances paid (reversed)/recognised	(244)	1,586
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
Impairment of goodwill (refer to note 6)	–	2,194
Other	2,511	1,305
Total	**18,025**	**14,108**

13. Finance costs

	2007	2006
Interest on borrowings	2,654	2,874
Unwinding of discount on decommissioning obligations (refer to note 27)	3,975	3,579
Total	**6,629**	**6,453**

14. Income from investments

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

In 2006 gain on disposal of available-for-sale investments represented gain on sale of investment in Gold Fields Limited.

15. Foreign exchange gain/(loss), net

	2007	2006
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	–	(82,321)
Total	**9,583**	**(73,924)**

16. Income tax

	2007	2006
Current tax expense	77,017	84,718
Deferred tax benefit (refer to note 26)	(5,840)	(10,333)
Total	**71,177**	**74,385**

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:

	2007	2006
Profit before income tax	**118,264**	**1,233,826**
Income tax at statutory rate of 24%	28,383	296,118
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	4,089	2,902
Income tax at effective rate of 60% (2006: 6%)	**71,177**	**74,385**

17. Earnings per share

	2007	2006
Profit attributable to shareholders of the parent company:		
for the period from 17 March to 31 December 2006	–	145,471
for the period from 1 January to 31 December 2007	41,088	–
Weighted average number of ordinary shares in issue:		
for the period from 17 March to 31 December 2006	–	187,645,115
for the period from 1 January to 31 December 2007	175,739,670	–
Basic and diluted earnings per share (US cents)	**23**	**78**

In 2006 earnings per share were calculated based on the profit attributable to shareholders of the parent company for the period subsequent to the incorporation of the Company till 31 December 2006, and the weighted average number of ordinary shares in issue during that period. Such earnings per share are 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 – as previously reported	**59,010**	**1,058,034**	**40,838**	**98,603**	**1,256,485**
Change in accounting policy (refer to note 5)	4,166	(8,618)	–	–	(4,452)
Balance at 31 December 2005 – as restated	**63,176**	**1,049,416**	**40,838**	**98,603**	**1,252,033**
Additions – as restated	62,295	92,283	7,651	108,484	270,713
Acquired on acquisition of subsidiaries	602	6,974	–	–	7,576
Transfers	–	46,556	–	(46,556)	–
Disposals	–	(15,895)	(1,728)	(3,356)	(20,979)
Effect of translation to presentation currency	7 857	101 837	3 994	11 083	124 771
Balance at 31 December 2006 – as restated	**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	**301,238**	**1,584,243**	**60,739**	**193,716**	**2,139,936**
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)
Eliminated on disposals	–	7,220	235	–	7,455
Impairment loss	(115)	–	(267)	(1)	(383)
Effect of translation to presentation currency	(4)	(14,683)	(781)	(488)	(15,956)
Balance at 31 December 2006	**(119)**	**(219,232)**	**(13,405)**	**(5,753)**	**(238,509)**
Charge for the year	–	(99,244)	(5,991)	–	(105,235)
Eliminated on 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 – as restated	**133,811**	**1,061,939**	**37,350**	**162,505**	**1,395,605**
31 December 2007	**301,238**	**1,253,565**	**41,084**	**187,545**	**1,783,432**

Mining assets at 31 December 2007 included mineral rights of USD 534,451 thousand (31 December 2006: USD 513,944 thousand – as restated).

Amortisation and depreciation capitalised during the year ended 31 December 2007 amounted to USD 12,740 thousand (2006: USD 6,560 thousand – as restated).

At 31 December 2007, machinery and equipment with a carrying value of the Group's included USD 3,236 thousand (31 December 2006: USD 5,087 thousand) were held under finance lease agreement.

The balances of property, plant and equipment at 31 December 2007 were recorded net of value added tax ("VAT") incurred on acquisition of exploration and evaluation and mining assets of USD 11,824 thousand (31 December 2006: USD 10,945 thousand). This VAT is reimbursable when the respective assets are put into operation. Management of the Group believes that VAT amounts are recoverable in full.

19. Investments in securities and other financial assets

	2007	2006
Non-current		
Loans advanced	1,731	1,592
Equity investments available-for-sale	416	403
Total non-current	**2,147**	**1,995**
Current		
Equity investments available-for-sale	400,483	383,172
Bank deposits	280,648	364,438
Equity investments in listed companies held for trading	187,628	192,155
Loans under repurchase agreements	201,719	111,373
Promissory notes receivable	110,865	103,929
Investment deposit in Rosbank	89,575	83,362
Total current	**1,270,918**	**1,238,429**

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 amount invested by the Group of USD 100,641 thousand was not guaranteed by the Bank.

Available-for-sale investments, carried at fair value

At 31 December 2007 and 2006, equity investments available-for-sale 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.

Held-to-maturity investments, carried at amortised cost

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

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 the effective interest rates at 9.88% and mature in January-March 2008.

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.

20. Inventories

	2007	2006
Gold-in-process at production cost	62,414	40,706
Refined gold at net production cost	1,606	2
Total metal inventories	**64,020**	**40,708**
Stores and materials at cost	170,373	129,094
Less: Allowance for obsolescence	(2,408)	(973)
Total	**231,985**	**168,829**

21. Accounts receivable

	2007	2006
Accounts receivable from third parties	21,699	19,043
Accounts receivable from related parties (refer to note 33)	135	199
	21,834	**19,242**
Less: Allowance for doubtful debts	(8,357)	(7,366)
Total	**13,477**	**11,876**

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	2007	2006
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	812	451
Total		**7,466**	**3,659**

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).

Ageing of past due but not impaired receivables:

	2007	2006
0-90 days	1,726	1,768
91-180 days	1,021	345
181-365 days	2,209	264
Total	**4,956**	**2,377**

Movement in the allowance for doubtful debts:

	2007	2006
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	**8,357**	**7,366**

22. Advances paid to suppliers

	2007	2006
Advances paid to third parties	26,088	26,171
Advances paid to related parties (refer to note 33)	116	40
Total	**26,204**	**26,211**

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

	2007	2006
Deferred expenditures	13,751	11,287
Other prepaid taxes	6,929	2,380
Total	**20,680**	**13,667**

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

24. Cash and cash equivalents

		2007	2006
Bank deposits		163,005	244,519
Current bank accounts	– RUR	40,113	47,856
	– foreign currencies	690	1,413
Letter of credit		14,613	–
Other cash and cash equivalents		7,753	409
Total		**226,174**	**294,197**

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

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.

In July 2007 the Group's management exercised their options in respect of the share option plan. 4,575,065 treasury shares of the Company were sold to management for a total cash consideration USD 64,051 thousand. This transaction resulted in a decrease of treasury shares by USD 265,107 thousand and decrease of additional paid-in capital by USD 72,496 thousand.

The immediate shareholders of the Company as at 31 December 2007 and 2006 were as follows:

Shareholders	31 December 2007		31 December 2006	
	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"	14,795,364	8.3%	–	–
CJSC "Depositary and Clearing Company"	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%
	178,056,032	**100.0%**	**173,480,967**	**100.0%**

On 29 June 2007 the Company declared a dividend of RUR 3.23, or US cents 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.

26. Deferred tax liabilities

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

	2007	2006
Net liability at beginning of the year – as restated	**176,495**	**169,277**
Recognised in the income statement (refer to note 16)	(5,840)	(10,333)
Change in deferred tax liabilities realised 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	12,701	16,460
Net liability at end of the year	**183,356**	**176,495**

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:

	2007	2006
Property, plant and equipment	192,537	179,032
Investments valuation	(1,664)	1,548
Inventory valuation	6,796	4,080
Accrued operating expenses	(12,079)	(6,324)
Valuation of receivables	(2,234)	(1,841)
Total	**183,356**	**176,495**

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 (31 December 2006: USD 16,873 thousand).

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 111,591 thousand (31 December 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.

27. Environmental obligations

Decommissioning obligations

	2007	2006
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	63,656	55,480

Provision for land restoration

	2007	2006
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	**17,685**	**16,033**
Total environmental obligations	**81,341**	**71,513**

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

	2007	2006
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:

	2007	2006
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
	81,341	**71,513**

28. Short-term borrowings

	2007	2006
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	**20,909**	**15,001**

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 guaranties 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

	2007	2006
Trade payables to third parties	17,753	20,763
Trade payables to related parties (refer to note 33)	3,898	36
Total	**21,651**	**20,799**

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.

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:

	2007	2006
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	**21,651**	**20,799**

30. Other payables and accrued expenses

	2007	2006
Wages and salaries	28,069	9,255
Accrued annual leave	16,482	14,316
Interest payable	2,987	6,277
Other	31,037	19,866
Total	**78,575**	**49,714**

31. Other taxes payable

	2007	2006
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	**21,187**	**18,215**

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. Disposal of subsidiaries

During the year ended 31 December 2007, the Group sold its preferred shares in OJSC "Lenzoloto", a subsidiary, for a cash consideration of USD 1,262 thousand, incurring a loss of USD 2,962 thousand. As a result of this transaction the Group decreased its investment in this subsidiary from 68.2% to 64.1%.

On 12 April 2007 the Group disposed of its investment in CJSC "Sibzolotorazvedka" for a cash consideration of USD 58 thousand. Net assets disposed of were not significant and therefore not disclosed separately in the consolidated financial statements.

33. 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 their business, enter into various sale, purchase and service transactions with related parties.

During the years ended 31 December 2007 and 2006, Group entered into the following transactions with related parties:

Gold sales	2007	2006
Rosbank	540,755	437,096
Total	**540,755**	**437,096**

Sale of property, plant and equipment	2007	2006
Kraus-M	16,287	–
Total	**16,287**	**–**

Purchase of goods and services	2007	2006
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	**202,744**	**87,317**

Purchase of interest in SVMC	2007	2006
KM Technologies Limited	–	300,167
Total	**–**	**300,167**

Income from investments	2007	2006
Rosbank	3,750	10,370
Total	**3,750**	**10,370**

Cash and cash equivalents	2007	2006
Rosbank	86,414	14,116
Total	**86,414**	**14,116**

Investments in securities and other financial assets	2007	2006
Rosbank	89,575	83,362
Total	**89,575**	**83,362**

Accounts receivable	2007	2006
Norilsk Nickel	67	17
Rosbank	46	2
Taimyrskaya Toplivnaya Kompaniya	16	16
Insurance Company "Soglasie"	6	6
Yeniseyskoe Rechnoe Parohodstvo	–	158
Total	**135**	**199**

Advances paid to suppliers	2007	2006
Yeniseyskoe Rechnoe Parohodstvo	85	–
Insurance Company "Soglasie"	30	11
Other	1	29
Total	**116**	**40**

Trade accounts payable	2007	2006
Norilsk Nickel	3,525	–
Taimyrskaya Toplivnaya Kompaniya	371	15
Other	2	21
Total	**3,898**	**36**

Other payables	2007	2006
Norilsk Nickel	2,573	6,741
Insurance Company "Soglasie"	17	2
Total	**2,590**	**6,743**

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.

Compensation of key management personnel

	2007	2006
Share-based payment	132,548	–
Short-term employee benefits	28,377	9,322
Total	**155,380**	**9,322**

34. 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).

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 licences and the Group's compliance with the terms of its licenses. Russian regulatory authorities exercise considerable discretion in the timing of licenses 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.

Social commitments

Some subsidiaries of the Group have entered into collective agreements with its employees.

Under terms of such agreements the Group has a commitment to make certain social payments to the employees, the amount of which can vary from year to year. No provision for such commitments is recorded in the consolidated financial statements as future payments under such agreements are not fixed and depend entirely on the Group's management decisions. There is no reasonable basis to reliably measure such obligations.

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.

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 possible tax exposure at 31 December 2007 of approximately USD 347 thousand (31 December 2006: USD 1,368 thousand).

Environmental matters

The Group is subject to extensive federal, local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

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

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside the country, currency controls, low liquidity levels for debt and equity markets and continuing inflation. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy depends on the effectiveness of the government economic policies and the continued development of the legal and political systems.

35. 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.

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.

	2007	2006
Financial assets		
Financial assets held-for-trading		
Investments in listed companies	187,628	192,155
Held-to-maturity financial assets		
Promissory notes receivable	110,865	103,929
Loans and receivables, including cash and cash equivalents		
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
Available-for-sale financial assets		
Investments in securities and other financial assets	400,899	383,575
Total financial assets	**1,512,716**	**1,546,497**
Financial liabilities		
Borrowings	20,909	15,001
Trade payables	21,651	20,799
Other payables	34,024	26,143
Total financial liabilities	**76,586**	**61,943**

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.

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 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 foreign currencies as at the reporting dates were as follows:

Assets	2007	2006
Available-for-sale financial assets	–	380,023
Promissory notes receivable	–	103,929
Cash and cash equivalents	35,718	241,287
Accounts receivable	46	12
Total assets denominated in foreign currencies	**35,764**	**725,251**
Liabilities		
Trade and other payables	47,137	15,943
Loans and borrowings	11,900	9,458
Total liabilities denominated in foreign currencies	59,037	25,401
Total net position	**(23,273)**	**699,447**

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.

	2007	2006
Profit or loss	2,327	69,945

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, liquid and have efficient system of risk management.

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 payment, 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.

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.

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.

36. Events subsequent to the balance sheet date

Dividends for the year ended 31 December 2007

On 21 May 2008 the Board of Directors of the Company recommended a final dividend of RUR 2.95, or US cents 12 (at 31 December 2007 exchange rate) per ordinary share for the year ended 31 December 2007. The total amount of dividends to be paid is RUR 562,352 thousand, or USD 22,910 thousand (at 31 December 2007 exchange rate).

Increase of ownership in subsidiaries

On 18 February 2008, the Group acquired additional 0.3% shares of OJSC "Aldanzoloto GRK" for a cash consideration of USD 292 thousand, increasing its ownership in this company to 100%.

On 14 May 2008, the Group acquired additional 2.7% shares of OJSC "Matrosov Mine" for a cash consideration of USD 20,925 thousand, increasing its ownership in this company to 97.5%.

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.

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.

37. Investments in significant subsidiaries

			Shares held		Effective % held[1]	
Subsidiaries	Country of incorporation	Nature of business	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 "Sevzoloto"	Russian Federation	Mining	650	650	41.7	44.3
CJSC "Charazoloto"	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
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	–
OJSC "Sibzolotorazvedka"	Russian Federation	Geological research	–	1,497	–	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.[2]	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 LLC "LZRK" in July 2007.

Glossary and Abbreviations

Balance mineral reserve – A volume of material which has demonstrated the presence of a metal to a sufficient level of confidence whose economic viability has been demonstrated and approved by the GKZ.

Bio-oxidation – Oxidation of sulfide minerals by bacterial action, rendering the minerals amenable to leach extraction of the contained metals.

Cut-off – An assay cut-off is the break-even economic value of the ore; the block cut-off is the economic value that optimizes the net present value of the operating assets.

Cyanide leaching – A method of extracting exposed gold or silver from crushed or ground ore by dissolving them in a weak cyanide solution. It may be carried out in slurry in tanks or in large heaps of ore out of doors.

Doré – The final saleable product is from a gold mine; obtained by smelting the products from previous processes.

Flotation – A mineral separation process, in which valuable mineral particles are induced to become attached to bubbles and float as others sink.

GKZ (Gosudarstvennaya Komissia po Zapasam) – the State Commission for Mineral Reserves. Founded in 1927, GKZ manages mineral reserves on behalf of the Ministry for Environmental Protection and Natural Resources of the Russian Federation.

JORC Code – The Australasian Code for Reporting of Mineral Resources and Ore Reserves prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. The current edition is dated 2004.

Mineral reserve – The Russian equivalent of the Western concepts of mineral resource and ore reserve. Mineral reserves are subdivided into A, B, C1 and C2 categories depending on the level of definition and technological study.

Mineral resource – The JORC Code defines a mineral resource as "a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction". Subdivided into measured, indicated and inferred categories depending on how well they are defined.

Off-balance mineral reserves – A volume of material which has demonstrated the presence of a metal to a sufficient level of confidence, but whose economic viability has not been demonstrated.

Open pit – A mine that is entirely on the surface; also referred to as open-cut or open-cast mine.

Ore body – A body of mineralization that either has been, or demonstrates a reasonable probability of being mined profitably.

Ore field – A collection of mines that exploit a common mineral deposit or cluster of closely related mineral deposits.

Ore reserve – The JORC Code defines an ore reserve as "the economically mineable part of a Measured or Indicated mineral resource". Ore reserves are subject to appropriate assessments, such as feasibility studies that apply real mining, metallurgical, economic, market, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Oxide ore – Ore which has undergone the process of natural oxidation.

Stockpile – Broken ore heaped on the surface, pending treatment or shipment.

Sulfide ore – Ore which is in its primary mineralized state, and has not undergone the process of natural oxidation.

ADRs (ADSs) – American Depository Receipts (American Depository Shares)
GKZ – the State Commission for Mineral Reserves
g/t – gramme/tonne
kg – kilogram
km – kilometre
k m³ – thousand cubic metres
k oz – thousand ounces
kt – thousand tonnes
m – meter
m² – square meter
m³ – cubic meter
M oz – million ounces
Mt – million tonnes
RUR – Russian rouble
RUR/oz – Russian roubles per troy ounce
t – tonne
USD – United States dollar
USD/oz – United States dollars per troy ounce

Contact details

Shareholders and investors maintenance

Alexey Chernushkin,
Director on capital markets
and investor relations
Evguenia Buidina,
Investor relations manager

+7(495) 641-3377
+7(495) 785-4031
ir@polyusgold.com

Anna Solotova,
Corporate secretary

Tel. +7 (495) 641 33 77
Fax + 7 (495) 785-45-90
SolotovaAO@polyusgold.com

Contacts for media

Victoria Vergelskaya,
PR Director
Elena Evstigneeva,
Media Relations

+7 (495) 641-3365
+7 (495) 544-5496
pr@polyusgold.com

Registrar

National registration company ("NRC")
Address: 6, Veresayev st., Moscow, 121357, Russia
Tel.: +7-(495) 440-6345, 440-79-18/20/29,
440-79-30/37
Fax: (495) 440-6355
e-mail: info@nrcreg.ru

Auditor

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009, Russia
Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

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