POLYUS GOLD

POLYUS ANNUAL REPORT 2006

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Cautionary note regarding forward-looking statements

In this 2006 Annual report of OJSC Polyus Gold the words «OJSC Polyus Gold», «the Company», and «the Group» relate to Open Joint Stock Company Polyus Gold and its subsidiary companies consolidated under International Financial Reporting Standards (IFRS).

Certain information contained or incorporated by reference in this Annual Report 2006, including any information as to Company's future financial or operating performance, constitutes «forward-looking statements». All statements, other than statements of historical fact, are forward-looking statements. The words «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 the Company, 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 Rubles 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 Company may conduct business in the future; business opportunities that may arise, or be pursued; the Company'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).

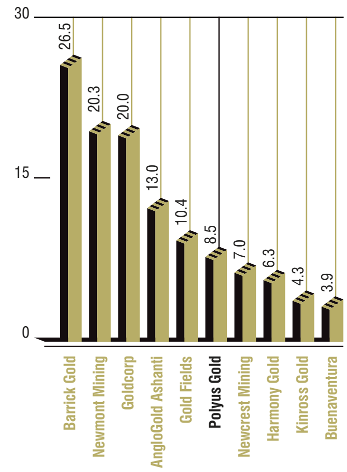
Many of these uncertainties and contingencies can affect the Company's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company. Readers are cautioned that forward-looking statements are not guarantees of future performance. All of the forward-looking statements made in this Annual Report 2006 are qualified by these cautionary statements. The Company 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 applicable laws.

Key Features of 2006

Corporate developments

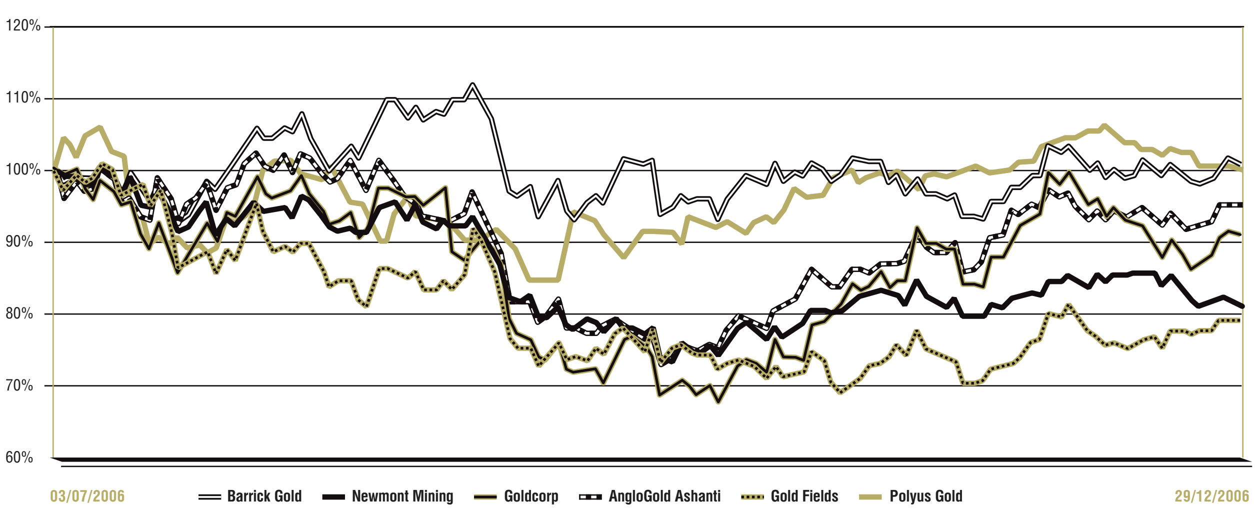
- Spin-off from MMC Norilsk Nickel was successfully completed and the largest gold producer in the Russian Federation was created.
- March 2006 - creation of OJSC Polyus Gold as a public company.
- May 2006 - official trading of ordinary shares of OJSC Polyus Gold on MICEX and RTS, identifying ticker PLZL.
- July 2006 - Level I ADR program was launched in the US.
- December 2006 - the ADRs were admitted to trading on the London Stock Exchange (main market).
- Company's shares included in the leading Russian and international stock market indices, such as MICEX, RTS, AK&M, MSCI and FTSE.

Top Ten Global Gold Mining Companies – Market Capitalization in 2006, US$ Billion



*Source: Companies' data

2006 Share Performance World's Leading Gold Producers, %

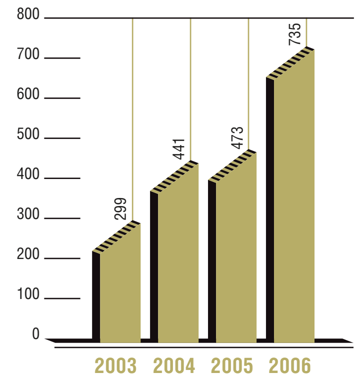


*Source: RTS, companies' data

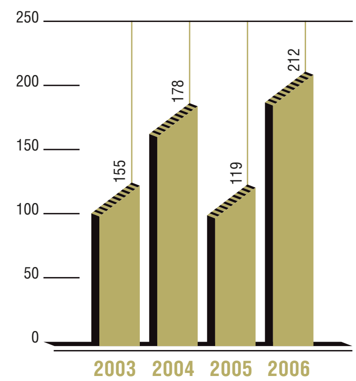
Financial

- Gold sales price amounted to US$604 per oz compared to US$451 per oz in 2005.
- Gold sales increased by 55% to US$735 million.
- Gross profit increased by 53% to US$312 million.
- Operating profit increased by 78% to US$212 million.
- Capital expenditures increased by 86% to US$262 million.
- Dividend proposed by the Board totaling US$22 million (RUR 615.7 million).

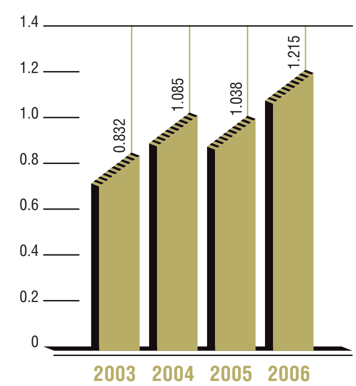
Gold Sales of Polyus Gold in 2003–2006
US$ Million



Operating Profit of Polyus Gold in 2003–2006
US$ Million



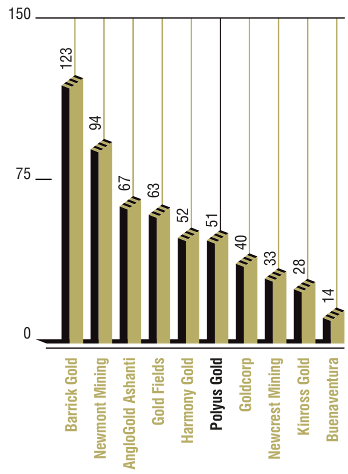
Annual Production of Polyus Gold in 2003–2006, M oz



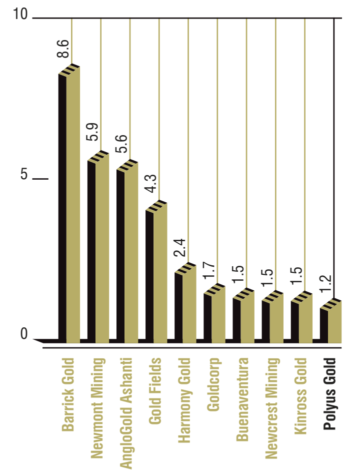
Operational

- Proved and probable reserves in accordance with JORC increased to 50.8 million ounces of gold, as of 1 January 2006.
- Total annual production increased by 17% to 1.2 million ounces of gold.
- Total cash costs per ounce of gold produced increased by 33% to US$ 278 per ounce, mainly as a result of lower grades mined and inflationary pressure.

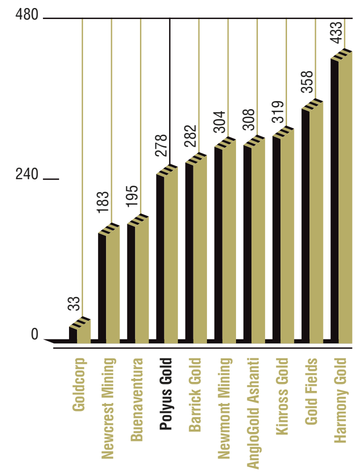
Top Ten Global Gold Mining Companies - Proved and Probable Reserves (JORC), M oz*



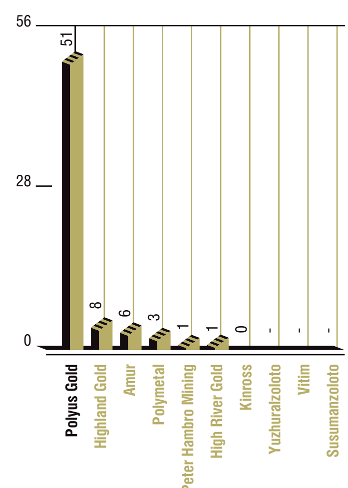
Top Ten Global Gold Mining Companies – Gold Production in 2006, M oz*



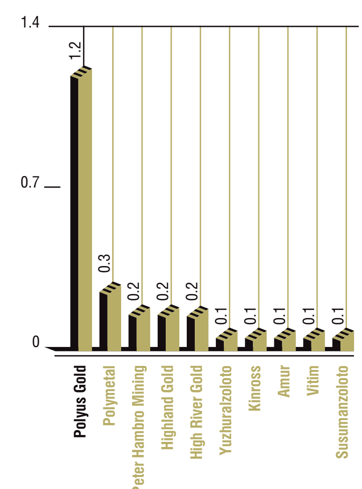
Top Ten Global Gold Mining Companies - Total Cash Cost per Ounce of Gold Produced in 2006, US$ per oz*



Largest Gold Producers in Russia in 2006 - Proved and Probable Reserves (JORC), M oz*



Largest Gold Producers in Russia - Gold Production in 2006, M oz*



* Source: Companies' data

2003-2006 Statistical Highlights and Ratios

	Units	2006	2005	2004	2003
OPERATING RESULTS					
Revenue from gold sales	US$ million	735	473	441	299
EBITDA (1)	US$ million	1,207	175	108	181
Adjusted EBITDA (2)	US$ million	299	191	226	181
Operating profit	US$ million	212	119	178	155
Profit before taxation	US$ million	1,230	163	66	160
Net income	US$ million	1,157	112	9	113
Operating cash flow	US$ million	141	47	127	147
Capital expenditure	US$ million	285	146	70	42
Earning per share (basic and diluted)	US$	0.76	–	–	–
FINANCIAL POSITION					
Cash and short terms investments	US$ million	1,533	2,259	407	118
Current assets	US$ million	1,864	2,480	547	161
Total assets	US$ million	3,644	3,613	1,186	459
Shareholders equity	US$ million	3,117	3,138	979	374
Net debt (long and short term)	US$ million	(282)	(5)	26	(4)
Current liabilities	US$ million	187	237	87	31
Number of shares in issue (weighted average)	shares	187,645,115	247	137	123
Number of shares in issue at year end (less treasury shares held by the Group)	shares	173,480,967	299	173	123
Highest share price during the period	US$ per share	56	–	–	–
Lowest share price during the period	US$ per share	37	–	–	–
Volume of shares traded during the period (MICEX)	Million shares	29.5	n/a	n/a	n/a
Share price at 31 December	US$	49	n/a	n/a	n/a
Market capitalization at 31 December	US$ billion	8.5	n/a	n/a	n/a

Operational statistics

Gold produced	k oz	1,215	1,038	1,085	832
Total cash cost per oz	US$/oz	278	209	175	107
Average price achieved per oz	US$/oz	604	451	406	377
Gold sold	k oz	1,216	1,049	1,086	794

RATIOS

Profitability and assets management

Return on equity	%	37.1	3.6	0.9	30.2
Return on invested capital	%	5.1	2.9	13.3	31.5
Return on capital employed	%	6.8	3.8	17.5	41.4

Solvency and liquidity

Net financing cost cover – adjusted EBIT	times	81	54	18	n/a
Net financing cost cover – adjusted EBITDA	times	109	73	23	n/a
Current ratio	times	10	10	6	5
Net-debt-to-equity	%	(9.0)	(0.2)	2.7	(1.1)
Net debt to adjusted EBITDA ratio	%	(23.4)	(2.9)	24.1	(2.2)

Notes:

(1) The Group defines EBITDA as net income before interest received, income tax expense, depreciation and amortization;

(2) The Group defines adjusted EBITDA as net income before interest received, income tax expense, depreciation and amortization excluding non-recurring items (USD 114 million of impairment provision of property, plant and equipment for 2004 and US$ 988 million of gain from disposal of investment in 2006).

Value added statements

The value added statements below show the wealth the Group has created through mining, beneficiation, trading and investing operations. The statements summarize the total wealth created and how it was distributed amongst the Group's stakeholders.

For the years ended 31 December (US$ Million)	2006	2005	2004	2003
Revenue	735	473	441	299
Purchased materials and services	201	133	103	39
	534	**340**	**338**	**260**
Non-operating income	1,020	52	16	7
Value-added	**1,554**	**392**	**354**	**267**
APPLIED AS FOLLOWS:				
To remunerate employees				
Salaries, wages, pensions, bonuses and other benefits	105	70	64	31
To reward providers of capital				
Interest on borrowings	3	3	10	–
Dividends to shareholders	–	–	–	–
To the State				
Company taxes (CIT, Property tax, Mining tax)	138	95	81	71
Value-added tax	65	56	25	24
To replace assets				
Amortization and depreciation	86	56	52	28
Impairment of property, plant and equipment	–	–	114	–
To expand the Group				
Retained earnings	1,157	112	8	113
Value-added	**1,554**	**392**	**354**	**267**

Polyus Gold: Brief Description

Open Joint Stock Company Polyus Gold was incorporated in March 2006 following the spin-off of the gold mining assets of MMC Norilsk Nickel. Information on the Company's activity before March 2006 contained herein, is attributable to Closed Joint Stock Company ("CJSC") Polyus.

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

- Krasnoyarsk;
- Irkutsk;
- Magadan;
- Amur;
- the Republic of Sakha (Yakutia).

Shares of Polyus Gold are traded on the leading Russian stock exchanges such as RTS and MICEX.

ADRs of the Company are traded on over-the-counter markets in the USA and listed on the main market of the London Stock Exchange (UK). Polyus Gold shares are included in the key Russian stock exchange indices of RTS and MICEX, as well as international stock indices such as FTSE Gold Mines and MSCI Emerging Markets. The market capitalization of Polyus Gold as at the end of 2006 was approximately US$8.5 billion.

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

The strategic vision of the Company:

- 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 the 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.

Polyus Gold owns 100% of the shares of CJSC Gold Mining Company Polyus ("Polyus") which has significant holdings in the following subsidiaries:

- OJSC Lenzoloto (68.2%);
- LLC LZRK (100%);
- OJSC Matrosov Mine (93.3%);
- OJSC Aldanzoloto GRK (99.2%);
- OJSC South Verkhoyansk Mining Company (SVMC) (100%);
- OJSC Yakut Mining Company (YMC) (100%).

All these companies, including their associates, comprise the Group.

The Group holds licenses covering 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 the exploration projects and holds licenses for various gold prospects located in the territory of the Russian Federation.

Key assets of Polyus Gold

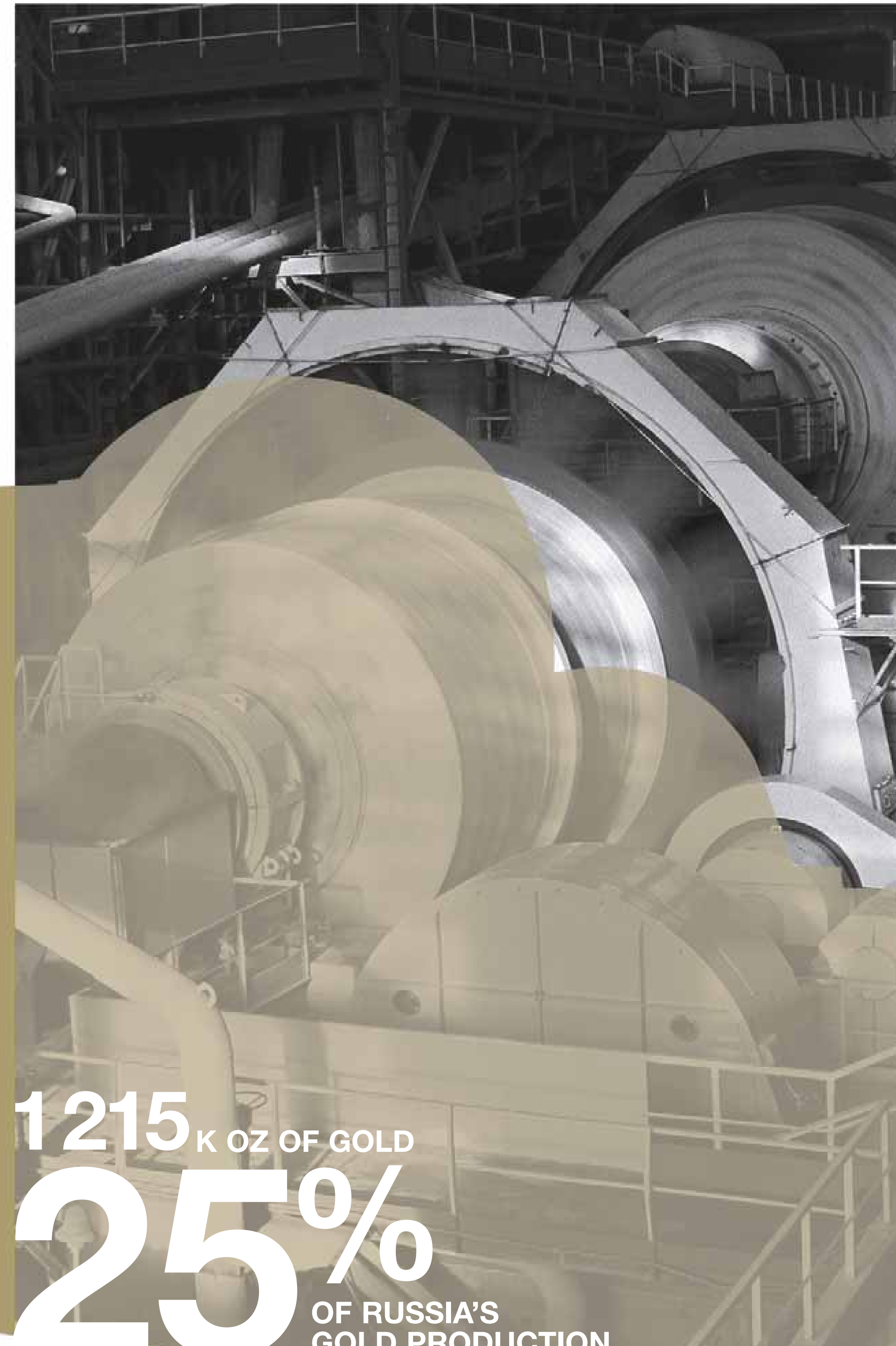
Region / Deposit	Status	2006 gold production, K oz	Legal owner	Shareholding
KRASNOYARSK				
Olimpiada	Production	854	CJSC Polyus	100%
Blagodatnoye	Feasibility	–	CJSC Polyus	100%
Titimukhta	Exploration/ Feasibility	–	CJSC Polyus	100%
YAKUTIA				
Kuranakh	Production	156	Aldanzoloto GRK	99.2%
Nezhdaninskoye	Exploration/Feasibility	–	SVMC	100%
Kyutchus	Exploration	–	YMC	100%
IRKUTSK				
Alluvials	Production	172	Lenzoloto	68.2%
Zapadnoye	Production	32	LZRK	100%
Verninkoye	Feasibility	–	LZRK	100%
Chertovo Koryto	Exploration/ Feasibility	–	LZRK	100%
MAGADAN				
Natalka	Feasibility	–	OJSC Matrosov mine	93.3%
AMUR				
Bamskoye	Exploration	–	CJSC Polyus	100%

Polyus Gold. Map of Operations.

The Group's management structure includes:

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

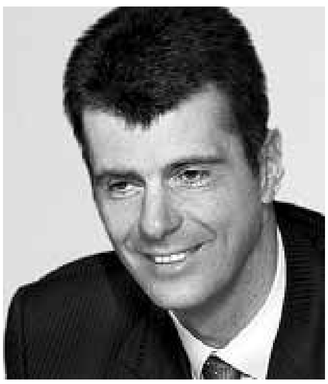
IN 2006 POLYUS GOLD'S MINES PRODUCED 1,215 K OZ OF REFINED GOLD COMPARED TO 1,038 K OZ IN 2005. THE KEY DRIVERS OF THE 17% YEAR-ON-YEAR INCREASE IN GOLD OUTPUT WERE THE ACQUISITION OF THE KURANAKH MINE IN THE REPUBLIC OF SAKHA (YAKUTIA) LATE IN 2005 AND INCREASED PRODUCTION AT THE OLIMPIADA MINE IN THE KRASNOYARSK REGION.



1 215 K OZ OF GOLD

25% OF RUSSIA'S GOLD PRODUCTION

Letter from the Chairman of the Board of Directors



Dear Shareholders,

2006 was the first year of Polyus Gold's existence as a public company with shares quoted on the leading stock exchanges in Russia and abroad. During 2006, the Company made a number of very important achievements in key areas of its activities.

The spin-off from MMC Norilsk Nickel was successfully completed in accordance with our schedule. Russian and international investors were given the opportunity to invest in Polyus Gold's shares, the Company became a new prospective investment target.

OJSC Polyus Gold became the first Russian gold mining company with shares floating on the Russian stock market. The Company's shares were included in prestigious Russian and international stock indices – RTS, MICEX, MSCI Emerging Markets, FTSE Gold Mines.

In 2006 an important document was prepared and approved – the Strategic Development Plan to be realized by 2015. The new Strategy stipulates more than a three-fold growth in gold production, a substantial increase in the mineral resources base, the discovery of new gold deposits and the launch of new production facilities. This ambitious strategy will result in Polyus entering into the world's Top Five in terms of gold production, audited reserves, key financial indicators and market capitalization.

In the coming few years, Polyus Gold will be focused on organic production growth, which will be based on the construction of five new gold mines. The Company took some important steps towards the implementation of these tasks in 2006. The Board's approval was given to the scoping studies to develop Blagodatnoye deposit in Krasnoyarsk region and Verninskoye deposit in Irkutsk region. Outstanding achievements on the exploration front – such as state listing of reserves of Natalka deposit in Magadan region - resulted in a significant increase of the Company's mineral reserves base.

The investment appeal of Polyus Gold's securities in the years to come will largely depend on how successful we are in reaching our targets. Not only will the Strategy implementation require significant investment, it will also necessitate full mobilization of our human and intellectual resources. The year 2006 has, once again, proved that the team of mining professionals we have assembled at Polyus Gold is capable of solving the most challenging tasks. And the management's commitment to introducing the most up-to-date HR technologies, as well as cost management programmes, is appreciated by the investment community.

Important progress has been made in the area of corporate governance, where the Company is striving to adhere to the most stringent international standards.

In accordance with best practices of corporate governance the Company's Board includes three independent directors – Lord Patrick Gillford (UK), Mr. Rodney Berens (USA) and Mr. Valery Braiko (Russia). The Board established its Audit Committee consisting of only independent and/or non-executive members of the Board.

The Company regularly discloses its audited financial statements in accordance with IFRS, as well as reports on its mineral reserves base prepared in compliance with JORC Code.

In 2006, as part of the preparation for ADR listing on the London Stock Exchange, Polyus Gold published the Independent Expert's

Report, which includes experts' assessment of the Group's assets and largest exploration projects. Polyus Gold became the first Russian gold mining company which disclosed the information about its business with such a degree of transparency.

Polyus Gold's achievements in 2006 should be held in the highest esteem. During the first year of its existence Polyus Gold has made significant progress both in the area of its operating performance and in the corporate development.

On behalf of Polyus Gold's Board of Directors I would like to thank the management and all the employees of the Company for the results they have helped us to achieve, and all the shareholders for your confidence in and support of our initiatives.

Chairman of the Board
Mikhail D. Prokhorov

Letter from the General Director of Polyus Gold

Dear Polyus Gold shareholders,

The year of 2006 was when the history of Polyus Gold as a public company began. At the end of 2006 the Company ranked the sixth among the world's leading gold producers in terms of market capitalization which shows that the Company's achievements as well as its potential were recognized by the market.

The Group demonstrated positive development in the majority of its key operating and financial indicators.

Impressive results have been shown by the Group's exploration division. Successful completion of the large-scale exploration programme on Natalka deposit in the Magadan region led to an almost two-fold increase in the Group's mineral reserves base. The Company's balance reserves (GKZ classification) exceeded 3,000 tonnes; at the same time, an independent auditors' assessment showed that the Company's proved and probable reserves in accordance with JORC Code reached 50.8 million troy ounces of gold. This success resulted in the Group's ranking of sixth globally in terms of gold reserves which is a proof that its elected strategy to focus on large-scale exploration was correct.

In 2006 the Company continued developing its production facilities. Significant progress has been made in the implementation of one of the Company's priority projects – expansion of Olimpiada mine which includes construction of the third phase of the mill. Important steps have been made towards the launch of Russia's largest ore processing plant with annual capacity of 5 million tonnes of ore.

In the period under review Polyus Gold's enterprises produced 37.8 tonnes or 1,215 thousand troy ounces of gold, which is a 17% year-on-year increase. The Company met its production targets and, for the first time in its history, entered the list of the world's Top Ten. This result was achieved not only through successful domestic acquisitions but also through technological improvements and organic growth.

The Company demonstrated positive development of its key financial indicators. Favourable market conditions helped increase gold sales substantially – the Group's revenues as well as its gross profit showed a 50% increase. Operating profit demonstrated a 78% increase; EBITDA totaled US$299 million. Thanks to its efficient financial policy the Company was cash positive at the end of 2006. Our cash and cash equivalents amounted to US$1.4 billion.

In 2006 the spin-off from MMC Norilsk Nickel was successfully completed, and a new "blue chip" – OJSC Polyus Gold emerged on the Russian stock market. The flotation of Polyus Gold was a landmark event in that, for the first time in the history of the Russian stock market, unprecedented value was unlocked and distributed accordingly to shareholders. The complicated corporate procedure required to fulfill this process was realized in the most transparent manner and on schedule.

In May 2006 the Company's shares started trading on RTS and MICEX. Polyus became the first Russian gold mining company with shares floating on the Russian stock market. In July 2006 the Level I ADR programme was launched, and the Company's securities started trading on the OTC market in the USA, and later on, in December its shares were admitted to trading on the main market of the London Stock Exchange.

As a result, broad groups of international investors were given access to the Company's shares for the first time.

In September 2006 the Board approved the Strategic Development Plan of the Company until 2015. This Plan, according to industry experts, is one of the most ambitious growth strategies in the gold mining sector in the world. The Company set itself a target to more than triple its gold production in the coming years, to substantially grow its mineral resources base, to improve its financial performance in order to become a Top Five global gold producer.

In 2006 the management's efforts were also focused on the introduction of sustainable development principles into all areas of the Company's activities. Reducing the environmental impact of our operations, as well as providing the highest industrial safety standards for our employees remained our top priorities.

In 2006 Polyus Gold prepared the first Sustainable Development report in its history, based on the principles of the Global Reporting Initiative. The Company intends to maintain its leading position in that area analyzing the feedback from all its stakeholders and providing full information about all areas of its activities to all its key audiences.

The Company's successful operations during 2006 have been recognized by the industry and at the end of the year the Company received a prestigious national business award, established by RosBusinessConsulting agency. Polyus Gold was voted "Company of the Year – 2006" in the Metal Industry category.

On behalf of the management of Polyus Gold I would like to thank all the shareholders for your confidence and support. I am convinced that our commitment to the Company's strategic goals and the will to strengthen our leading position in the industry will guarantee our success in the realization of all of our initiatives aimed at growing the shareholder value in Polyus Gold.

General Director
Pavel G. Skitovich

Gold Market in 2006

South Africa, Australia, USA, China and Peru were the largest gold mining countries in the world in 2006. Russia has retained sixth place. In 2006 global gold production decreased by 3.1% down to 2,470 tonnes (79,412 k oz) compared to 2,550 (81,984 k oz) tonnes in 2005.

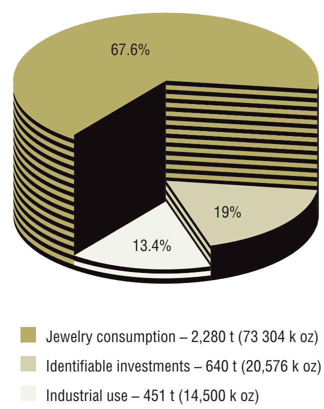
Although gold mining in South Africa reduced by 7.4% over the past two years this country retains first place among gold mining countries. In 2006 gold production in South Africa totaled 292 tonnes (9,388 k oz). South Africa is followed by the USA (252 tonnes or 8,102 k oz), China (247 tonnes or 7,941 k oz) and Australia (245 tonnes 7,877 k oz). At the same time, gold production in China grew by 7.6%, whereas the US and Australia decreased annual gold production by 4% and 7% respectively.

According to the Gold-Mining Union of the Russian Federation, commercial gold production in 2006 in Russia decreased to 149 tonnes (4,790 k oz) (by 3 tonnes (96 k oz) or 2.0% less than in 2005), while the volume of gold scrap recycling and production of gold as a by-product remained at the same level. The total output of gold in Russia is estimated at 165.2 tonnes (5,311 k oz). While the total gold production in Russia declined, the hard-rock gold production increased by 6 tonnes (193 k oz) (7.2%), reaching a record 89 tonnes (2,861 k oz), which is almost 60% of the total Russian production of the metal. The gold produced by Polyus Gold accounted for over 25% of Russia's total gold production. The company's hard-rock gold production amounted to 36.6% of Russia's total hard-rock gold production.

World gold consumption in 2006 amounted to 3,371 to (108,380 k oz).

In 2006 the gold price ranged from US$525 to US$725 per troy ounce, the average annual price for gold amounted to US$604 per ounce. On 12 May 2006 the gold price reached US$725 per ounce which is the highest in history, except for a short period from 16 to 22 January 1980.

World Gold Consumption in 2006



Source: GFMS Gold Survey, 2007

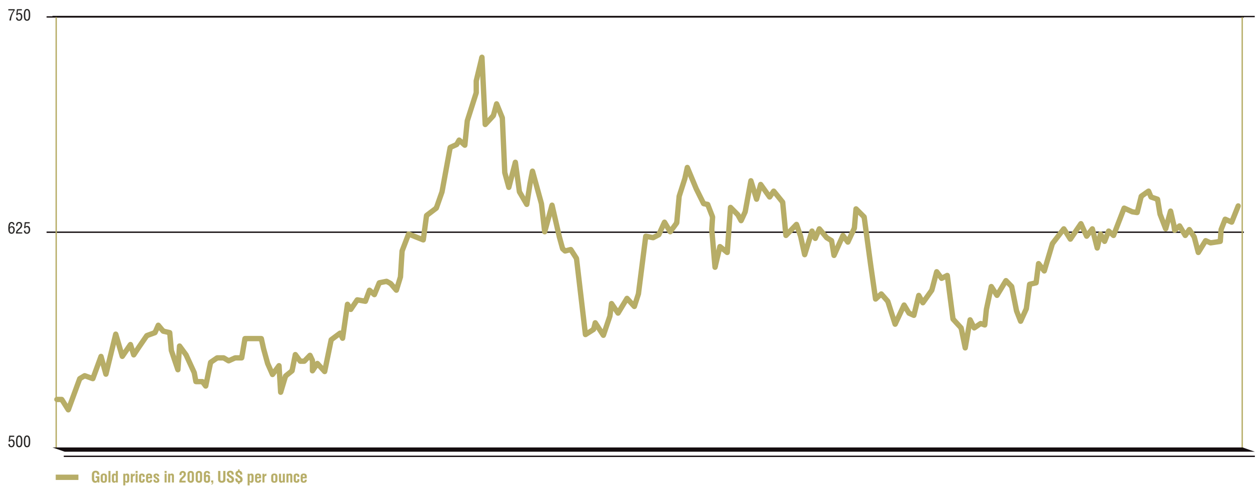
The Group believes that in 2007 the major factors that will influence the gold price will be an unstable and weakening US dollar, a decrease in world gold production, exhaustion of global gold reserves, high oil prices, demand from investors, and increasing geopolitical tensions.

Demand

Demand in 2006 decreased by 5% to 126 million oz. It was mainly caused by: the reduction of jewelry consumption from 87 million oz in 2005 to 73 million oz in 2006, the 14% year-on-year decrease in gold bar hoarding to 7.3 million oz.

At the same time, demand for technological gold (ex. jewelry) demonstrated an 11% increase from 18 million oz in 2005 to 21 million oz in 2006. De-hedging in 2006 rose substantially to levels higher than initially, largely as a result of the fist half corporate activity.

Gold Prices in 2006, US$ per Ounce

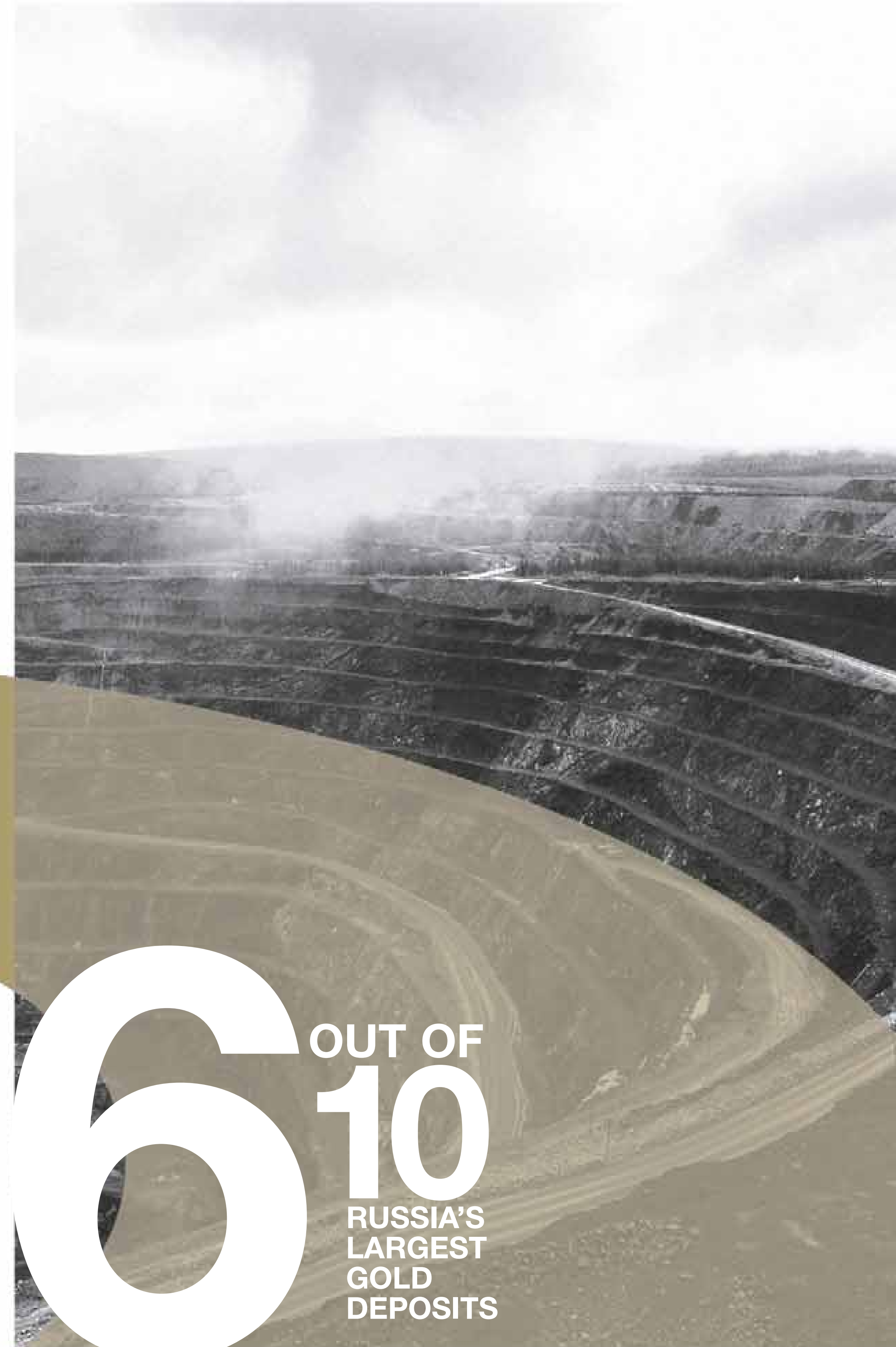


Source: LBMA, PM

Supply

Gold supply in 2006 amounted to 126 million oz, which is 5% lower then in 2005. Total gold production in 2006 was reduced by 2.5 million oz as compared to 2005. Gold sales from state gold reserves were also decreased to 10.5 million oz, which is 51% lower then in 2005. Supply of scrap gold increased by 25% from 28.5 million oz to 35.6 million oz.

The survey of the gold market in 2006 is based on the following public sources: GFMS Gold Survey, LBMA, Russian Union of Gold Miners.



6 OUT OF 10 RUSSIA'S LARGEST GOLD DEPOSITS

POLYUS GOLD HOLDS LICENSES COVERING SIX OUT OF TEN OF THE LARGEST GOLD DEPOSITS IN THE RUSSIAN FEDERATION INCLUDING THE LARGEST ONE – NATALKA. THE COMPANY'S EXPLORATION PORTFOLIO INCLUDES OVER 20 PROJECTS IN FIVE MAJOR GOLD MINING REGIONS OF RUSSIA.

Ore Reserves and Mineral Resources

During the past two years Polyus Gold has been performing regular audits of its mineral resources pursuant to the international JORC Code with the 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 analysis of some of the Group's deposits in Krasnoyarsk, Irkutsk, and Magadan regions. In connection with the acquisition of certain assets in 2005 and successful completion of several exploration projects, at the beginning of 2006 Polyus Gold's deposits in Krasnoyarsk region were re-audited and the first international 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 the preparatory work to list on the LSE, Micon International prepared the Independent Expert's Report which included the assessment of Polyus Gold's ore reserves and mineral resources in accordance with JORC Code. The results of Micon's evaluation are presented on the following tables.

Mineral Resources According to JORC Code as at 1 January 2006

	Measured			Indicated			Total Measured and Indicated
Deposit	**Ore ('000 tonnes)**	**Grade per tonne**	**Gold content ('000 oz)**	**Ore ('000 tonnes)**	**Grade per tonne**	**Gold content ('000 oz)**	**Gold content ('000 oz)**
Existing operations							
Olimpiada[1]	19,304	5.0	3,131	79,777	3.7	9,616	12,747
Kuranakh[1]	1,762	1.9	106	160,436	1.2	6,447	6,553
Zapadnoye	291	1.8	17	5,555	3.0	542	559
Lenzoloto	32,133[2]	0.2[3]	237	169,802[2]	0.4[3]	2,091	2,328
Subtotal	**85,623**	**1.3**	**3,491**	**585,372**	**1.0**	**18,696**	**22,187**
Projects							
Blagodatnoye[1]	3,118	2.5	246	98,913	2.4	7,721	7,967
Natalka	-	-	-	471,918	1.8	27,566	27,566
Verninskoye	-	-	-	31,538	2.2	2,248	2,248
Olenye	-	-	-	419	7.4	100	100
Titimukhta	-	-	-	8,214	4.2	1,102	1,102
Subtotal	**3,118**	**2.5**	**246**	**611,002**	**2.0**	**38,737**	**38,983**
Total	**88,741**	**1.3**	**3,737**	**1,196,374**	**1.5**	**57,433**	**61,170**

	Inferred		
	Ore ('000 tonnes)	**Grade per tonne**	**Gold content ('000 oz)**
Existing operations			
Olimpiada[1]	37,165	3.1	3,666
Kuranakh[1]	7,339	1.5	346
Zapadnoye	1,653	3.4	181
Lenzoloto	29,195[2]	0.6[3]	520
Subtotal	**105,547**	**1.4**	**4,713**
Projects			
Blagodatnoye[1]	37,490	2.4	2,891
Natalka	787,446	2.0	50,390
Verninskoye	4,437	3.1	446
Olenye	679	6.9	150
Titimukhta	1,150	5.2	191
Subtotal	**831,202**	**2.0**	**54,06**
Total	**935,749**	**2.0**	**58,781**

Ore Reserves According to JORC Code as at 1 January 2006

	Proved			Probable			Total Proved and Probable
Deposit	Ore ('000 tonnes)	Grade per tonne	Gold content ('000 oz)	Ore ('000 tonnes)	Grade per tonne	Gold content ('000 oz)	Gold content ('000 oz)
Existing operations							
Olimpiada[1]	18,983	4.9	3,005	86,983	3.6	10,041	13,046
Kuranakh[1]	-	-	-	31,876	1.6	1,646	1,646
Zapadnoye	-	-	-	4,351	2.8	394	394
Lenzoloto	12,453[3]	0.3[4]	128	104,750[3]	0.5[4]	1,603	1,731
Subtotal	**43,889**	**2.2**	**3,133**	**332,710**	**1.3**	**13,684**	**16,817**
Projects							
Blagodatnoye[1]	3,211	2.5	254	101,782	2.4	7,826	8,080
Natalka	-	-	-	410,800	1.7	23,075	23,075
Verninskoye	-	-	-	17,120	3.0	1,657	1,657
Olenye	-	-	-	479	6.4	99	99
Titimukhta	-	-	-	8,962	3.7	1,075	1,075
Subtotal	**3,211**	**2.5**	**254**	**539,143**	**1.9**	**33,732**	**33,986**
Total	**47,100**	**2.2**	**3,387**	**871,853**	**1.7**	**47,416**	**50,803**

Notes:
1 – audited in 2006
2 – '000 cubic meters (m^3)
3 – grams per cubic meters (g/m^3) of recoverable gold

Total Mineral Resources and Ore Reserves According to JORC Code as at 1 January 2006

Classification	Category	Ore ('000 tonnes)	Grade per tonne	Gold content ('000 oz)
Resources[1]	Measured	88,741	1.3	3,737
	Indicated	1,196,374	1.5	57,433
	Total measured and indicated	**1,285,115**	**1.5**	**61,170**
	Inferred	935,749	2.0	58,781
Reserves[1]	Proved	47,100	2.2	3,387
	Probable	871,853	1.7	47,416
	Total proved and probable	**918,953**	**1.7**	**50,803**

Notes: 1 – Lenzoloto gravel volumes converted using 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 subsidiaries.

Exploration

The Group considers geological exploration to be an important part of its business.
The Group's portfolio of prospective projects includes 22 geological exploration projects in five major gold mining regions of the Russian Federation. The list of prospective areas and properties for prospect appraisal and geological exploration is growing continuously due to participation of Polyus Gold in government tenders for the sale of universal licenses for exploration, development and extraction of mineral resources, obtaining of new exploration licenses and acquisition of new subsidiaries that hold licenses.
Polyus Gold 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 Group's mineral resource base increased four-fold during the past two years. This growth rate represents, in the Group's opinion, an unprecedented growth among major Russian and global gold producers.
In 2006 the Group's geological service successfully implemented the major exploration effort at Natalka deposit in the Magadan region. As a result more than 1,500 t (48 M oz) of GKZ reserves(1) were recorded with the national register of mineral reserves of the Russian Federation.
The stable growth of Polyus Gold's mineral reserves and their replenishment represent one of the priorities of the Corporate Strategy until 2015. In May 2006, the Board of Directors approved the geological exploration program for 2006-2010.
In accordance with this program the total drilling volumes by 2010 will amount to over 1,200 thousand meters. As a result of these activities, the Group's C1 and C2 GKZ reserves are expected to grow up to 3,707 t (119 M oz) by 2010 (excluding the results of the geological exploration of Natalka deposit), and prognostic P1 resources are expected to grow up to 1,210 t (38 M oz) by 2010.
To streamline the assets portfolio and to add more efficiency to the management of the projects pipeline Polyus Gold decided to establish its wholly owned subsidiary, OJSC Polyus Exploration, which is to hold licenses for Polyus Gold's green field exploration projects. The restructuring of Polyus Gold's exploration business is expected to be completed by the end of 2007.

Results of geological exploration in 2006

As of 1 January 2007, the Group's GKZ reserves (B+C1+C2 categories) amounted to 3,000.7 t or 96 M oz of gold including 2,149 t or 69 M oz of B+C1 categories, representing a 70% increase as compared to the Group's mineral resources as of 1 January 2006 (1,758 t or 56.50 M oz).
In 2006, Polyus Gold's proved and probable gold reserves doubled from 25.1 M oz to 50.8 M oz in accordance with the JORC Code.
In 2006, the Group's geological service performed work at 18 hard rock and 23 alluvial gold sites. The Group's total expense relating to geological exploration activities amounted to US$65.3 million in 2006. In 2006, the volume of diamond drilling amounted to 163.7 thousand meters as compared to 143 thousand meters in 2005.

Krasnoyarsk region

Polyus Gold's geological exploration in the Krasnoyarsk region is concentrated both at the license areas located near Olimpiada

(1) In Russia the State is the beneficial owner of the country's mineral reserves. Mineral reserves for all Russian mineral deposits must be approved by the Russian State Commission for Reserves (Gosudarstvennaya Komissia po Zapasam), referred to as the GKZ, and recorded on the national inventory or balance of mineral reserves. In the Russian system, balance (recorded) mineral reserves comprise that 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. Approval of mineral reserves through the GKZ on completing the geological exploration is a legal pre-requisite for further development and mining of the deposit. Hereinafter the Russian balance mineral gold reserves of B+C1+C2 categories are referred to as the GKZ reserves.

World's Largest Gold Deposits, Proved and Probable Reserves under JORC Code.

	Deposit	Country	Owner	Proven & Probable (JORC) Grade, per tonne	Gold, million ounces	Status
1	Grasberg	Indonesia	Freeport-McMoran	0.9	83.5	Development
2	Muruntau	Uzbekistan	Navoy GMK	2.5	48.2	Development
3	Natalka	Russia	Polyus Gold	1.7	41.2(1)	Undeveloped
4	Nevada Operations	USA	Newmont Mining	1.5	33.3	Development
5	South Deep	South Africa	Gold Fields	7.7	29.3	Development
6	Sukhoy Log	Russia	Government	2.8	26.0(1)	Development
7	Cerro Casale	Chile	Kinross / Bema	0.7	22.9	Undeveloped
8	Lihir Island	Papua New Guinea	Lihir Gold	3.5	21.0	Development
9	Pascua-Lama	Chile	Barrick Gold	1.4	18.3	Undeveloped
10	Tefler	Australia	Newcrest Mining	1.3	17.0	Development

(1) Considering the possibility to translate 100% Russian B+C1 GKZ reserves into P&P (JORC) reserves.

Source: Companies' data

mine (the flagship operations of the Group), to ensure replenishment of the Group's resource base, and at remote properties, the potential development of which requires independent production facilities to be built.

In 2006, the Group carried out geological exploration at seven sites in the Krasnoyarsk region: Quartzevaya Gora, Titimukhta and Blagodatnoye deposits; Panimbinskaya, Olimpiadinskaya, Zyryanovskaya and Razdolinskaya gold prospects and prospective areas.

According to early stage estimation, the mineral resources of Titimukhta deposit, assuming various cut-off grades, amounted to 65 - 75 t (2 - 2.4 M oz) with an average gold grade of 2.7 - 3.5 g/t. The resources of Titimukhta are expected to be filed with the GKZ in the third quarter of 2007.

As a result of the additional exploration at Blagodatnoye deposit, a new mineralized body was discovered with prognostic resources of 50 t (1.6 M oz).

Ore bodies with a thickness of 5-49 meters and a gold grade of 1.1-4.7 g/t were discovered at Mikhailovsky site of Panimbinskaya area.

Magadan region

During 2004-2006, the Magadan region was the center of the Group's major geological exploration effort at the giant Natalka deposit.

Natalka gold deposit is located in the Tenkin district of the Magadan region of northeast Russia, approximately 400 km northwest of the city of Magadan. Mining of the Natalka deposit began in 1945 by underground mining. All mining operations were ceased in May 2004 due to the mine's low economic efficiency. Between 2004-2006 an exploration programme aimed at

developing the full resource potential of the deposit was conducted by the Group followed by the GKZ listing of the reserves.
In December 2006 the GKZ decided to include in the state balance the amount of 1500.8 t (48 M oz) of B+C1+C2 reserves in the pit outline with an average gold grade of 1.7 g/t, including B+C1 reserves in the amount of 1282.9 t (41.2 M oz) of Natalka deposit. In addition, the amount of 335.3 t (11 M oz) of B+C1+C2 reserves outside the pit outline (off-balance reserves) was also registered by the GKZ.
Based on the exploration programme results approved by the GKZ, Natalka became the largest gold deposit in the Russian Federation and the third largest deposit in the world.
In 2006 prospect appraisal and exploration works were carried out at Verny site of Degdekan ore field. As a result, Russian C2 reserves of this deposit were increased by 83 t (2.7 M oz). Prospect appraisal was also carried out at Omchak ore field and Tokichan ore field.

Irkutsk region (hard rock deposits)

In 2006, prospecting works in the Irkutsk region were carried out at Mukodek ore field. Exploration was carried out at Verninskoye, Chertovo Koryto and Zapadnoye deposits.
As a result of the exploration at Chertovo Koryto, an ore body was discovered with the potential for open pit mining. The GKZ reserves for the ore body are estimated in the range of 53 (1.7 M oz) to 113 t (3.6 M oz) with an average gold grade of 1.62-3.32 g/t and a cut-off grade of 0.5-1.5 g/t. It is expected that the exploration results at Chertovo Koryto will be filed with the GKZ in the third quarter of 2007.
In 2006, the prognostic resources of Verninskoye deposit were increased by 15.6 t (0.5 M oz) of gold.
At Zapadnoye deposit a new ore body was identified outside the project pit outline. The prognostic resources are expected to increase by 30 t (0.9 M oz) of gold.

Irkutsk region (alluvial gold deposits)

In 2006, Polyus Gold increased its exploration programme of the alluvial gold deposits in the Irkutsk region. During recent years, prospecting and exploration works have been carried out at 16 license areas, and mining exploration has been conducted at nine license areas.
Although 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 resource base of alluvial deposits of Polyus Gold to ensure stable production during the next few years.
As a result of exploration in 2006, Russian C1 and C2 reserves increased by 4.8 t (0.15 M oz) of alluvial gold, including an increase in the GKZ reserves of 4.5 t (0.14 M oz).

Sakha (Yakutia)

In 2006, Polyus Gold carried out exploration of the deposits of its operating Kuranakh mine, and two prospective gold sites – Nezhdaninskoye deposit in the central part of Yakutia and the Kyutchus deposit in the northern part of Yakutia.
It is expected that a scoping study for the development of Nezhdaninskoye deposit will be prepared in 2007.

Amur region

The Group owns licenses to explore Bamskoye gold deposit and the neighboring Nevachanskaya and Apsakanskaya gold prospects.
As a result of exploration works at Bamskoye deposit in 2006, a potential increase in the deposit's resources of up to 100 t (3.2 M oz) was identified.

Operating Activities

In 2006 Polyus Gold's mines produced 37.8 t or 1,215 k oz of refined gold compared to 32.3 t or 1,038 k oz in 2005. The key drivers the 17% increase in gold output compared to 2005 were:

- the acquisition of Kuranakh mine in the Republic of Sakha (Yakutia) late in 2005 and the consolidation of its operations in 2006;
- the production growth at Olimpiada mine in the Krasnoyarsk region.

In 2006 the companies of the Group mined 12.7 Mt of ore compared to 6.7 Mt of ore in 2005. In 2006 the Group processed 8.8 Mt of ore compared to 5.7 Mt in 2005.
The growth of ore mined and processed is also primarily due to the consolidation of Kuranakh mine operations and due to the planned increase in sulfide ore production with lower grades at Olimpiada mine.

Olimpiada mine (Krasnoyarsk business unit).

Olimpiada mine is located in Severo-Yeniseiski district of the Krasnoyarsk region, 500 km to the north of Krasnoyarsk. The mine works at Olimpiada deposit extract oxidized and sulfide ores containing gold. Gold is currently produced at two mills:

- Mill No. 1, which was commissioned in 1996, uses conventional hydrometallurgical technology to process rich oxidized ores, with a capacity of 1.5 Mtpa; and
- Mill No. 2, which was commissioned in 2001, uses the biohydrometallurgical technology (biooxidation technology) to process refractory sulfide ores, with a capacity of 3 Mtpa.

The Group has outsourced the refining of gold from Olimpiada mine to an independent precious metals refinery – Krasnoyarsk Precious Metals Plant.
Olimpiada mine receives its electric power supply from a subsidiary of RAO UES of Russia, OJSC Krasnoyarskenergo.

In 2006 Olimpiada mine produced 8,035,000 t of ore compared to 5,193,000 t in 2005, specifically: production of oxidized ore – 1,646,000 t, production of sulfide ore – 6,389,000 t with the respective average gold grade of 14.3 g/t and 4.3 g/t.
The increase by 55% of ore mined at Olimpiada mine in 2006 is due to the implementation of the expansion project and the need to store ore at the stockpiles for subsequent processing at the mills in the period when Vostochny and Zapandy pits will be reconstructed.
Olimpiada mine processed 4,557,000 t of ore in 2006 compared to 4,622,000 t in 2005. Gold recovery from oxidized ores has decreased a little from 97.1% in 2005 to 96.9% in 2006. Gold recovery from sulfide ores, in contrast increased from 80.7% in 2005 to 82.08% in 2006.
The volumes of gold produced by Olimpiada mine in 2006 reached 26.6 t or 854,000 oz compared to 24.4 t or 783,000 oz in 2005. Increase of gold production at Olimpiada mine in 2006 was the result of further development of sulfide ores processing technology, including the improvement of in-house biooxidation technology. Additionally, some of the gold produced by the mine in 2005 was refined only in 2006 and was therefore reported in 2006.
Due to the reduction of reserves of more enriched oxidized ores, which are expected to be fully exhausted by 2008, a large-scale investment project has been in progress since 2005 to expand the mining and processing facilities of Olimpiada mine with a view to keeping gold production stable.
As part of this project, in 2006 construction works were carried out on the third mill to process sulfide ores at Olimpiada mine. The designed throughput of Mill No.3 is 5 Mt of ore annually. The launch of the new mill is scheduled for summer 2007, and the project peak capacity is expected to be achieved in early 2008. Mill No.3 is expected to be the largest gold processing facility in Russia; its launch will provide for the processing of

2006 Polyus Gold Operating Highlights

	2006	2005	2004
ORE MINING (IN '000 TONNES OR AS NOTED)			
Olimpiada mine			
Mining of ore			
Oxidized ore	1,646	1,631	1,824
Sulfide ore	6,389	3,562	3,385
	8,035	**5,193**	**5,209**
Average gold grade (g/tonne)			
Oxidized	14.3	8.6	10.9
Sulfide	4.3	3.3	4.6
Kuranakh mine (1)			
Mining of ore	3,847	842(I) / 3,416(II)	-
Average gold grade (g/tonne)	1.51	1.67	-
Zapadnoye mine			
Mining of ore	803	623	272
Average gold grade (g/tonne)	1.97	1.61	2.1
Total ore mined	**12,685**	**6,658**	**5,481**
ORE PROCESSING (IN '000 TONNES OR AS NOTED)			
Olimpiada mine			
Ore processed			
Oxidized ore	1,511	1,711	1,713
Sulfide ore	3,046	2,911	2,538
	4,557	**4,622**	**4,251**
Average gold grade (g/tonne)			
Oxidized	12.05	9.73	10.37
Sulfide	3.57	3.96	4.26
Kuranakh mine (1)			
Ore processed	3,737	688(I)/3,162(II)	-
Average gold grade (g/tonne)	1.54	1.57	
Zapadnoye mine			
Ore processed	522	375	296
Average gold grade (g/tonne)	2.4	1.95	2.4
Alluvial deposits			
Sand washed (million cubic meters)	9.4	10.8	13.06
Average gold grade (g/m^3)	0.6	0.6	0.6
Total ore processed	**8,816**	**5,685**	**4,547**
PRODUCTION OF GOLD ('000 OUNCES)			
Olimpiada mine	**854**	**783**	**820**
Alluvial deposits	**172**	**212**	**246**
Kuranakh mine	**156**	**27**	**-**
Zapadnoye mine	**32**	**15**	**11**
Matrosov mine (2)	-	1	8
Nezhdaninskoye mine (3)	1	1	-
Total production of gold	**1,215**	**1,038**	**1,085**

Notes:

(1) - 2005 ore mined and processed at Kuranakh mine are indicated (1) for the fourth quarter 2005 since the mine was incorporated with the Group; (2) for the full year of 2005.

(2) - gold production at Matrosov mine was shut down in May 2004 due to the beginning of the exploration programme at Natalka deposit. Insignificant volumes of gold were obtained in 2005 through waste clean-up.

(3) - Underground production at Nezhdaninskoye mine was closed in the beginning of 2005. Insignificant volumes of gold were obtained in 2005-2006 as a result of clean-up.

larger volumes of sulfide ores and will increase the overall sulfide ores processing capacity up to 8 Mpta.

As part of the expansion project at Olimpiada mine the reconstruction of Vostochny and Zapadny open pits has begun, by increasing the pit base, as well as the construction of a road and new accommodation facilities for the employees.

Characteristics of the deposit and the types of ores

Olimpiada hardrock gold deposit includes two sites – Zapadnoye (Western) and Vostochny (Eastern). Ore bodies No. 1, 2 and 3 have been explored in the Western section and are mined through Zapadnoye pit. Vostochny pit develops ore body No. 4 which contains the bulk of ore and gold reserves. Oxidized and sulfide ore reserves have been identified and separately measured for the latter, with sulfide ore accounting for 75% of the total reserves.

Oxidized ores represent soft poorly consolidated siltstone. Gold is present in the ore in 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.

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.

Mining technologies

Olimpiada mine works as an open pit with surface stockpiling. Ore is excavated from the pits with a preliminary ripping method via a set of drilling and blasting operations, this 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 27.6 million cubic meters, and of mined ore (oxidized and sulfide) – approximately 8 million tonnes.

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 detoxification the gold saturated resin is fed for regeneration to a chain of columns. Gold bearing regenerate is fed for electrolysis as a result of this 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 dorē gold bars, sent for refining.

Sulfide ore processing technology

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

Olimpiada mine was the first in the world to apply the bacterial oxidation (biooxidation) 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.

Kuranakh mine (Yakutia business unit).

Kuranakh mine is located in the Aldan district of the Republic of Sakha (Yakutia) in the territory of Eastern Siberia, several kilometers away from Nizhny Kuranakh settlement. Kuranakh mine mines 11 hardrock gold deposits which form Kuranakh ore field. Gold is currently produced at the mill that was commissioned in 1965 with a capacity of 3.6 Mtpa.

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

Kuranakh mine mined 3,847,000 t of ore in 2006 with an average gold grade of 1.51 g/t compared to 3,416,000 t in 2005 (842,000 t were produced in the 4Q 2005 after the acquisition of the mine by the Group). Ore mined by Kuranakh mine increased by 12.5% in 2006 for the first time in recent years since the mine's key operating indicators followed a downward trend.

Ore processed by Kuranakh mill in 2006 increased to 3,737,000 t from 3,162,000 t in 2005 (688,000 t were processed in the 4Q 2005 after the acquisition of the mine by Polyus Gold). Gold recovery remained at the same level of 86.5% in 2006 compared to 86.7% in 2005.

Gold production by Kuranakh mine in 2006 reached 4.85 t or 156,000 oz.

Major steps were taken in 2006 to improve mine operations and to ensure a consistent growth of gold output at Kuranakh mine in the future.

In 2006 the plant tested the perspectives of the heap leaching technology utilization. The Nadezhny heap leaching section processed 173,000 t of ore with an average grade of 0.99 g/t, reaching the recovery of 60%.

A scoping study for the mine's expansion and renovation is expected to be prepared in 2007.

Characteristics of the deposit and the types of ores

Throughout the entire life of the mine, Kuranakh ore field deposits have been considerably mined, 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 Mt of ore with a gold grade of 1.92 g/t);
- Severnoye (10 Mt of ore with a gold grade of 2.03 g/t);
- Yakokutskoye (10 Mt of ore with a gold grade of 1.69 g/t);
- Kanavnoye (8.9 Mt of ore with a gold grade of 1.76 g/t).

All the deposits of Kuranakh ore field have the same geologic, 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; the gold is present in a free state and genetically combined with sulfides, and ironic and quartz hydroxides.

Mining technologies

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 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 10 million cubic meters, and approximately 3.8 Mt of mined ore.

Ore processing technology

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

Zapadnoye mine (Irkutsk hardrock business unit).

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

Gold is currently produced at the mill, which was commissioned in 2004, with a processing capacity of about 0.85 Mtpa.
The Group has outsourced the refining of gold from Zapadny mine to an independent precious metals refinery – Krasnoyarsk Precious Metals Plant.
Zapadnoye mine produced 803,000 t of ore in 2006 with an average gold grade of 1.97 g/t compared to 623,000 t in 2005. Ore processed by Zapadnoye mine increased by 32% in 2006 allowing the mine to achieve its peak capacity.
Zapadnoye mine processed 522,000 t of ore in 2006 compared to 375,000 t in 2005. Gold recovery increased from 67.8% in 2005 to 76.5% in 2006.
Zapadnoye mine is currently the only Russian gold mining facility that has customized industrial technology capable of processing the ores of Sukhoy Log – one of the largest gold deposits both in Russia and globally.
Gold production by the mine doubled in 2006 and reached 1 t or 32,000 oz compared to 0.5 t or 15,000 oz in 2005. The significant growth in gold production by Zapadnoye mine was enabled by the improvement of mining technologies as well as ore processing and recovery technologies.

Characteristics of the deposit and the types of ores

The gold mineralization of Zapadnoye gold deposit is of vein-disseminated quartz-pyrite type with low-gold-content quartz-vein bodies.
The mining plan for Zapadnoye mine provides for the production of 4.7 Mt of ore in the open pit with an average gold grade of 2.77 g/t.

Mining technologies

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

Processing technology

More than 90% of gold in 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.

Alluvial operations (Irkutsk alluvial business unit).

Polyus Gold is currently the largest gold producer from the alluvial deposits located in Bodaibo district in the Irkutsk region.
To ensure profitable development of alluvial deposits with a low gold grade special equipment is used, including 10 dredges, 26 draglines with the bucket volume of 6 to 20 cubic meters, 18 mining shovels with shovels of 5 cubic meters, over 200 bulldozers, and 86 open-pit dump trucks. Gold production from alluvial deposits is carried out by several specialized gold mining entities (crews).
The total gold production from the Group's alluvial deposits in 2006 amounted to 5.34 t or 172,000 oz compared to 6.6 t or 212,000 oz in 2005. The decrease in production was mainly due to the depletion of the prepared ore, decline in grades of the sands washed, and the unfavorable weather conditions compared to those of the previous years. Some organizational improvements and an increase in exploration on the alluvial deposits are expected to ensure more stable gold output in the coming years.

Mining technologies

Gold is mined by open-pit method.

Open pit method (separate)

Stripping operations for the preparation of the mining grounds use a combination of technological 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 sands of approximately 0.3 g/m3.

Sand extraction technology

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

Environmental Protection, Health and Safety

The reduction of the negative impact of production on the environment and the creation of safe labor conditions for its employees and secure production are essential elements of the Group's activities within its sustainable development program.

The reduction in the use of cyanide to decrease risks to employees' health and environment and compliance with the International Cyanide Management Code are key priorities of the Group's environmental protection activities.

The Company's Strategic Development Plan until 2015 incorporates a program of environmental protection. Firstly the implementation of environmentally friendly technologies of cyanide-free leaching at existing and future production facilities.

Pilot-plant testing of new deactivation methods for cyanide-contaminated wastewater, neutralization and dry storage of enriched products was successfully completed in 2006. The tested technologies will be implemented during the reconstruction of existing and the design of new production facilities.

In 2006 Polyus Gold's total expenditure for implementation of environmental protection and occupational health and safety measures was US$6 million (RUR 160 million), including US$3.8 million (RUR 100 million) spent for occupational safety activities; that is twice as much as in 2005.

Activities related to environmental protection and occupational health and safety

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

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

Monthly labor protection inspections and periodic complex occupational health and safety compliance reviews are carried out at the Group's entities. Continuous monitoring is performed by authorized employees, engineers, medium-level and junior management.

The efficiency of environmental protection activities is ensured by environmental monitoring systems which continually monitor the air, surface and subsurface water and soil. The results of last year's analysis demonstrated stable environmental conditions in operational regions of the Group's entities; this was confirmed by inspections by the controlling agencies.

In 2007-2008 a program for the implementation of an integrated system of quality management, environmental protection and occupational safety in accordance with the international standards ISO 9001, ISO 14001 and OHSAS 18001 is expected to be developed and implemented at the Group's entities.

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 is a top priority for the Group.

In 2006 the reconstruction of a productive heating plant under the power plant began at Olimpiada mine in the Krasnoyarsk region. A water-cooling tower was built to ensure re-circulation of the water supply of the turbine-type generator refrigeration system. During the heating plant reconstruction a facility for the combustion of waste oil was built during boiler modernization equipping it with an oil-gas burner.

Protection and rehabilitation of land

The Group's entities have a very long history, and the volume of affected land is now significant. The Group is actively engaged in the reclamation and rehabilitation of the disturbed land. In 2006 the volume of rehabilitated land significantly exceeded the volume of disturbed land.

At Olimpiada mine in the Krasnoyarsk region the reclamation of the Tyrada pit was completed and supported by the act of acceptance of the reclaimed land.

During the construction of the Group's production facilities, forest protection is carried out 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 majority 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 disturbed land; tail pulp waste is located in the properly equipped liquid waste burial sites – tailing pits.

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

No penalty or fine for violation of environmental law was imposed on the Group during 2006.

Water use and water resource protection

Water is widely used in the technological process and for other purposes in gold production companies.

In 2006, rational water use was ensured through the following activities:

- 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 are used at the Group's entities to ensure the rational use of water resources: re-circulating water supply from the tailing pit (external water turnover); internal water turnover of the enrichment plant; re-circulating water supply through waste treatment facilities and other methods. Rain water, melt water, drain water and other associated water are 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 are methods used to reduce pollution of water resources with suspended substances (soil particles).

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 emissions and dust 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 2006 throughout the Group did not exceed the maximum admissible levels.

Industrial and work safety

In 2006 periodic accident training sessions were held for Group operative and maintenance staff in accordance with existing industrial safety rules – no less than once every three months at electricity facilities and no less than once every six months at other hazardous production facilities.
At such facilities as open pits, tailing pits and petroleum bulk plants special emergency rescue teams have been established consisting of all employees familiarized with procedures for eliminating consequences of accidents; plans for the prevention of natural and man-made emergencies also exist.
In accordance with the procedure for equipment / materials / tools procurement the Group acquires only those goods that have certificates of compliance with industrial safety requirements and Rostekhnadzor's permits.
In order to reduce any adverse impact of production activities on the health of employees, a special program of planned equipment replacement ensuring the compliance of all work places with sanitary standards and industrial safety requirements, is being implemented. In 2006 the Group acquired and put into operation new equipment for the total amount of US$46.6 million (RUR 1,233.4 million), i.e. 19% more than in 2005.

Review of Financial Performance in 2006

This chapter contains a discussion and analysis by the Company's management of the financial results and financial position for the year ended 31 December 2006. In the reporting year the Group demonstrated 55% increase in revenues, 78% increase in operating profit, almost a seven times increase in EBITDA and a 10 times increase in profit for the period.

The major positive factors influencing the Group's financial results for the year ended 31 December 2006 were as follows:

- 34% increase in average gold selling price;
- increase in production of gold resulting in a 16% increase in physical volumes of gold sold mostly due to the consolidation by the Group of the financial results of OJSC Aldanzoloto GRK and OJSC SVMC;
- disposal of the stake in the gold mining company Gold Fields Ltd. (South African Republic) (Gold Fields) with a resulting gain of US$980 million in the first quarter of 2006.

Negative factors in the production of gold were decreased by Irkutsk group of subsidiaries, OJSC Lenzoloto, an increase in production costs per ounce and the strengthening of the Russian Rouble in relation to the US Dollar, led to a 4% increase in rouble-denominated costs translated for presentation purposes into US Dollars.

OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC were acquired in September 2005, therefore only the fourth quarter of their results were included in the consolidated financial results of the Group for the year ended 31 December 2005. OJSC Aldanzoloto GRK and OJSC SVMC are gold producers with substantial production assets and production costs per ounce higher than those of the Group.

20% stake in Gold Fields was acquired by the Group in May 2005 for US$945 million; during the year ended 31 December 2006 the Gold Fields shares were disposed of for the net proceeds of US$1,925 million.

The table below illustrates gold sales dynamics in the year ended 31 December 2006 compared to the year ended 31 December 2005:

	For the year ended 31 December		
	2006	**2005**	**% change**
Gold sales, US$ million	735	473	55
Gold sold, '000 troy ounces			
Domestic	874	588	49
Export	342	461	(26)
	1,216	**1,049**	**16**
Average realized gold selling price, US$ per troy ounce	604	451	34

The increase in gold production by the Group in the year ended 31 December 2006 which resulted in increased gold sales volumes and, consequently, in the growth of revenues, was accompanied by increased cost of production.

Total cash cost (TCC) of the gold sold by the Group were as follows:

	For the year ended 31 December	
	2006	**2005**
Total cost applicable to sales, US$ million	**423**	**269**
less: depreciation	(74)	(45)
less: vacation provision	(4)	(3)
less: rehabilitation expense	(7)	(2)
TCC, US$ million	338	219
Gold sold, in thousands of troy ounces	1,216	1,049
TCC, US$ per troy ounce	**278**	**209**

The table below details TCC per troy ounce in 2005 and 2006 by producing unit:

	TCC, US$ per troy ounce	
	For the year ended 31 December	
	2006	**2005**
CJSC Polyus	210	166
Irkutsk companies (1)	462	369
OJSC Aldanzoloto and OJSC SVMC	411	454

(1) Total cash costs of CJSC GRK Sukhoy Log, CJSC Tonoda, OJSC Pervenets and OJSC Lenzoloto group are included in the total cash cost of Irkutsk companies.

In the year ended 31 December 2006 gross profit increased by US$108 million (+53%) to US$312 million, due to an increase in revenues by US$262 million (+55%) in 2006 compared to 2005, partly offset by an increase in the cost of sales by US$154 million (+57%) in 2006 compared to 2005. Resulting from the strong operating performance was a 57% increase of the Group's adjusted EBITDA in the year ended 31 December 2006 compared to the year ended 31 December 2005.

Reconciliation of the Group's EBITDA to the Profit for the Period (US$ million)

	For the year ended 31 December	
	2006	**2005**
Profit for the period	**1,157**	**112**
add: Income tax	73	51
Amortisation & depreciation charge for the period	79	51
Interest expense	6	4
less: Interest income	(108)	(43)
EBITDA	**1,207**	**175**
Adjustments:		
less: Gain on disposal of investments	(988)	(3)
add: Foreign exchange gains and losses	74	1
Loss on disposal of property, plant & equipment and of assets under construction	1	5
Impairment of property, plant and equipment	-	12
Release of decommissioning obligations	2	-
Change in provision for VAT receivable	3	1
Adjusted EBITDA	**299**	**191**

Below is a detailed discussion of the financial results and financial position of the Group in the year ended 31 December 2006.

Consolidated Income Statement for the Year Ended 31 December 2006 (US$ million)

	2006	2005
Gold sales revenue		
Domestic	528	260
Export	207	213
	735	**473**
Cost of sales	423	269
Gross profit	**312**	**204**
Gross profit %	**42**	**43**
Selling, general and administrative expenses	85	58
Research and exploration expenses	8	2
Other net operating expenses	7	25
Operating profit	**212**	**119**
Net finance costs	5	3
Net income from investments	(1,019)	(51)
Other non-operating expenses	3	4
Foreign exchange (gain)/ loss, net	(7)	-
Profit before income tax	**1,230**	**163**
Income tax	73	51
Profit for the year	**1,157**	**112**
Attributable to:		
Shareholders of the parent company	1,158	112
Minority interest	(1)	-
	1,157	**112**
Profit for the year %	157	24
Weighted average number of ordinary shares in issue from 17 March to 31 December 2006	**187,645,115**	-
Basic and diluted earnings per share (US cents)	**76**	-

Gold sales

In 2006 gold sales increased by US$262 million (+55%) to 735 million. The increase in gold sales resulted from the following:

- a 34% increase in the average gold selling price in both the domestic and export markets; and
- a 16% increase in physical sales volume due to the consolidation of gold sales by subsidiaries, OJSC Aldanzoloto GRK and OJSC SVMC acquired in September 2005, partly offset by a decrease in the sales of Lenzoloto.

In 2006 the Group increased its share of gold sold in the Russian Federation by 103% due to the higher domestic demand for gold and the improvement of gold purchase terms proposed by domestic customers. Sales were made to commercial banks through a centralized distribution system: CJSC Polyus sold both its own gold and gold produced by its subsidiaries, acting on the basis of an agency agreement with them.

Export sales by the Group in 2006 were made on the basis of a new export contract and decreased by 3%. Deliveries of gold bullion in accordance with the standards of the London Bullion Market Association were made directly to the buyer's vault. Sales were at prices determined on the basis of the London fixing increased by an agreed upon premium.

Cost of Sales (US$ million)

	2006	% of total	2005	% of total
Consumables and spares	150	35	104	37
Labour	105	24	70	25
Mining tax	42	10	30	11
Utilities	25	6	13	5
Refining costs	3	1	3	1
Other cash operating costs	23	5	13	4
Cash operating costs	**348**	**81**	**233**	**83**
Non-cash costs				
amortisation and depreciation of operating assets	74	17	45	16
provision for land rehabilitation	7	2	2	1
Total production cost	**429**	**100**	**280**	**100**
Increase in metal inventory	(6)	-	(11)	-
Cost of sales	**423**		**269**	

In 2006 cost of sales increased by US$154 million (+57%) and amounted to US$423 million, compared to US$269 million in 2005. Key reasons for the increase of cost of gold sales in 2006 are as follows:

- consolidation of all the production costs of OJSC Aldanzoloto GRK and OJSC SVMC in the total amount of US$82 million compared to US$13 million since date of acquisition in September 2005;
- a US$30 million increase in the cost of fuel, consumables, spares, utilities and other cost at CJSC Polyus due to the increase of purchase prices along with the increased usage of these items as a result of a 4% rise in the sulphide ore share in the total quantity of ore processed. The processing of sulphide ore requires twice as much reagents and materials as oxidized ore, and about three times more electricity.

Cash operating costs

In 2006 cash operating costs increased by US$115 million (+49%) and amounted to US$348 million, compared to US$233 million in 2005.

Consumables and spares

In 2006 consumables and spares increased by US$46 million (+44%) to US$150 million. This increase resulted mostly from the 4% rise in the sulphide ore share in the total quantity of ore processed at Polyus and consolidation of consumables and spares of Aldanzoloto and SVMC. Consumables and spares remained the most significant item of cash operating costs and total production costs, representing 35% (2005: 37%) of the total production costs and increased due to increase in mining activities.

Labour

In 2006, labor costs increased by US$35 million (+50%) to US$105 million. The increase was mainly due to:

- the consolidation of labor costs of OJSC Aldanzoloto GRK and OJSC SVMC in the amount of US$12 million compared to US$2 million consolidated since date of acquisition in September 2005;
- a US$15 million increase in wages in OJSC Lenzoloto and LLC LZRK to bring it in line with the average payroll rates in the Irkutsk region;
- a US$10 million increase of labor cost at CJSC Polyus.

Mining tax and ecological payments

In 2006, mining tax expense and ecological payments increased by US$12 million (+40%) to US$42 million, primarily due to the increase in the average gold selling price of 34% compared to 2005, as well as a US$4 million difference in the tax paid by OJSC Aldanzoloto GRK consolidated in 2006 and since the date of acquisition in the forth quarter of 2005.

Utilities

In 2006, utility costs increased by US$12 million (+92%) to US$25 million due to the following:

- a 4% increase in sulphide ores processed at CJSC Polyus which requires three times more electricity;
- US$6 million difference in utility costs of OJSC Aldanzoloto GRK consolidated in 2006 and since the date of acquisition in September 2005;
- 14-20% growth in fuel prices resulted in a US$2 million increase in utility costs throughout the Group.

Other cash operating costs

In 2006 other cash operating costs increased by US$10 million (+77%) to US$23 million mainly due to a US$3 million difference in sundry costs of Aldanzoloto, SVMC and YMC consolidated in 2006 since the date of acquisition in September 2005, as well as a US$4 million increase of sundry cost at Polyus.

Non-cash costs

Amortization and depreciation of operating assets

In 2006, amortization and depreciation charges increased by US$29 million (+64%) to US$74 million due to the increase in depreciable value of mining assets from US$1,058 million to US$1,664 million caused by the following:

- consolidation of US$740 million of OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC operating fixed assets including US$640 million of mineral rights; as well as the
- acquisition of mining assets and transfers from the construction-in-progress in the total amount of US$139 million.

Amortization and depreciation charges in 2006 increased by US$8 million representing a difference between the amortization and depreciation charge of OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC consolidated in 2006 and since the date of acquisition in September 2005, and the rest of the increase by US$21 million attributable to new additions.

Provision for land restoration

In 2006, provision for land restoration increased by US$5 million to US$7 million. In 2006, the Group performed a re-estimation, on the basis of updated information, of land restoration costs of OJSC Aldanzoloto GRK which was accounted for as a change in estimate and resulted in an increase in the land restoration costs compared to 2005.

Increase in metal inventory

In 2006, the increase in metal inventories was US$6 million compared to US$11 million in 2005. In 2006 the majority of this increase was due to the increase in work-in-process at CJSC Polyus and OJSC Aldanzoloto GRK, while in 2005 it was mostly due to an increase in physical gold stock at CJSC Polyus.

Selling, general and administrative expenses

In 2006 selling, general and administrative expenses increased by US$27 million (+47%) to US$85 million. The increase resulted mainly from the following:

- increase in payroll costs by US$15 million, or 45%, compared to 2005, principally attributable to the growth in business

activities of the Company's head office resulting in the growth of weighted-average number of employees by 22% in 2006 compared to 2005 and a corresponding increase of salaries by US$3 million, as well as a US$8 million difference between the payroll cost of OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC consolidated in 2006 and since the date of acquisition in September 2005; the increase of administrative salaries throughout the other companies of the Group totaled US$4 million;
- increase in tax payments by US$6 million, or 120%, primarily due to the consolidation of taxes paid by OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC and to the acquisition of property, plant and equipment;
- a US$3 million increase in professional services, including audit, legal and other consulting fees due to the spin-off from OJSC MMC Norilsk Nickel and the listing of Polyus Gold's ADRs on the London Stock Exchange;
- a US$4 million increase in other expenses, including an increase of US$1 million due to the consolidation of expenses of OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC.

Research and exploration expenses

Research and exploration expenses increased by US$6 million to US$8 million due to an increase of exploration expenses throughout the Group.

Other net operating expenses

In 2006, other net operating expenses decreased by US$18 million (-72%) to US$7 million due to:

- a US$11 million decrease in impairment of property, plant and equipment;
- a US$4 million decrease in losses from disposal of property, plant and equipment;

Finance cost

In 2006, finance cost increased by US$2 million (+67%) to US$5 million. In 2006, the unwinding of the discount of the decommissioning obligation increased by US$3 million and this was off-set by a gain on the revaluation of borrowings denominated in foreign currency of US$1 million.

Net income from investments

In 2006, net income from investments increased by US$968 million to US$1,019 million mostly due to the gain on the sale of investment in Gold Fields and a US$65 million net increase in interest and dividends income partly offset by a US$82 million currency exchange difference resulting from the translation of US Dollar-denominated deposits into the Group's functional currency, the Russian rouble, due to the appreciation of the Russian rouble in respect of the US Dollar.

Other non-operating expenses

In 2006, other non-operating expenses decreased by US$1 million (-25%) to US$3 million compared to 2005.

Income tax

Our provision for taxation for the two years under review is set forth in the following table:

(US$ million)	2006	2005	% change
Current tax expense	85	60	42
Deferred tax benefit	(12)	(9)	33
Total income tax at effective rate of 6% (2005: 31%)	**73**	**51**	**43**

In 2006 the current income tax expense increased by US$25 million (+42%) to US$85 million, compared to 2005 primarily due to a US$108 million increase in gross profits in 2006.

Profit for the year

Profit for the year ended 31 December 2006 increased by US$1,045 million to US$1,157 million from US$112 million in 2005 due to a US$968 million increase in net income from investments and a US$108 million increase in gross profit partly offset by a US$27 million increase of selling, general and administrative expenses and a US$22 million increase of income tax.

Balance sheet

The following is a discussion of some of the selected balance sheet items as at 31 December 2006 compared to 31 December 2005.

Consolidated Balance Sheet as of 31 December 2006 (US$ million)

	2006	% of total	2005	% of total
ASSETS				
Non-current assets	**1,780**	**49**	**1,132**	**31**
Property, plant and equipment	1,768		1,112	
Investments in securities and other financial assets	1		4	
Long-term portion of reimbursable value added tax	11		16	
Current assets	**1,864**	**51**	**2,480**	**69**
Inventory	169		124	
Advances to suppliers and other receivables	39		25	
Other current assets	123		73	
Investments in securities and other financial assets	1,239		2,230	
Cash and cash equivalents	294		28	
Total assets	**3,644**	**100**	**3,612**	**100**
EQUITY AND LIABILITIES				
Share capital and reserves	**3,117**	**86**	**3,138**	**86**
Share capital	7		-	
Additional paid-in capital	2,190		1,837	
Treasury shares	(995)		-	
Investment revaluation reserve	20		817	
Translation reserve	260		8	
Retained earnings	1,603		446	
Equity attributable to shareholders of the parent company	**3,085**		**3,108**	
Minority interest	32		30	
Non-current liabilities	**340**	**9**	**237**	**7**
Deferred tax liabilities	266		171	
Environmental obligations	72		61	
Obligation under finance lease	2		4	
Other long-term liabilities	-		1	
Current liabilities	**187**	**5**	**237**	**7**
Current portion of obligations under finance lease	3		3	
Contingent consideration for acquisition of subsidiaries	76		138	
Short-term borrowings	12		23	
Trade and other payables	70		50	
Taxes payable	26		23	
Total equity and liabilities	**3,644**	**100**	**3,612**	**100**

Property, plant and equipment

As at 31 December 2006, the net book value of property, plant and equipment increased by US$656 million (+59%) to US$1,768 million compared to US$1,112 million at 31 December 2005. The increase in net book value was primarily due to:

- the acquisition of property, plant and equipment together with construction-in-progress amounting to US$265 million;
- the addition of assets owned by subsidiaries acquired during the year amounting to US$381 million;
- partly offset by the disposal of property, plant and equipment in the amount of US$14 million and amortization and depreciation charge for the year of US$86 million;
- the effect of exchange rate difference as a result of translation from functional currency into the presentation currency of US$109 million.

Investments in securities and other financial assets

As at 31 December 2006 investments in securities and other financial assets decreased by US$994 million (-44%) to US$1,240 million as compared to US$2,234 million at 31 December 2005. The decrease was mainly due to the sale of the investment in Gold Fields, a US$300 million decrease in promissory notes receivable and investment deposit with Rosbank partly offset by a US$1,041 million increase in bank deposits, loans under repurchase agreements, and equity securities due to the reinvestment of proceeds received on disposal of the stake in Gold Fields.

Inventories

As at 31 December 2006 the total value of inventories consisting of refined gold, work-in-process and stores and materials increased by US$45 million (+36%) to US$169 million as compared to US$124 million at 31 December 2005. The increase in inventories was due to the increase in work-in-process at Polyus by US$8 million and at CJSC Sukhoy Log by US$2 million, and an increase in stores and materials at Polyus by US$23 million, at OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC by US$8 million, and at other subsidiaries by US$4 million.

A 40% increase in stores and materials stock resulted from the purchases of additional spare parts for equipment and machinery acquired in 2006, and of a 14-20% increase in fuel prices.

Advances to suppliers and other receivables

As at 31 December 2006 advances to suppliers and other receivables increased by US$14 million (+56%) to US$39 million as compared to US$25 million at 31 December 2005. This increase is mainly related to the capital construction-in-progress at CJSC Polyus which resulted in a US$12 million increase in advance payments to suppliers as well as to the increase in advance payments for materials and supplies at CJSC Polyus and LLC LZRK.

Cash and cash equivalents

As at 31 December 2006 cash and cash equivalents increased by US$266 million to US$294 million as compared to 28 million at 31 December 2005. This more than 10 times increase is due to the cash proceeds from the sale of the investment in Gold Fields, US$360 million cash proceeds from OJSC MMC Norilsk Nickel on spin-off partly offset by US$995 million cash payments for the Polyus Gold own shares during buy back, US$300 million cash payment for 50% of OJSC SVMC shares acquired in December 2006, and re-investments of the rest into deposits and securities.

Trade and other payables

As at 31 December 2006 trade and other payables increased by US$20 million (+40%) to US$70 million as compared to US$50 million at 31 December 2005. The increase in trade and other payables is due to US$4 million increase in wages and salaries payable while the rest of the growth is mainly related to beginning prospecting works in OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC.

Borrowings

The following table sets forth our borrowings as at 31 December:

(US$ million)	2006	2005
Long-term portion of obligations under finance leases	2	4
Current portion of obligations under finance lease	3	3
Other long-term borrowings	-	1
Short-term borrowings	12	23
Total borrowings	**17**	**31**

The weighted average interest rate implied in calculating the present value of finance lease was 12% both in 2006 and in 2005. Amounts payable under finance leases are as follows:

(US$ million)	Gross value, inclusive of finance charges		Present value	
	2006	2005	2006	2005
Amounts payable under finance leases:	**5**	**8**	**4**	**7**
Within one year (shown under current liabilities)	3	3	3	3
In the second to fifth years inclusive (shown under non-current liabilities)	2	5	1	4
Less: Future finance charges	(1)	(1)	n/a	n/a
Present value of lease obligations	**4**	**7**	**4**	**7**

All short-term borrowings are unsecured.

(US$ million)	2006	2005
USD-denominated borrowings bearing interest at 8%-16.5% (2005: 8%-16.5%) per year	9	9
RUR-denominated borrowings bearing interest at 3.5%-15.6% (2005: 14%-15.5%) per year	2	2
RUR-denominated promissory notes bearing interest at 7%-14.5% (2005: 14%) per year	1	12
Total short-term borrowings	**12**	**23**

Share capital and reserves

As at 31 December 2006 share capital and reserves decreased by US$21 million (-1%) to US$3,117 million (including minority interests in the amount of US$32 million) as compared to US$3,138 million (including minority interests in the amount of US$30 million) at 31 December 2005. The slight decrease of share capital and reserves is caused by the repurchase of 17,146,780 of Polyus Gold's own shares for the total amount of US$995 million and the US$797 million net decrease in the revaluation reserve offset by an increase in accumulated profits for the year of US$1,157 million, US$360 million increase in the shares issued on the spin-off from OJSC MMC Norilsk Nickel and US$255 effect of the translation into presentation currency.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2006 (US$ million)

	2006	2005
Net cash inflow from operating activities	142	47
Net cash inflow/(outflow) from investing activities	701	(1,302)
Net cash (outflow)/inflow from financing activities	(633)	1,270
Effect of translation to presentation currency	56	-
Net increase in cash and cash equivalents	**266**	**15**
Net cash and cash equivalents at beginning of the year	28	13
Net cash and cash equivalents at end of the year	**294**	**28**

Net cash inflow from operating activities

In 2006 net cash inflow from operating activities increased by US$95 million to US$142 million. The improvement in net cash inflow from operating activities resulted from an increase of US$262 million in gold sales, partly offset by a US$115 million increase in cash operating costs, a US$27 million increase in selling, general and administrative expenses, an increase in income tax paid of US$44 million and interest paid of US$2 million.

Net cash inflow/(outflow) from investing activities

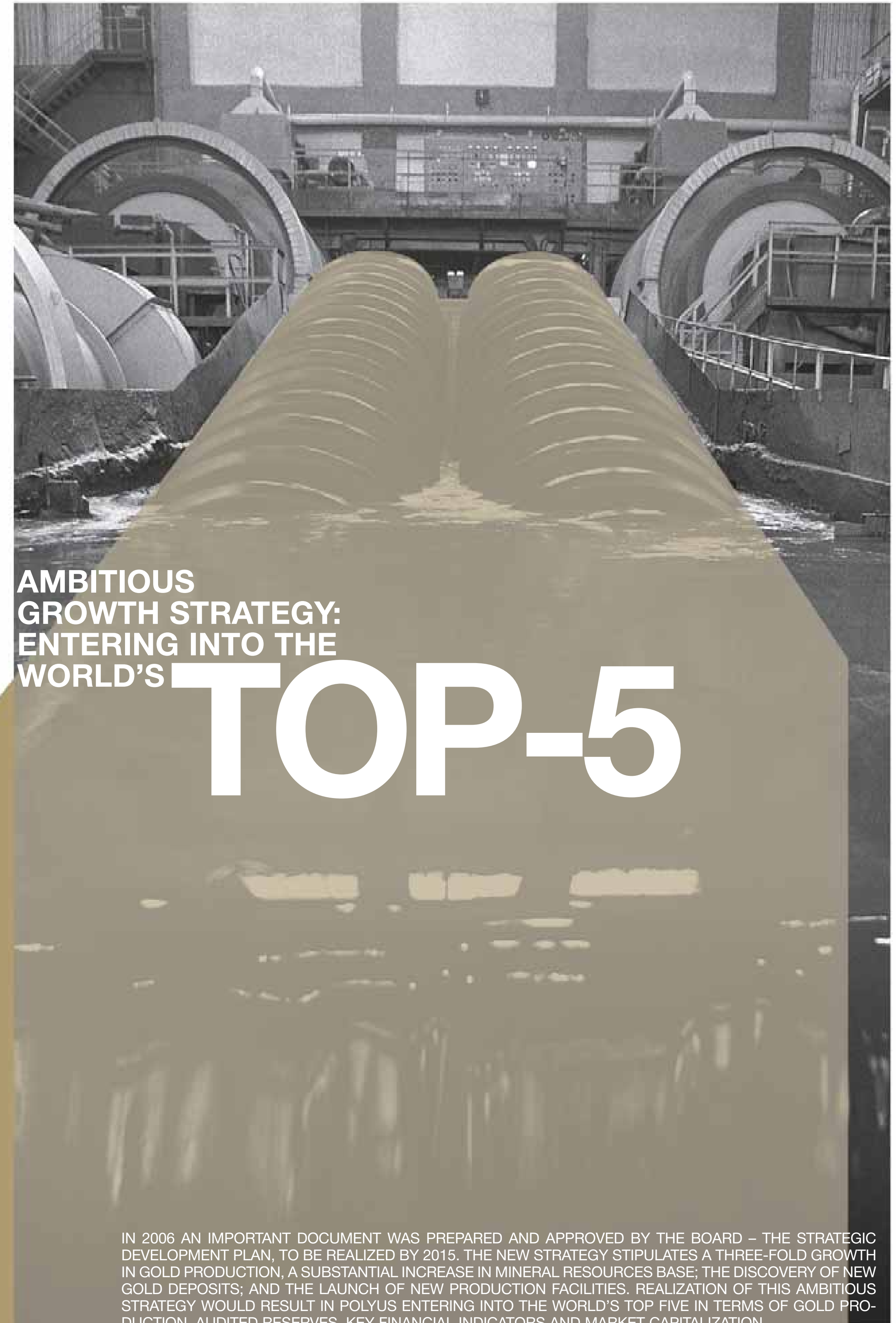
Net cash outflow in year ended 31 December 2005 of US$1,302 million was followed by net cash inflow in year ended 31 December 2006 of US$701 million.

The overall change in net cash flow from investing activities by US$2,003 million was result of the following:

- in the year ended 31 December 2006 the group paid for shares in acquired subsidiaries in the amount of US$369 million compared to US$154 million a year before. Included in both years' payments were those for shares in OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC with the total purchase price of US$253 million (US$115 million was paid in the year 2005, US$62 million – in 2006, the remainder to be paid in 2007). Included in the year 2005 payment were also 74% shares in OJSC Pervenets for US$26 million, 31% shares in OJSC Matrosov Mine for US$4 million, 11.2% share acquisition in Lenzoloto for US$8 million, and 100% shares in CJSC Sibzolotorazvedka for US$ 1 million. During the year 2006 the Group acquired an additional 50% interest in OJSC SVMC for US$300 million and a 100% interest in LLC GRK BarGold for US$8 million;
- during the year ended 31 December 2006 investment into the acquisition of property, plant and equipment amounted to US$262 million that was a 86% increase compared to the year ended 31 December 2005; such a significant increase was primarily due to the construction of Mill 3 at Olimpiada mine and consolidation of the fixed assets purchases by OJSC Aldanzoloto GRK, OJSC SVMC and OJSC YMC, as well as to payments for exploration works capitalized within property, plant and equipment;
- during the year ended 31 December 2006 the Group disposed of the stake in Gold Fields acquired in the year ended 31 December 2005; the net proceeds received on disposal were reinvested into short-term bank deposits, Rosbank promissory notes and other financial assets in the same period; it should be noted though that some of the Gold Fields proceeds were re-invested in deposits with a less than three months' term, thus, classified as cash and cash equivalents;
- during the year ended 31 December 31, 2006 the Group received final dividend for the year 2005 from Gold Fields in the amount of US$6 million (the year ended 31 December 2005: interim dividends of US$6 million).

Net cash (outflow)/inflow from financing activities

Net cash outflow from financing activities in the year ended 31 December 2006 was US$633 million compared to a US$1,270 net cash inflow from financing activities in the year ended 31 December 2005. The net cash inflow in the year 2005 was by US$1,300 million due to the proceeds of CJSC Polyus shares issue, while the net cash outflow in the year 2006 was mostly due to the acquisition by the Group of the issued shares of the parent company OJSC Polyus Gold for the total consideration of US$ 995 million in November 2006 partly offset by a US$360 million cash contribution by OJSC MMC Norilsk Nickel in connection with the spin-off.



AMBITIOUS GROWTH STRATEGY: ENTERING INTO THE WORLD'S TOP-5

IN 2006 AN IMPORTANT DOCUMENT WAS PREPARED AND APPROVED BY THE BOARD – THE STRATEGIC DEVELOPMENT PLAN, TO BE REALIZED BY 2015. THE NEW STRATEGY STIPULATES A THREE-FOLD GROWTH IN GOLD PRODUCTION, A SUBSTANTIAL INCREASE IN MINERAL RESOURCES BASE; THE DISCOVERY OF NEW GOLD DEPOSITS; AND THE LAUNCH OF NEW PRODUCTION FACILITIES. REALIZATION OF THIS AMBITIOUS STRATEGY WOULD RESULT IN POLYUS ENTERING INTO THE WORLD'S TOP FIVE IN TERMS OF GOLD PRODUCTION, AUDITED RESERVES, KEY FINANCIAL INDICATORS AND MARKET CAPITALIZATION.

Corporate Governance

In 2006, the corporate development of the Company was marked by a number of significant events.

Establishment of OJSC Polyus Gold

OJSC Polyus Gold was incorporated on 17 March 2006 following the reorganization of MMC Norilsk Nickel through the spin-off of the gold mining assets. During the spin-off Polyus Gold received from MMC Norilsk Nickel 100% of the issued shares in CJSC Polyus, owning shares of mining companies, and cash in the amount of US$360 million (RUR 10 billion).

Polyus Gold ordinary shares were distributed among shareholders and holders of ADRs of MMC Norilsk Nickel, registered in the shareholder register of MMC Norilsk Nickel as of 1 January 2006 on a pro rata basis: 1 ordinary share/ADRs of OJSC Polyus Gold for every ordinary share/ADRs of MMC Norilsk Nickel.

The organizational General Shareholders Meeting took place on 3 March 2006. The shareholders of the new company elected the Board of Directors, the Audit Commission and the General Director, approved the Charter and internal documents of the Company.

Listing of shares of OJSC Polyus Gold on Russian Stock Exchanges

In May 2006 the Company's shares were included in the Quotation List "B" (ticker – PLZL) and official trading started on the MICEX and RTS stock exchanges.

Launch of the ADR program

In July 2006 the Company launched a Level I ADR program for its ordinary shares. One ADR represents one ordinary share of OJSC Polyus Gold.

In accordance with the permit issued by the Russian Federal Service for Financial Markets (FSFM) on 22 June 2006 the number of ordinary shares of OJSC Polyus Gold which can be circulated outside of the Russian Federation and which can be evidenced by ADRs is 66,719,711 ordinary shares or 34.99% of the issued ordinary shares of the Company.

The Bank of New York – the one of the largest American banks – acts as a depository bank and CJSC ING Bank (Eurasia) acts as a bank-custodian for the ADR program.

As a result of ADR program's launch the Company's securities started trading on the OTC market in the United States and became available to foreign investors.

Share repurchase (buyback)

On 14 September 2006 the Board of Directors of OJSC Polyus Gold decided to spend about US$1 billion to repurchase ordinary shares/ADRs from the Company's shareholders. In October-November 2006 Jenington International Inc., the company consolidated by the Group, completed repurchasing Polyus Gold shares from shareholders in the amount of 17.1 million shares or ADRs at US$58. Deutsche Bank was selected as the repurchase agent for the purposes of this transaction.

Listing on the London Stock Exchange

The Company's ADRs were listed and admitted to trading at the LSE Main Market and assigned PLZL ticker on 18 December 2006.

Listing of the Company's ADRs on the LSE was not related to an additional issue and/or allocation of shares or ADRs, or to the receipt of additional cash.

Listing on the LSE was the final stage of the spin-off of the gold mining assets of MMC Norilsk Nickel to a separate company Polyus Gold, which is now publicly traded on Russian and international stock exchanges.

Board of Directors OJSC Polyus Gold

The Company's Board of Directors was formed on 03 March 2006 at the General Shareholders' Meeting of OJSC Polyus Gold and consists of 9 members.

Mikhail Dmitrievich Prokhorov
Chairman of the Board of Directors
since March 2006

Born in 1965. Mr. Prokhorov graduated with honors from the Moscow Financial Institute (Financial Academy under the Government of the Russian Federation). RF citizen.
Since 2003 – Member of the Board of Directors of MMC Norilsk Nickel.
From 2001 to April 2007 – General Director and Chairman of the Management Board of MMC Norilsk Nickel.
From 2000 to 2001 – President of OJSC AKB ROSBANK.
From 1998 to 2001 – Member of the Board of Directors of CJSC Holding Company INTERROS.
From 2000 to 2002 – Member of the Board of Directors of OJSC AKB ROSBANK.
From 2000 to 2002 – Member of the Board of Directors of AKB International Financial Company.

Evgueni Ivanovich Ivanov
Member of the Board of Directors
since March 2006

Born in 1966. Mr. Ivanov graduated with honors from the Moscow Financial Institute (Financial Academy under the Government of the Russian Federation). RF citizen.
Since 2004 – President of CJSC Polyus and member of its Board of Directors.
Since 2005 – Chairman of the Board of Directors of OJSC Lenzoloto. Deputy Chairman of the Board of Directors of Rosbank (Switzerland) S.A. Member of the Board of Directors of OJSC Matrosov Mine, OJSC Aldanzoloto GRK, OJSC YMC, OJSC SVMC.
Since 2006 –Chairman of the Board of Directors of CJSC ZDK Lenzoloto.
From 2000 to 2003 – Chairman of the Management Board of OJSC AKB ROSBANK.
From 2003 to 2004 – Chairman of the Board of Directors of OJSC AKB ROSBANK.
From 2005 to 2006 – Member of the Board of Directors of OJSC AKB ROSBANK.
From 2006 to May 2007 – General Director of OJSC Polyus Gold.

Andrey Alexandrovich Klishas
Member of the Board of Directors
since March 2006

Born in 1972. Mr. Klishas graduated from the Russian University of People's Friendship. He teaches in the Department of Constitutional and Municipal law in the Russian University of People's Friendship and the Moscow University of the Ministry of Internal Affairs of Russia. Ph.D. in Law. RF citizen.
Since 1998 – Member of the Board of Directors of RAO Norilsk Nickel.
Since 2001 – Chairman of the Board of Directors of MMC Norilsk Nickel.
Since 2001 – General Director and Chairman of the Management Board of CJSC Holding Company INTERROS.
Since 2002 – Member of the Board of Directors of CJSC APK Agros.
Since 2003 – Member of the Expert Council of the Ministry of Affairs of the Russian Federation.
Since 2004 – Chairman of the Board of Directors of OJSC AKB ROSBANK.
Since 2004 – Member of the Board of Directors of CJSC Holding Company INTERROS.
Since 2006 – Member of the Board of Directors of LLC Roza Khutor.
From 1998 to 2001 – Member of the Board of Directors of OJSC SIDANCO.
From 1999 to 2004 – Member of the Board of Directors of OJSC AKB ROSBANK.
From 2001 to 2002 – Member of the Board of Directors of OJSC FKK Roskhleboprodukt.
From 2002 to 2005 – Member of the Board of Directors of OJSC Power Machines.
From 2003 to 2006 – Member of the Supervisory Board of LLC Fincom – Investments and Governance.

Denis Stanislavovich Morozov
Member of the Board of Directors since March 2006

Born in 1973. Mr. Morozov graduated from the Legal and Economic departments of Lomonosov Moscow State University and Swiss Banking School. Ph.D. in Economics. RF citizen.
Since April 2007 – General Director of MMC Norilsk Nickel.
From 2001 to 2003 – Head of the Legal Department of MMC Norilsk Nickel.
From 2002 to 2005 – Member of the Board of Directors of CJSC Polyus.
From 2003 to 2005 – Deputy General Director of MMC Norilsk Nickel.
From 2005 to 2007 – Member of the Management Board, Deputy General Director of MMC Norilsk Nickel.

Lord Patrick James Gillford
Member of the Board of Directors since March 2006

Born in 1960. Lord Gillford graduated from Eton College (UK). UK citizen.
Since 1993 – Partner of Policy Partnership Limited.
Since 1997 – Member of the Board of Directors of Benevolent Society of St. Patrick.
Since 2005 – Member of Advisory Council of Ukrainian British City Club.
From 2000 to 2002 – Member of the Board of Directors of Clanwilliam Consultants Limited.
From 2000 to 2003 – Member of the Board of Directors of Ballot Box Limited.
From 2000 to 2004 – Chairman of the Board of Directors (no executive powers) of Cleveland Bridge UK Ltd.

Valery Nikolaevich Braiko
Member of the Board of Directors since March 2006

Born in 1939. Mr. Braiko graduated from the Tula Mining Institute and the Academy of National Economy under the Council of Ministers of the USSR. RF citizen.
Since 1995 – Chairman of the Russian Gold-Mining Union.
Since 2005 – Member of the Board of Directors of OJSC Omolonsk Gold Mining Company.
From 2005 to 2006 – Member of the Board of Directors of OJSC Matrosov Mine.
From 2005 to 2006 – Chairman of the Board of Directors of OJSC Omolonsk Gold Mining Company.

Rodney Bristol Berens
Member of the Board of Directors since March 2006

Born in 1945. Mr. Berens graduated from the University of Pennsylvania and Wharton School of Business (USA). MBA in Finance. USA citizen.
Since 1992 – Trustee and a member of the Investment Committee of the Woods Hole Oceanographic Institute.
Since 1994 – Trustee and a member of Pierpont Morgan Library.
Since 2000 – Partner of Berens Capital Management LLC.
Since 2005 – Non-executive director Pendragon Capital Management Limited.
From 2001 to 2006 – Member of the Board of Directors of Keystone Property Trust and the Board of Trustees of Anchor, Inc.

Valery Vladimirovich Rudakov
Member of the Board of Directors
since March 2006

Born in 1942. Mr. Rudakov graduated from the Moscow Mining Institute. Corresponding member of the Engineering Academy. Laureate of State prize of the USSR. Full member of the Academy of Mining Sciences. Full member of the Russian Academy of Natural Sciences. RF citizen.

Since 2002 – Chairman of the Board of Directors of CJSC Polyus and 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 products of them under the Chamber of Industry and Commerce of the Russian Federation.

Since 2003 – Member of the Board of Directors of OJSC Schelkovo VDM plant.

Since 2004 – Chairman of the Board of Directors of OJSC Matrosov Mine.

Since 2006 – Member of the Board of Directors of CJSC ZDK Lenzoloto

From 1999 to 2002 – Deputy Minister of Finance of the Russian Federation, Head of Gokhran (the State Repository for Precious Metals) of Russia.

From 2003 to 2006 – Chairman of the Board of Directors of OJSC Lenzoloto.

Ekaterina Mikhailovna Salnikova
Member of the Board of Director
since March 2006

Born in 1957. Salnikova graduated from the Moscow Institute of Administration by Sergo Ordzhonikidze and the Russian Academy of State Service under the President of the RF. Ph.D. in Economics. RF citizen.

Since 1998 – Deputy Director of Finance Department (corporate governance), Corporate Structure Director of CJSC Holding Company INTERROS.

Since 1998 – General Director of CJSC UNIVERSALINVEST.

Since 2000 – Member of the Board of Directors of OJSC Power machines.

Since 2003 – Member of the Board of Directors of OJSC Open Investments.

Since 2004 – Member of the Board of Directors of MMC Norilsk Nickel.

From 1998 to 2001 – Member of the Board of Directors of OJSC SIDANCO.

From 1999 to 2000 – Member of the Board of Directors of OJSC AKB ROSBANK.

From 1999 to 2001 – Member of the Board of Directors of RAO Norilsk Nickel.

From 2000 to 2004 – Member of the Board of Directors of CJSC Prof-Media Publishing House.

From 2001 to 2003 – Member of the Management Board of CJSC Holding Company INTERROS.

From 2001 to 2003 – Member of the Board of Directors of MMC Norilsk Nickel.

From 2004 to 2005 – Member of the Board of Directors of CJSC APK Agros.

From 2004 to 2006 – Member of the Board of Directors of OJSC AKB ROSBANK.

Independent Members of the Board of Directors

Mr. Berens, Mr. Braiko and Lord 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 FSFM 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 2006 only Mr. Berens, Mr. Braiko and Lord Gillford – independent members of the Board of Directors – received remuneration for board service and reimbursement of expenses. The rate of payments was approved by the Extraordinary General Shareholders' Meeting OJSC Polyus Gold held in September 2006.
The value of remuneration equals US$25,000 (RUR 658,000) quarterly. Besides, the Company made a decision on reimbursement of expenses connected with carrying out their duties as members of the Board of Directors in the amount of up to US$76,000 (RUR 2,000,000) each. These remuneration payments were made in RUR according to the appropriate exchange rate.

Meetings of the Board of Directors in 2006

In 2006 the Group's Board of Directors held 11 meetings, 6 of which were held by correspondence.
During 2006, the Board of Directors of OJSC Polyus Gold considered issues relating to:

- Approval of the Company's new Strategic Development Plan until 2015;
- Approval of the Company's business plan and budget;
- Approval of the Company's internal documents;
- Company's financial results;
- Approval of investment development projects;
- Convening an Extraordinary General Shareholders Meeting;
- Approval of the related parties' transactions.

Audit Committee of the Board of Directors

The Audit Committee was formed at the first meeting of the Board of Directors held in March 2006 and included Mr. Berens (Chairman of the Committee), Mr. Morozov and Mrs. Salnikova. In April 2007 the Board of Directors accepted the resignation of Mr. Morozov and elected Mr. Braiko as an Audit Committee member.
The key objective of the Audit Committee is to assist the Board of Directors in supervising the financial and operating activities through preliminary consideration of issues and the preparation of recommendations to the Board of Directors.

During 2006 the Committee held three meetings, one of which was held by absentee voting. During these meetings the Committee approved its work plan for 2006, determined its work procedure, and pre-approved the appointment of the auditor for the audit of the consolidated financial statements for the year ended 31 December 2006 prepared in accordance with IFRS.

Management of the Group

The Group's management includes the General Director and Chief Accountant of OJSC Polyus Gold and the management of the largest subsidiaries: CJSC Polyus, OJSC Lenzoloto, OJSC Matrosov Mine, LLC LZRK, and OJSC Aldanzoloto GRK.

Pavel Gennadievich Skitovich

Born in 1965. Mr. Skitovich graduated from the Moscow State Institute of International Relations, specializing in International Relations. RF citizen.
Since May 2007 – General Director of OJSC Polyus Gold.
Since 2006 – Member of the Management Board of CJSC Holding Company INTERROS.
From 2001 to 2002 – Vice-President and Director of Corporate Structures Department of CJSC Governing Company Power Machines; CJSC Power Machines.
From 2002 to 2003 – Vice-President and Director for Corporate Issues of OJSC Power Machines.
From 2003 to 2006 – Deputy General Director for Strategy and Corporate Issues of OJSC Power Machines.
From 2004 to 2004 – Governing Director OJSC OMZ.

Evgeny Ivanovich Ivanov

A curriculum vitae of Mr. Ivanov is disclosed in Section "Board of Directors."

Valery Vladimirovich Rudakov

A curriculum vitae of Mr. Rudakov is disclosed in Section "Board of Directors."

Dmitry Anatolyevich Steschenko

Born in 1967. Mr. Steschenko graduated from the Kharkov Engineering-Economics Institute. RF citizen.
Since May 2006 – Chief Accountant of OJSC Polyus Gold.
Since October 2006 – Chief Accountant of CJSC Polyus.

Vladimir Kushukovich Sovmen

Born in 1957. Mr. Sovmen graduated from the Khabarovsk Polytechnic Institute and the Krasnoyarsk State University of Non-Ferrous Metals and Gold. RF citizen.
Since 2004 – First Vice-President and Executive Director of CJSC Polyus.

German Rudolfovich Pikhoya

Born in 1970. Mr. Pikhoya graduated with honors from the Urals State University and the Russian Academy of State Service under the President of the RF. RF citizen.
Since 2004 – Vice-President for Corporate Development of CJSC Polyus.

Alexey Markovich Osenmuk

Born in 1966. Mr. Osenmuk graduated from the Moscow Finance Institute (Financial Academy under the Government of the Russian Federation). RF citizen.
Since March 2007 – Advisor to the President of CJSC Polyus.
From 2004 to February 2007 – Vice-President for Economics and Finance CJSC Polyus.

Dmitry Alexandrovich Glotov

Born in 1965. Mr. Glotov graduated from the Moscow Finance Institute (Financial Academy under the Government of the Russian Federation). RF citizen.
Since March 2007 – Vice-President for Economics and Finance of CJSC Polyus.

Alexander Vladimirovich Ageenkov

Born in 1969. Mr. Ageenkov graduated with honours from Moscow State University and All-Russian Distance Learning Institute of Economics and Finance. RF citizen.

Since 2004 – Vice President for internal control of CJSC Polyus.

Valery Fedorovich Konstantinov

Born in 1954. He graduated from the Irkutsk Politechnical Academy. RF citizen.

Since January 2007 – General Director of OJSC Lenzoloto.

Since November 2006 – General Director of CJSC ZDK Lenzoloto.

Mikhail Pavlovich Kazimirov

Born in 1951. Mr. Kazimirov graduated from Moscow Mining Institute and received his Ph.D. in mining technology there. RF citizen.

Since 2003 – General Director of OJSC Matrosov Mine.

Yury Alexandrovich Lonshakov

Born in 1953. He graduated from the Irkutsk Politechnical Academy. RF citizen.

Since 2006 – General Director of LLC.

Alexander Alexandrovich Ivanov

Born in 1958. Mr. Ivanov graduated from the Krasnoyarsk Institute of Non-Ferrous Metals named after Kalinin, International Institute of Economics and Law, and Magnitogorsk State Technical University named after Nosov, Ph.D. in technical sciences, RF citizen.

Since 2006 – General Director of OJSC Aldanzoloto GRK.

Shareholdings by members of the Board of Directors and management as at 31 December 2006

Name	Number of shares /ADRs	% in the charter capital
Board of Directors		
Rodney Berens	5,000	0.0026%
Lord Gillford	400	0.0002%
Denis Morozov	7	0.000004%
Valery Rudakov (1)	-	-
Management		
Vladimir Sovmen	108,994	0.057%
Mikhail Kazimirov	50	0.000026%

Notes:
(1) In November 2006 Mr. Rudakov sold his 11,315 ordinary shares of OJSC Polyus Gold (outside the scope of share repurchase) and does not own any securities of Polyus Gold as of report date.

No other member of the Board of Directors or management owns any shares and/or ADRs of Polyus Gold.

Corporate Secretary

On 27 March 2006 the Board of Directors appointed Ivan Leonidovich Bakulev, General Counsel of CJSC Polyus, as the Secretary of OJSC Polyus Gold.
On 18 October 2006 the Board relieved Mr. Bakulev of his position as the Secretary of Polyus Gold and appointed Dmitry Vyacheslavovich Bolgov to the position. In addition, Mr. Bolgov was charged with the responsibilities of the Secretary of the Company's Board of Directors.

Changes in Polyus Gold corporate structure

Restructuring of CJSC Vitimenergo through the spin-off of CJSC Mamakansky Hydro Power Plant (HPP) and CJSC Vitimenergosbyt.

In January 2006 a decision was taken to reorganize CJSC Vitimenergo through the spin-off of CJSC Mamakansky HPP and CJSC Vitimenergosbyt.
The restructuring was performed in compliance with the new Russian legislative requirements, effective after 1 April 2006, that prohibit legal entities from combining transmission of electric power and operational dispatch management functions in power sector with the generation and trading in electric power.
The shares of CJSC Vitimenergo were converted to the shares of Mamakansky HPP and Vitimenegrosbyt thus decreasing the share capital of the former. In accordance with the separation balance sheet Mamakansky HPP received the rights and obligations of Vitimenergo relating to the production of electricity, whilst Vitimenergosbyt received the rights and obligations of Vitimenergo relating to the sale of electricity.

The sale of a 20% interest in Gold Fields Ltd.

In March 2006 Jenington International Inc. that is part of the Group sold 98.5 million ordinary shares of Gold Fields Ltd. gold mining company of South Africa at a price of US$20.50 per share.

Acquisition by Matrosov Mine of 100% of the share capital of LLC GRK BarGold

In October 2006 OJSC Matrosov Mine acquired 100% of the share capital of LLC GRK BarGold, which holds the license for the use of subsurface resources with the purpose of geological research, exploration and production of reef gold at Chai-Yuryinsky site, for US$7.5 million (RUR 197.5 million).

Structuring of geological exploration business – creation of LLC Krasnoyarsoye geological and exploration entity and LLC Magadanskoye geological and exploration entity

In October – November 2006 in order to implement plans to structure the geological exploration business of the Group two entities were established:
- LLC Krasnoyarskoye GRP founded by CJSC Polyus and LLC LZRK with the respective shareholding of 99.9% and 0.1% in the share capital; and
- LLC Magadanskoye GRP – a 100% subsidiary of OJSC Matrosov Mine.

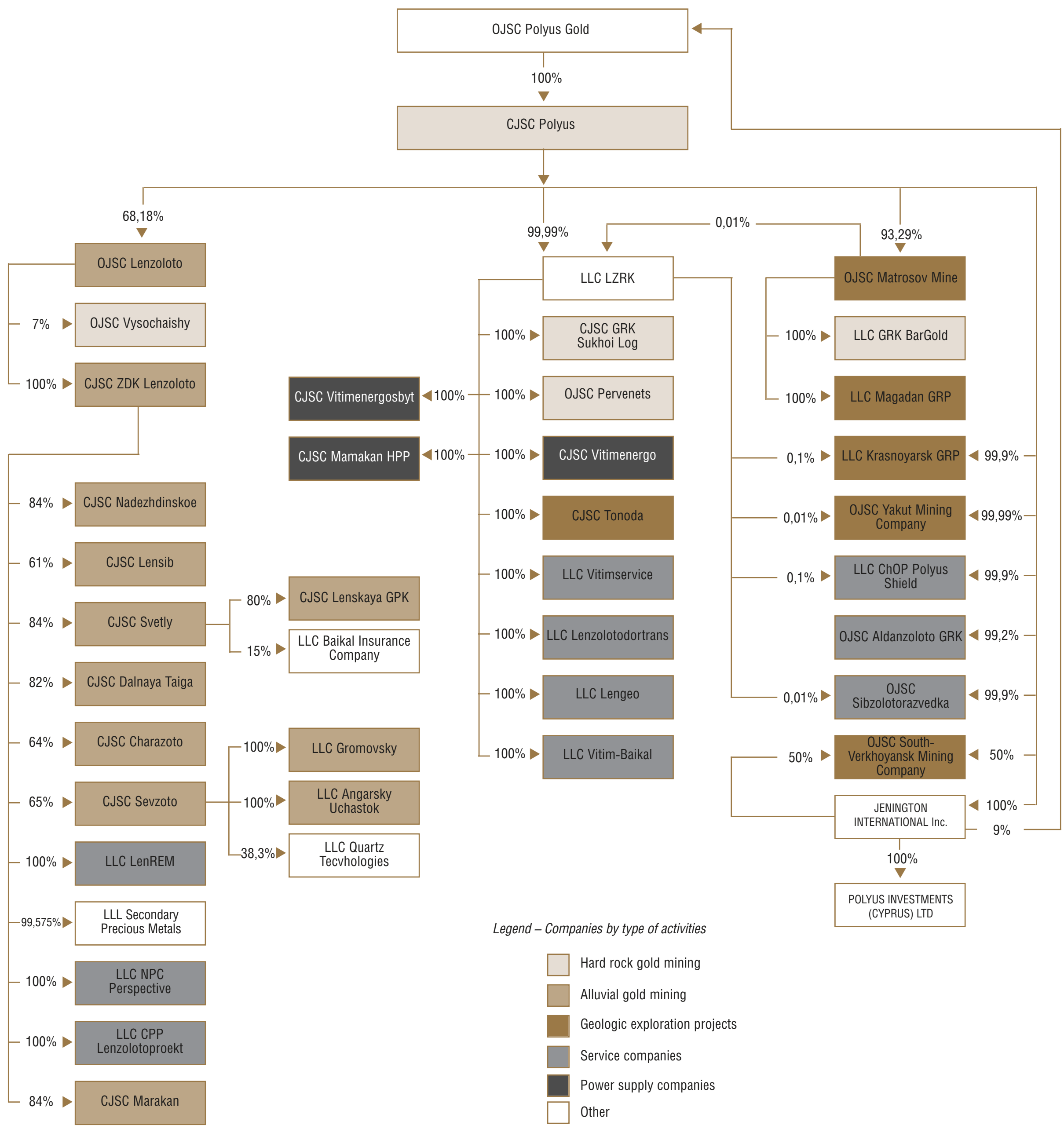
The share capitals of these companies consisted of the property contributed by the founders to enable the geological exploration activities of these companies.
In accordance with plans for the creation of a separate exploration business and the consolidation of the exploration subsidiaries within the Group in April 2007 a new legal entity was created – OJSC Polyus Exploration that will consolidate the geological and exploration assets of the Group.

Acquisition of prospective gold mining assets

In November 2006 CJSC Polyus won a tender for the right to use subsurface resources with the purpose of geological research, exploration and production of gold at the Apsakan

The Group's Corporate Structure:

as at 31 December 2006



site in the Amur region. The license cost was US$0.2 million (RUR 6.3 million).

In November 2006 Aldanzoloto GRK won a tender for the right to use subsurface resources with the purpose of exploration and production of gold at the Pinigin gold deposit located in the Republic of Sakha (Yakutia). The license cost was US$1 million (RUR 25.2 million).

In March 2007 LZRK was issued licenses for the geological research of the Zheltuktinsky and Verkhne-Kevaktinsky prospective sites in the Irkutsk region.

Increase of interest in the share capital of OJSC SVMC

In December 2006 Jenington International Inc. which is part of the Group purchased 292,493 ordinary shares of SVMC (50% of its share capital) for US$300 million (RUR 7.9 billion). The other 50% of the SVMC share capital belongs to CJSC Polyus. Thus, OJSC SVMC became fully consolidated by the Group.

Dividends

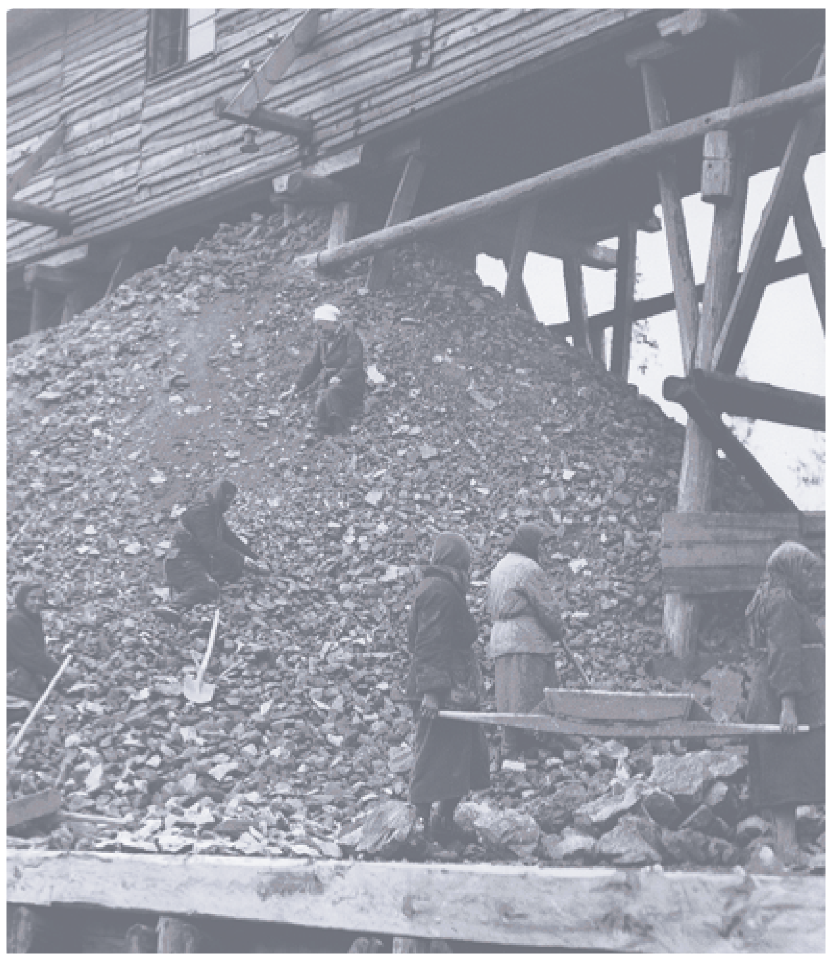
OJSC Polyus Gold was incorporated in March 2006, therefore, no dividends were accrued and paid for 2005. No decision was made on the distribution of interim dividends during 2006.

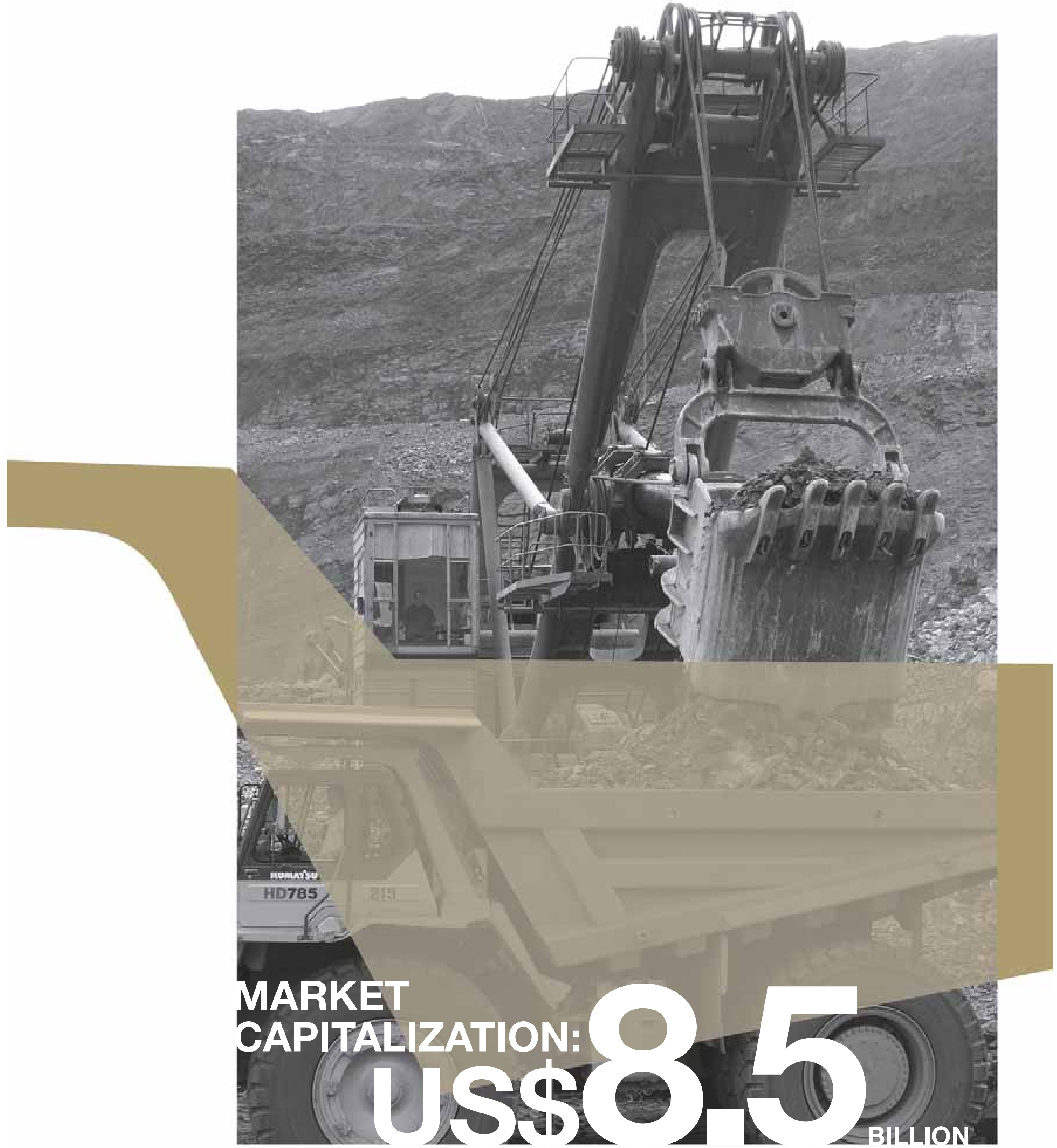
The Board meeting held on 27 April 2007 took the decision to recommend to the General Shareholders' Meeting to distribute the 2006 RAS net profit OJSC Polyus Gold as follows:

- US$1.08 million (RUR 28,594,162.05) – to form the Reserve fund OJSC Polyus Gold, in accordance with the Charter;
- US$23.4 million (RUR 615,727,622.81) – to distribute as dividends;
- US$0.01 million (RUR 340,712.58) – to remain at the Company's disposal.

To declare dividends upon the 2006 financial results of OJSC Polyus Gold as US$0.12 (RUR 3.23) per ordinary share OJSC Polyus Gold and to resolve that dividends shall be paid before August 28, 2007.

The final decision on the distribution of the 2006 RAS profit, including any dividends for 2006, will be taken by the Annual General Shareholders' Meeting in June 2007, however, according to Russian legislation the dividend approved by the shareholders cannot exceed the amount recommended by the Board of Directors.





MARKET CAPITALIZATION: US$8.5 BILLION

IN 2006 POLYUS GOLD BECAME AN INDEPENDENT PARTICIPANT IN BOTH LOCAL AND INTERNATIONAL STOCK MARKETS. THE COMPANY BECAME AN ATTRACTIVE TARGET FOR INTERNATIONAL INVESTORS. POLYUS GOLD'S MARKET CAPITALIZATION AT THE END OF 2006 AMOUNTED TO US$ 8.5 BILLION.

Share Capital and Share Prices

Share capital

As of 31 December 2006, Polyus Gold share capital consisted of 190,627,747 ordinary shares, all of which are fully paid, issued and outstanding with a nominal value of RUR 1 per share, of which 17,146,780 ordinary shares and ADRs are held by Jenington International Inc, a subsidiary of the Group. Those securities have been bought from the Company's shareholders through a repurchase procedure in November 2006.
The Company's Charter has no provision on the preferred shares.

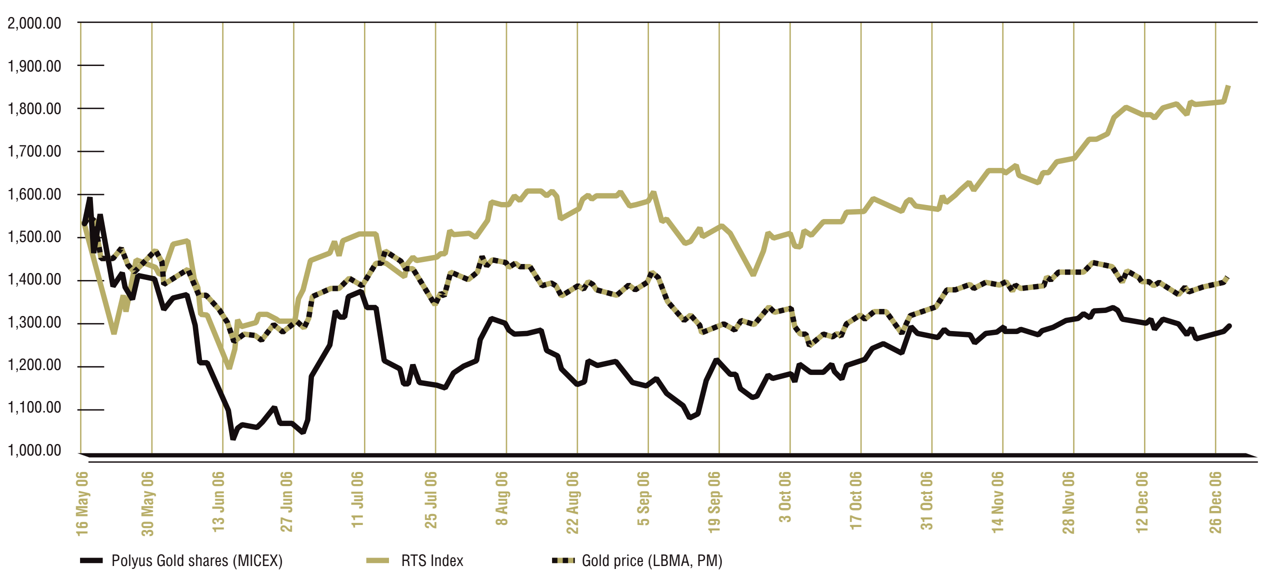
The Company's securities on the stock market

The ordinary shares of Polyus Gold are listed (Quotation List B) on the leading Russian stock exchanges where they traded under the PLZL ticker:
- Russian Trading System (RTS)
- MICEX.

Level I American Depository Receipts (ADR) 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) as a custodian. One ADR provides the right for one ordinary share of Polyus Gold.
As of 31 December 2006 - 65,450,560 ADRs were issued.
ADRs for the Company's shares are traded on the following international markets:
- On the OTC Market (over-the-counter) in the United States, ticker OPYGY,
- On the Frankfurt Stock Exchange (not listed), ticker P6J2,
- On the London Stock Exchange (listed), Main Market, ticker PLZL.

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

Share Performance of Polyus Gold in 2006



Note: Polyus Gold share prices are shown in RUR, other indicators – in percentage to the initial value.

Major Shareholders of Polyus Gold

Given below is the list of major shareholders of Polyus Gold as of 31 December 2006 (1).

Shareholders	Shares (million)	Percent of total shares (%)
CJSC ING BANK (Eurasia) (nominal holder), out of them	64.0	36.9%
The Bank of New York International Nominees, as depositary bank for ADR program (nominal holder)	61.0	32.0%
Bristaco Holdings Co. Limited(2)	24.9	14.3%
Lovenco Holdings Co. Limited(2)	24.9	14.3%
CJSC KM Invest	14.1	8.1%
NP National Deposit Center (nominal holder)	8.6	5.0%
Panolio Trading Limited	6.0	3.5%
Praderato Trading Limited	6.0	3.5%
Other	25.0	14.4%
Total	**173.5**	**100.0%**

Notes:

(1) Information on percentage out of total shares of major shareholders and total amount of shares does not include 12,565,036 ordinary shares and 4,581,744 ADRs held by Jenington International Inc., the company consolidated by the Group.

(2) Not including ADRs on the Company's shares

Key Risk Factors

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

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

A principal source of the Group's income is revenue from the sales of gold. Gold is usually sold at market prices under both long-term contracts and at the spot market. Therefore the Group's financial results largely depend on the price of gold. The gold market is of cyclical nature and receptive to general changes in the economy, and able to demonstrate significant price movements. Gold price depends on a number of factors, majority of them being out of the Group's control.

Significant sustained reduction of 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.

The Group's operations may be adversely affected by the failure to obtain, termination of or refusal to renew the licenses.

The Group's operations depend on the validity of some licenses, first of all subsoil use licenses, as well as the issuing of new licenses and compliance with the terms and conditions thereof. The validity of the majority of licenses significant for the Group's activities at the moment, will expire at least in 2010. Validity periods of licenses, renewal of them and control over the licensee's compliance with terms and conditions of license agreements to a large extent depend on the discretion of Russian regulatory bodies. Requirements imposed by these bodies supervising the compliance with numerous industry standards, engagement of skilled staff, availability of required equipment and systems of quality control of production operations, keeping appropriate documentation and provision of appropriate documentation by request of licensing bodies, may lead to large losses of money and time, as well as delayed launch or continuation of exploration and production work.

Certain individuals and the general public have the right to provide notes and otherwise affect the licensing process, including by applying to court and by exercising political leverage. Therefore the licenses the Group needs to obtain may be terminated and / or not issued or not renewed, and if issued or renewed – issued or renewed at an unsuitable time or contain requirements restricting the Group's operating possibilities or reducing its profitability.

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 for gold from an open pit.

Insurance coverage of liability on these risks, if any, may prove to be insufficient and the Group is not able to guarantee its ability to insure or acquire additional insurance coverage for these risks at a reasonable price. Therefore the Group may incur material costs that may have an adverse material impact on the Group's operations and their results as well as its financial position.

Ore reserves and mineral resources are difficult to estimate, they may prove to be inaccurate and heavily adjusted.

The Group's activities, as the activities of other mining companies, are largely dependent on existing resources and reserves. Although the Group regularly engages independent experts to audit the existing reserves and resources in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (hereinafter – the JORC Code), any estimate of the mineral resources and ore reserves of any mining company is inherently uncertain and to a certain extent depends on statistical conclusions based on limited drilling work and other reviews which may eventually prove to be inaccurate. The estimates and classification of mineral resources and ore reserves are also affected by such economic factors as material changes in the gold price.

Risks connected with business activities in the Russian Federation.

Emerging markets such as Russia are subject to bigger risks than the developed markets, including, in some cases, material legal, economic and political risks. In addition, financial instability in the emerging markets makes an unfavorable impact on prices at stock markets of all similar countries as investors move their funds to more stable markets. As was the case in the past, financial problems or increasing perceived risks relating to investments in emerging markets may reduce the inflow of foreign investments in Russia and adversely affect its economic situation. In addition, during such periods the companies involved in operations in emerging markets may experience serious liquidity issues as the foreign sources of finance run out of money. Therefore even if the economic situation in Russia remains relatively stable, a financial turmoil in any emerging market may cause material disruptions of our operations including a decline in price of the Company's securities.

Increase in real RUB / US$ exchange rate or inflation level may have material adverse impact on the Group's results

Gold produced by the Group is tied to the US$-denominated gold price on international markets, whilst the bulk of the Group's direct expenses are incurred in RUR. Growth in RUR / US$ exchange rate in real terms will lead to a growth in the Group's expenses relative to income, that will adversely affect the results of the Group's operations.

In addition, starting from 1990s there were periods of high inflation in Russia. The level of inflation underwent drastic growth after the 1998 financial crisis, having achieved 84.4% that year. Though the inflation rates in Russia slowed down in recent times to achieve 11.7% in 2004, 10.9% in 2005, and 9% in 2006, some of the Group's expense items are still growing due to the inflation. These include expenses like salaries, tied to the general price index in Russia. Further growth of real RUR / US$ exchange rate against the inflation background may have adverse implications for the Group's financial position and results of its operations.

Tax legislation risks

The Group's companies, like all Russian gold mining companies, pay a large number of taxes and make obligatory disbursements, that include, in particular, the following: corporate income tax; value-added tax (VAT); import duties for the purchase of imported equipment and goods; unified social tax; mineral extraction tax; corporate property, land tax and leasehold ground rent; prospecting and exploration tax; water rates; personal income tax; transport tax; environment 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 on another or applied them retrospectively. In particular tax legislation is insufficiently clear regarding 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, penalty interest and other penalties, 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 applied to the Group's operations. The Group is also the subject of comprehensive environmental control and regulation as its operations are connected with the use of reagents harmful to the environment as well as emission of waste and pollutants to the environment, land disturbance, potential damage to wildlife and other factors hazardous for the environment.

Environmental legislation is constantly changing and the Group revises its obligations in accordance with such changes on a regular basis. On several occasions in the past stricter environmental requirements have been introduced along with a significant increase in penalties and other payments. Nevertheless requirements and application of environmental legislation remain generally not so strict in Russia, as in the EU or the USA. Adoption of new laws and regulations; toughening of licensing requirements, stricter enforcement or new interpretation of the effective environmental legislation, regulations or license terms or identification of a source of pollution unknown earlier, may require additional costs for the adjustment of the production process, installation of purification equipment, performance of purification work; suspension or termination of production or the payment of duties, penalties and other charges for emissions or other violations of the environmental legislation. Though the Group's management believes that the Group's current operations comply with the requirements of existing legislation in all material respects, the Group has been prosecuted in the past for incomplete compliance with environmental legislation and cannot guarantee that governmental bodies will not add additional regulations or increase the penalties for the failure to comply with them, that may lead to material losses by the Group.

Innovation

Constant improvement of production technologies and renewal of production assets are fundamental for the innovation-based development of Polyus Gold. Innovation at Polyus Gold is aimed at achieving the following objectives:

- technology leadership,
- production cost reduction,
- efficient development of new deposits.

The overall funding of research and development works by entities of the Group in 2006 amounted to US$ 3.14 million.

To improve innovation activities at the Group, a Research Center was established at the Krasnoyarsk business unit. The Center unites all the key research projects in the Group for all stages of the gold production cycle. There is also a Central research laboratory operating at Aldanzoloto GRK (Yakutia business unit).

The laboratories have state-of-the-art equipment and instruments enabling them to develop and promote innovative technological solutions across the Group using the most advanced global methods.

The major results of these innovative activities at Polyus Gold in 2006 were as follows:

- A new bacteria assemblage was discovered in pulp at reactors of the gold extracting plant No. 2 at Olimpiada mine, with bacteria less sensitive to temperature changes – Sulfobacillus Olimpiadicus.
- The activities to design an automated system of analytical control and management of production processes have commenced at the gold extracting plants No.1 and No. 2 at Olimpiada mine, a “Metals balance” sub-system is being formed.
- The ways to improve ore processing efficiency have been determined at the gold extracting plant of Olimpiada mine by decreasing the consumption of technological materials, fuel and power and enhancing the level of gold recovery.
- Measures have been implemented and determined to further enhance the efficiency of ore processing at Zapadnoye mine through the implementation of a new enrichment process, improved effectiveness of technological activities and decreased consumption of the key technological materials, fuel and power.
- A process procedure has been prepared for the purpose of ore processing at the Blagodatnoye deposit and works have commenced to develop the processes of ore-dressing at Nezhdaninskoye, Titimukhta, Olenye and Chertovo Koryto deposits.
- The methodology of gold extraction from secondary raw materials has been developed and implemented for the Pervenets deposit.
- Research has been made on the possibilities of increasing the recovery of alluvial gold that is difficult to extract in Lena gold-bearing area.

Corporate Social Responsibility

Sustainable development

In all aspects of its activities Polyus Gold strives to implement the Sustainable Development principles presented in 1992 at the United Nations Conference on Environmental and Development in Rio de Janeiro and incorporated in the Global Reporting Initiatives ("GRI"). Sustainable development principles are included in the Company's Mission and Strategic Development Plan until 2015. This implies the implementation of:

- advanced standards of corporate governance;
- operational and environmental management; and
- communication and partnership with stakeholders, including local communities, employees and labor unions, federal and regional authorities and regulatory bodies.

Strategic lines of sustainable development of the Group include the following:

I. Labor relations

- creation of favorable labor conditions;
- health care and medical insurance;
- professional training and development of employees;
- improvement of occupational health and safety;
- recruitment of local personnel.

II. Environmental matters

- implementation of efficient resource-saving and environmentally safe technologies;
- upgrade and construction of waste treatment facilities;
- implementation of an environment protection management system;
- land reclamation/restoration and rehabilitation;
- informing the community of the environmental aspects of the activities of existing production facilities and facilities under construction.

III. Development of the regions in which the Group has operations and support of local communities

- support of elementary and secondary education system;
- support of healthcare system;
- development of employment programs for the local population;
- participation in municipal administration;
- implementation of public/private partnership programs;
- support of non-profit organizations;
- assistance to socially vulnerable people;
- maintenance of cultural uniqueness and living environment of indigenous peoples.

In 2006 the first corporate sustainability report was prepared by Polyus Gold on a voluntary basis. The report covers the period from 2004 to 2005 inclusive. The report represents the current level of implementation of corporate sustainable development principles and defines the key directions for development in this area. The report is prepared in accordance with the Sustainable Development Reporting Guidelines Version 3.0 and the Mining and Metals Sector Supplement Pilot Version 1.0. The report is prepared in compliance with level C of the GRI Guidelines, which does not require an independent audit of the report to be conducted. Polyus Gold will continue to consistently implement sustainable development principles and intends to provide reports on the achieved results on a regular basis.

Human resources policy

The Polyus Gold entities are major employers in the regions of the Group's operation, therefore the development and implementation of an efficient human resources policy is essential for the sustainable development of the Group. The corporate human resources policy is focused on the job satisfaction and creative potential of the Group's personnel and the establishment of favorable labor conditions.
In 2006, the average number of Polyus Gold employees was 13,324. The average age of its employees was 41 years.

Personnel motivation, payroll and social package

The motivation system of the Company is based on competitive salary, social package, incentive scheme applicable depending on the individual performance of each employee and the efficiency of the Group's operation as a whole, as well as broad opportunities for career growth within the Group.

The corporate remuneration system is based on strict compliance with Russian law and effective collective agreements. The Group guarantees the timely payment of salaries and all applicable taxes and charges for obligatory medical, pension and social insurance of its employees. Salaries paid by the Company exceed the average salary level in the majority of regions of its operations.

The monthly salary includes: basic pay, additional payments for special working conditions and a bonus payment on the basis of collective and individual performance.

In 2006 the Key Performance Indicators system (KPI) was developed and approved by Polyus Gold new regulations on bonus payment were also adopted based on KPI for all business units of the Group.

The social package of the Company consists of a number of benefits and social payments for its employees under Russian law, and is in excess of statutory limits and includes:

- reimbursement of travel expenses or arrangement of transportation to the work place;
- discounts on resort holiday packages for employees and their family members;
- reimbursement of travel expenses for employees and their family members to and from the place of vacation every two years;
- material aid to employees and war veterans;
- one-time payments related to marriage and a child's birth;
- one-time payments upon retirement, the amount of which is defined based on the work experience within the Group;
- assistance in leaving the Far North and relocation to other Russian regions.

The conditions for granting material aid and other benefits are established in the collective agreement made between the management of each Group's entity and its employees.

Personnel development and career growth

Polyus Gold considers the development and training of personnel as one of the key drivers of competitive advantage. The high quality of the employees' skills and knowledge is critical for the implementation of large-scale investment projects, increasing production volumes and restructuring of the Group. Therefore, in 2006 the Group hired over 40 young university graduates and doubled its investment in personnel development as compared to 2005.

Professional training of the Group's employees is held either in-house or at leading educational institutions with the help of various training and consulting companies. Polyus Gold closely cooperates with the Krasnoyarsk State University of Non-Ferrous Metals, Tomsk State University, Northern International University, Moscow Institute of Modern Business and other higher educational institutions. In 2006 training companies, including CBSD, SHL, Accountancy Tuition Centre (International) Limited, were engaged in training the Group's employees. Management and personnel of the Group actively participated in various international and Russian research and development conferences.

In 2006 over 3,000 employees (23% of the average number of the Group's employees) participated in training programs. On average each program lasted for 84 academic hours per employee. In 2006 the most relevant training issues included International Financial Reporting Standards, project management, occupational health and safety and labor law.

Involvement of young specialists and workers is especially important for the development of the Group's business. Considering the social importance of this task, the Group's management suggested the establishment of cooperation between state authorities, business and professional educational institutions to ensure professional training of its staff in the Magadan region. The training program for Matrosov Mine personnel includes career guidance in schools, development of multi-level training programs and

interaction between educational institutions of the Magadan region. Similar training programs are organized in other business units of the Group.
Work training centers intended to provide on the job training are established at all entities of the Group. These centers are designed to train specialists from scratch and enable the local people to get access to high quality professional education and prospective employment.
Corporate employment policy was developed in 2006. The purpose of the policy is to hire and retain the highly qualified personnel necessary for the successful implementation of current and strategic tasks of the Group.
The corporate policy defines the key principles for collaboration between educational institutions and the Company and its business units, as well as the system for developing and promoting personnel to the senior positions.

Creation of favorable labor conditions

Polyus Gold strives to ensure health protection and create safe labor conditions for its employees. The Group ensures the compliance of all its workplaces with Russian sanitary requirements. The premises designed for handling hazardous chemicals are equipped with gas detectors, warning alarms and air purification systems. The employees working in these premises are provided with full sets of personal safety and first-aid equipment.
Hazardous industrial workers are subject to regular medical examination. They are provided with special meals, additional vacation and have the right to early retirement. Other categories of employees undergo annual health check-ups. Occupational diseases are monitored and preventively treated on a regular basis. The Group has medical stations located in the places of accommodation of the Group's personnel, or collaborates with local health care institutions.
Polyus Gold provides its rotational workers with favorable conditions for living and leisure.
The dormitories for employees have central water supplies, heating and sewerage. They are equipped with laundry rooms, shower cabins, restrooms, telephone boxes; they have multi-channel television, and access to the Internet and e-mail. Clubs and cinema halls are arranged at dormitories. The employees can also use gym facilities. The Group arranges sports facilities and events and pays for coaches to provide training. Meals to employees, available twenty-four-hours and three times a day, are provided in a centralized dining-room on a free-of-charge basis or at prices subsidized by the Group.
Polyus Gold supports sports, social and cultural institutions and partially recovers the expenses related to these services incurred by its employees and members of their families.

Social responsibility and charity

Polyus Gold advocates an open dialogue with all its stakeholders, including local communities, local authorities and public organizations, directly or indirectly affected by its operations. This dialogue is aimed at establishing a mechanism of joint priority setting and social project implementation, increasing their efficiency and transparency.
The scope of social activities in each region is determined by the level of development and production and financial performance of the enterprise based in this region.
In the majority of its regions the Group's enterprises are the largest employers and taxpayers. Therefore their expansion may become one of the drivers of regional development, due to the creation of new workplaces, growing tax deductions, infrastructure investments, small and medium enterprise (SME) service consumption.
In the Krasnoyarsk territory Polyus Gold closely cooperates with the Territorial Administration and authorities of the Severo-Yeniseysk district. The Group finances several social facilities, including a nursery school, a secondary school, a first-aid sta-

tion, club and gym facilities, frequented not only by the employees, but all the settlement's inhabitants. The secondary school has an IT room with access to Internet.
The Group provides sponsorship for childcare, healthcare and cultural facilities located in other settlements of the Severo-Yeniseysk district. In particular, last year, the Group acquired new ambulance cars for the Severo-Yeniseysk district hospital.
During school vacations the Group arranges and pays for excursions for schoolchildren and orphanage alumni around the Krasnoyarsk territory, as well as to Moscow, St Petersburg and to the Black Sea resorts. Pensioners living in the Severo-Yeniseysk district receive pecuniary aid from the Group.
In 2006 the Group continued implementation of its over US$0.11 million (RUR 3 million) social partnership agreement with the city of Magadan. Under the agreement the Group arranged for a free bus route to one of the city's remote districts; took part in the construction of children's playgrounds, repair of several secondary and nursery schools.
In August 2006 an orthodox St Peter and St Paul church, built from the funds provided by many benefactors, including Aldanzoloto GRK, a company of the Group, was opened and consecrated in the Khandyga settlement, Tompon district, Republic of Sakha (Yakutia).

First Gold

In 2006 Polyus Gold conducted its first large-scale target charity action in partnership with the TPP RF "Center of Support to Homeless Children" charity fund. The Group contributed US$0.2 million (RUR 5.5 million) to the fund to support orphanages and other orphaned children support facilities in the Krasnoyarsk territory, Irkutsk and Magadan regions.
The program entitled "First Gold" was aimed at the development of sports activities among orphaned children, so the majority of the contribution was spent on the acquisition of sports gear and equipment. The program covered 17 children's facilities of the Krasnoyarsk territory, Irkutsk and Magadan regions.
The program meant the acquisition of ski, skates, hockey sticks and uniform, fitness machines, roller-skates, footballs, outdoor equipment, clothes. Some children's facilities were supplied with the equipment for kitchen and laundry, machinery and equipment for professional training classes.
Based on the project implementation results Polyus Gold decided to expand its cooperation with the TPP RF charity fund and the parties signed new three-year cooperation agreement. The Company will contribute US$0.19 million (RUR 5 million) on an annual basis to keep the First Gold project going. The fund will be able to spend up to 30% of such annual contributions on support to orphaned children in other regions of Russia.

The Company's Awards

Polyus Gold was recognized as the best metallurgical company in Russia in 2006 by the "Company of the Year" national business awards established by RosBusinessConsulting agency. The Company wins the prestigious award in respect of the progress made by the Company in 2006 – the listing of Polyus Gold shares at domestic exchanges, RTS and MICEX, and its vast exploration and gold production development programme in the Russian Federation.

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 sulphide 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 optimises 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.

Dorē – The final saleable product 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 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 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 have been the subject of appropriate assessments, such as feasibility studies that apply realistic mining, metallurgical, economic, marketing, 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.

Refractory ore – Ore that resists the action of chemical reagents in the normal treatment processes and which may require pressure leaching or other means to effect the full recovery of the valuable minerals.

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

Sulphide 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)
g/t	gramme/tonne
kg	kilogram
km	kilometre
k m^3	thousand cubic metres
k oz	thousand ounces
kt	thousand tonnes
m	meter
m^2	squaree meter
m^3	cubic meter
M oz	million ounces
Mt	million tonnes
Mtpa	million tonnes per annum
oz	ounce
RUR	Russian rouble
t	tonne
US$	United States dollar

POLYUS GOLD

Consolidated financial statements for the year ended 31 December 2006

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The following statement, which should be read in conjunction with the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Polyus Gold and its subsidiaries (the "Group").
Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2006 and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

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

Skitovich P. G.
General Director

Steschenko D. A.
Chief Accountant

Moscow, Russia
5 June 2007

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

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of matter

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

Deloitte & Touche

Moscow, Russia
5 June 2007

Consolidated Income Statement for the Year Ended 31 December 2006
(in Thousands of US Dollars)

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

Consolidated Balance Sheet at 31 December 2006
(in Thousands of US Dollars)

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

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

Consolidated Cash Flow Statement for the Year Ended 31 December 2006
(in Thousands of US Dollars)

	Notes	2006	2005*
Operating activities			
Profit before income tax		**1,230,325**	**163,354**
Adjustments for:			
Amortisation and depreciation		79,025	50,993
Net finance costs		5,217	3,472
Loss on disposal of property, plant and equipment		1,494	4,848
Change in allowance for doubtful debts		2,874	954
Change in provision for land restoration		7,318	2,088
Impairment of property, plant and equipment		383	11,613
Change in allowance for reimbursable value added tax		2,814	1,340
Net income from investments		(1,019,790)	(51,749)
Foreign exchange (gain)/loss, net		(7,161)	377
Other		848	(1,126)
Operating profit before working capital changes		**303,347**	**186,164**
Increase in inventories		(32,919)	(44,302)
Increase in advances to suppliers and other receivables		(13,973)	(4,361)
Increase in other current assets and value added tax, excluding income tax prepaid		(32,285)	(29,592)
Increase/(decrease) in trade and other payables		19,515	(6,881)
Decrease in decommissioning obligations		(6,048)	-
Decrease in taxes payable, excluding income tax		(2,796)	(6,311)
Cash flows from operations		**234,841**	**94,717**
Interest paid		(3,552)	(2,438)
Income tax paid		(89,897)	(45,600)
Net cash inflow from operating activities		**141,392**	**46,679**
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	5	(369,484)	(153,560)
Proceeds from disposal of subsidiary, net of cash disposed of		-	(107)
Purchase of property, plant and equipment		(261,856)	(140,839)
Proceeds from sale of property, plant and equipment		12,030	2,876
Purchase of shares of Gold Fields Ltd.		-	(944,940)
Proceeds from sale of shares of Gold Fields Ltd.		1,925,402	-
Dividends received		6,420	6,062
Interest received		109,078	32,451
Purchase of promissory notes and other financial assets		(2,028,154)	(613,452)
Proceeds from sale of promissory notes and other financial assets		1,307,749	509,066
Net cash inflow/(outflow) from investing activities		**701,185**	**(1,302,443)**

(in Thousands of US Dollars) (continued) 83

	Notes	2006	2005*
Financing activities			
Proceeds from borrowings		56,094	5,041
Repayments of borrowings		(69,146)	(32,706)
Repayments of finance lease obligations		(2,928)	(2,234)
Buy back of issued shares		(995,557)	-
Proceeds from increase in share capital of a subsidiary		18,445	-
Proceeds from issue of additional shares of CJSC Polyus		-	1,299,745
Cash contribution by Norilsk Nickel in connection with the spin-off	1	360,197	-
Net cash (outflow)/inflow from financing activities		**(632,895)**	**1,269,846**
Effect of translation to presentation currency		56,107	1,311
Net increase in cash and cash equivalents		**265,789**	**15,393**
Cash and cash equivalents at beginning of the year		**28,408**	**13,015**
Cash and cash equivalents at end of the year	22	**294,197**	**28,408**

Consolidated Statement of Changes in Equity for The Year Ended 31 December 2006
(in Thousands of US Dollars)

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

1. GENERAL

Organisation

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

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

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

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

Statement of compliance

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

Basis of presentation

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

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

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

Accounting for change in reporting entity

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

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

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

Adoption of new and revised International Financial Reporting Standards

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

New accounting pronouncements

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation. Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of acquisition and the minority's share of changes in equity since that date. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Associates

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

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

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

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

Accounting for acquisitions

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

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

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

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

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

Functional and presentation currency

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

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

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

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

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

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

	2006	2005
31 December	26.3311	28.7825
Average for the year	27.1852	28.2864

Foreign currencies

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

Property, plant and equipment

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The majority of the Group's reserves are estimated in accordance with the JORC code or using the Russian Resource Reporting Code for alluvial gold reserves.

Mineral rights

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

Exploration and evaluation assets

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

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

Mining assets

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

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

Non-mining assets

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

- buildings, structures, plant and equipment 2% to 10%
- transport 9% to 25%
- other assets 10% to 20%

Capital construction-in-progress

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

Leased assets

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

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

Impairment of tangible assets

An impairment review of tangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Deferred expenditures

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

Inventories

Refined gold

Gold is measured at the lower of net production cost and net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, by the saleable mine output of gold.

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

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

Work-in-process

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

Stores and materials

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

Cash and cash equivalents

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

Financial instruments

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

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

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

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

Investments

Investments are classified into the following categories:

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

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

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

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

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

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

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

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

Advances to suppliers and other receivables

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

Trade and other payables

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

Borrowings

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

Interest on borrowings

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

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

Provisions

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

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

Employee benefit obligations

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

The Group contributes to the Pension fund of the Russian Federation on behalf of all its employees. These contributions are recognised in the income statement as incurred. The Group does not maintain any separate retirement benefit plans.

Income tax

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

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

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

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

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

Revenue recognition

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

Operating leases

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

Dividends declared

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

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

Segmental information

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

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

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

Ongoing restoration costs are expensed when incurred.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Useful economic lives of property, plant and equipment

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

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

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

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

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

Exploration and evaluation assets

Management's judgement is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploitation or sale. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest unless evaluation activities have reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances

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

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Initial accounting for acquisition of subsidiaries

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

Environmental obligations

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

Income taxes

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

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

4. RECLASSIFICATIONS

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

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

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

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

(in Thousands of US Dollars)

5. ACQUISITIONS

2005

Yakut gold mining assets

In September 2005, 99.2% of issued ordinary shares of OJSC Aldanzoloto GRK, 50.0% of the issued ordinary shares of OJSC South-Verkhoyansk Mining Company and 100.0% of the issued ordinary shares of OJSC Yakut Mining Company (collectively "Yakut gold mining assets") were acquired by the Group from the third parties for an estimated consideration of USD 255,000 thousand, of which USD 115,000 thousand was satisfied by cash in 2005. The remaining part of the estimated consideration of USD 140,000 thousand was contingent upon the negotiation with the seller of the financial terms of the acquisition and analysis of the financial results of acquired entities at the acquisition date.

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

In July 2006, the Group finalised valuation of the acquired net assets and negotiations in respect of consideration. According to the final agreement, the amount of outstanding consideration was determined to be USD 137,650 thousand. As a result, in the consolidated financial statements for the year ended 31 December 2006 adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities and deferred consideration were recognised.

	Provisional value	Fair value
OJSC Aldanzoloto GRK		
Mineral rights	14,503	85,220
Property, plant and equipment, excluding mineral rights	80,759	80,759
Other current assets	30,071	30,071
Loans and borrowings	(10,457)	(10,457)
Trade and other payables	(29,709)	(29,709)
Deferred tax liabilities	(14,900)	(31,872)
Net assets at the date of acquisition	**70,267**	**124,012**
Minority interest	(474)	(474)
Group's share of net assets acquired	**69,793**	**123,538**
Total consideration	**69,793**	**123,538**
Deferred consideration	(19,793)	(73,538)
Satisfied by cash	(50,000)	(50,000)
Net cash outflow arising on acquisition:		
Cash consideration	(50,000)	(50,000)
Cash and cash equivalents acquired	274	274
Net cash outflow on acquisition of subsidiaries	**(49,726)**	**(49,726)**
OJSC South-Verkhoyansk Mining Company		
Mineral rights	257,279	182,994
Property, plant and equipment, excluding mineral rights	13,522	13,522
Other current assets	14,235	14,235
Loans and borrowings	(19,722)	(19,722)
Trade and other payables	(44,033)	(44,033)
Deferred tax liabilities	(57,699)	(40,503)

(in Thousands of US Dollars)

	Provisional value	Fair value
Net assets at the date of acquisition	**163,582**	**106,493**
Group's share of net assets acquired	**163,582**	**106,493**
Total consideration	**163,582**	**106,493**
Deferred consideration	(113,582)	(56,493)
Satisfied by cash	(50,000)	(50,000)
Net cash outflow arising on acquisition:		
Cash consideration	(50,000)	(50,000)
Cash and cash equivalents acquired	181	181
Net cash outflow on acquisition of subsidiaries	**(49,819)**	**(49,819)**
OJSC Yakut Mining Company		
Mineral rights	-	1,308
Property, plant and equipment, excluding mineral rights	5,532	5,532
Other current assets	16,719	16,719
Deferred tax assets/(liabilities)	139	(175)
Loans and borrowings	(328)	(328)
Trade and other payables	(437)	(437)
Net assets at the date of acquisition	**21,625**	**22,619**
Group's share of net assets acquired	**21,625**	**22,619**
Total consideration	21,625	22,619
Deferred consideration	(6,625)	(7,619)
Satisfied by cash	(15,000)	(15,000)
Net cash outflow arising on acquisition:		
Cash consideration	(15,000)	(15,000)
Net cash outflow on acquisition of subsidiaries	**(15,000)**	**(15,000)**

Fair values presented above reflected the effects of finalising the acquisition accounting. Such amounts differ from the provisional amounts previously reported. The corresponding figures in the consolidated balance sheet as at 31 December 2005 have been updated since its original issuance to reflect the revisions. Mineral rights which arose on acquisition were included in the Group's mining assets (refer to note 17).

(in Thousands of US Dollars)

Other acquisitions

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

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

Increase of ownership interest in subsidiaries

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

During April-May 2005, the Group acquired 100.0% of additional shares issued by OJSC Matrosov Mine ("Matrosov Mine"), bringing its total share in the company to 87.4%. On 31 May 2005, the Group further increased its investment in Matrosov Mine to 88.4% for a cash consideration of USD 4,265 thousand. Acquired mineral rights and attributable deferred tax liabilities amounted to USD 5,449 thousand and USD 1,308 thousand, respectively. These transactions resulted in a decrease of minority interest by USD 125 thousand.

(in Thousands of US Dollars)

2006

Yakut gold mining assets

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

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

GRK BarGold

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

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

(in Thousands of US Dollars)

Matrosov Mine

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

	2006	2005
6. COST OF SALES		
Cash operating costs	348,212	232,373
On-mine costs (refer to note 7)	212,623	146,866
Smelting and concentrating costs (refer to note 8)	89,766	52,536
Refining costs	3,462	3,229
Tax on mining	42,361	29,742
Amortisation and depreciation of operating assets (refer to note 9)	73,718	45,251
Change in provision for land restoration (refer to note 27)	7,318	2,088
Increase in metal inventories	(6,736)	(10,687)
Total	**422,512**	**269,025**
7. ON-MINE COSTS		
Consumables and spares	105,311	69,961
Labour	77,808	56,594
Utilities	11,149	8,343
Sundry on-mine costs	18,355	11,968
Total (refer to note 6)	**212,623**	**146,866**
8. SMELTING AND CONCENTRATING COSTS		
Consumables and spares	45,151	33,909
Labour	26,550	12,784
Utilities	13,748	4,793
Sundry smelting and concentrating costs	4,317	1,050
Total (refer to note 6)	**89,766**	**52,536**

(in Thousands of US Dollars) 99

	2006	2005

9. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

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

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

11. OTHER NET OPERATING EXPENSES

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

12. NET FINANCE COSTS

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

(in Thousands of US Dollars)

	2006	2005

13. NET INCOME FROM INVESTMENTS

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

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

14. OTHER NON-OPERATING EXPENSES

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

15. INCOME TAX

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

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

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

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:

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

(in Thousands of US Dollars) 101

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

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

17. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost					
Balance at 31 December 2004	**24,781**	**596,060**	**36,690**	**51,632**	**709,163**
Additions	35,735	43,012	3,885	65,108	147,740
Acquired on acquisition of subsidiaries	-	420,877	1,044	7,165	429,086
Transfers from capital construction-in-progress	-	18,389	1,729	(20,118)	-
Disposals	-	(5,061)	(1,017)	(2,413)	(8,491)
Disposed of on disposal of subsidiary	-	(15,238)	(87)	(42)	(15,367)
Decommissioning asset raised (refer to note 27)	-	26,633	-	-	26,633
Effect of translation to presentation currency	(1,506)	(26,638)	(1,406)	(2,729)	(32,279)
Balance at 31 December 2005	**59,010**	**1,058,034**	**40,838**	**98,603**	**1,256,485**
Additions	56,600	92,283	7,651	108,484	265,018
Acquired on acquisition of subsidiaries	602	380,558	-	-	381,160
Transfers from capital construction-in-progress	-	46,556	-	(46,556)	-
Disposals	-	(15,895)	(1,728)	(3,356)	(20,979)
Effect of translation to presentation currency	7,342	102,853	3,994	11,083	125,272
Balance at 31 December 2006	**123,554**	**1,664,389**	**50,755**	**168,258**	**2,006,956**
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2004	**-**	**(81,214)**	**(2,673)**	**-**	**(83,887)**
Charge for the year	-	(52,422)	(3,704)	-	(56,126)
Eliminated on disposals	-	689	78	-	767
Disposed of on disposal of subsidiary	-	2,718	15	-	2,733
Impairment loss	-	(6,259)	-	(5,354)	(11,613)
Effect of translation to presentation currency	-	3,838	158	90	4,086

(in Thousands of US Dollars)

	Exploration and evaluation	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Balance at 31 December 2005	**-**	**(132,650)**	**(6,126)**	**(5,264)**	**(144,040)**
Charge for the year	-	(79,119)	(6,466)	-	(85,585)
Eliminated on disposals	-	7,220	235	-	7,455
Impairment loss	(115)	-	(267)	(1)	(383)
Effect of translation to presentation currency	(4)	(14,683)	(781)	(488)	(15,956)
Balance at 31 December 2006	**(119)**	**(219,232)**	**(13,405)**	**(5,753)**	**(238,509)**
Net book value					
31 December 2005	**59,010**	**925,384**	**34,712**	**93,339**	**1,112,445**
31 December 2006	**123,435**	**1,445,157**	**37,350**	**162,505**	**1,768,447**

Mining assets at 31 December 2006 included mineral rights of USD 897,163 thousand (31 December 2005: USD 489,729 thousand).
Amortisation and depreciation capitalised during the year ended 31 December 2006 amounted to USD 6,560 thousand (2005: USD 5,133 thousand).
At 31 December 2006 the carrying amount of the Group's machinery and equipment included USD 5,087 thousand (31 December 2005: USD 3,697 thousand) in respect of assets held under finance leases (refer to note 28).

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2006	2005
Non-current		
Loans advanced	445	347
Equity investments available-for-sale	357	3,339
Other	46	384
Total non-current	**848**	**4,070**
Current		
Equity investments available-for-sale	379,620	1,735,987
Bank deposits	364,438	6,997
Investments in listed companies held for trading	192,155	-
Loans under repurchase agreements	111,373	-
Promissory notes receivable	103,929	314,189
Investment deposit in Rosbank	83,362	172,984
Other	3,552	99
Total current	**1,238,429**	**2,230,256**

At 31 December 2006 equity investments available-for-sale represented investment in shares of Rosfund, SPC (Cayman Islands), acquired in July 2006 for USD 360,000 thousand. Increase in fair value of this investment of USD 19,620 thousand was recognised directly in equity.
At 31 December 2005 equity investments available-for-sale included investment in shares of Gold Fields Ltd. (South Africa) which was acquired from Norilsk Nickel in May 2005 for USD 944,940 thousand. At 31 December 2005 fair value of this investment amounted to USD 1,735,987 thousand. In March 2006, it was sold to third parties for a cash consideration of USD 1,925,402 thousand.
Bank deposits at 6-7.25% per annum were denominated in RUR and mature before September 2007.

(in Thousands of US Dollars)

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

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

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

	2006	2005

19. INVENTORIES

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

20. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

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

21. OTHER CURRENT ASSETS

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

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

(in Thousands of US Dollars)

		2006	2005
22. CASH AND CASH EQUIVALENTS			
Bank deposits		244,519	5,681
Current bank accounts	- RUR	47,856	18,376
	- foreign currencies	1,413	3,849
Other cash and cash equivalents		409	502
Total		**294,197**	**28,408**

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

23. SHARE CAPITAL

At 31 December 2006, authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUR 1. During November 2006 the Company bought back 17,146,780 ordinary shares from shareholders for a total consideration USD 995,557 thousand. Treasury shares held by a subsidiary of the Group have been recorded at cost and presented as a separate component in equity.

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

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

At 31 December 2005, issued and fully paid share capital of CJSC Polyus (refer to note 1), comprised 299 ordinary shares at par value of RUR 400, and 120 preference shares at par value of RUR 100.

24. ADDITIONAL PAID-IN CAPITAL

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

25. MINORITY INTEREST

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

(in Thousands of US Dollars)

26. DEFERRED TAX LIABILITIES

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

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

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

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

27. ENVIRONMENTAL OBLIGATIONS

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

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

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

(in Thousands of US Dollars)

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

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

Discount rates	5.7-7.0%	5.7-7.0%
Expected mine closure dates	2010-2050	2010-2050

Present value of cost to be incurred for settlement of environmental obligations was as follows:

Within one year	542	5,476
Due from second to fifth year	1,000	1,330
Due from sixth to tenth year	1,751	1,499
Due from eleventh to fifteenth year	59,959	45,457
Due from sixteenth to twentieth year	1,721	1,472
Due thereafter	6,540	5,594
	71,513	**60,828**

28. OBLIGATIONS UNDER FINANCE LEASE

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

The present value of lease obligations was estimated by discounting the future contractual cash flows using the market interest rates at inception date available to the Group for other borrowings. Assets subject to finance leases were included in property, plant and equipment.
The average lease term is 3.6 years. The average effective borrowing rate is 12%. All leases are on a fixed repayment basis and denominated in USD. The Group’s obligations under finance leases are secured by the lessor’s title to the leased assets. The fair value of the Group’s lease obligations approximates their carrying amount.

(in Thousands of US Dollars)

	2006	2005

29. SHORT-TERM BORROWINGS

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

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

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

30. TRADE AND OTHER PAYABLES

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

31. TAXES PAYABLE

	2006	2005
Income tax	7,519	8,283
Value added tax	5,184	5,212
Social taxes	3,613	3,116
Tax on mining	3,175	3,185
Property tax	2,848	872
Other taxes	3,395	2,505
Total	**25,734**	**23,173**

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

(in Thousands of US Dollars)

32. RELATED PARTIES

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

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

Compensation of key management personnel

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

33. CONTINGENCIES

Insurance

The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. However, management of the Group believes that the existing level of insurance coverage addresses the major risks that could have a material effect of the Group's operations and financial position.

Litigation

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

Taxation contingencies in the Russian Federation

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

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

In terms of Russian tax legislation, authorities have a period of up to six periods to re-open tax declarations for further inspection. Changes in the

tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.
While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.
With regards to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposure at 31 December 2006 of approximately USD 1,368 thousand.

Environmental matters

The Group is subject to extensive federal, local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.
The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation of the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.
The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

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

34. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, liquidity, interest rate and credit risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of gold.
The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.
The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits are adversely impacted by appreciation of RUR against USD. In assessing this risk management takes into consideration changes in gold price. In 2006 favourable changes in market price of gold mitigated the adverse effect of appreciation of RUR against USD.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities when they fall due.
The Group's liquidity position is carefully monitored and managed. The Group makes use of a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

Interest rate risk

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

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

Credit risk

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

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

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

36. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Recommendation of final dividend

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

Disposal of subsidiary

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

Incorporation of a new subsidiary

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

Approval of a share-based plan

On 3 April 2007, the Board of Directors of the Company approved an option plan under which certain senior executives and directors of the Group may acquire up to 9,531,380 of ordinary shares of the Company.

(in Thousands of US Dollars)

37. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

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

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

design Agey Tomesh