# Gold Mining Company Polus

## Consolidated interim financial statements for three months ended 31 March 2005

## INDEX



| | Three months ended 31 March 2005 | Three months ended 31 March 2004 | Year ended 31 December 2004 |
|---|---|---|---|
| **EXCHANGE RATES – RUSSIAN ROUBLE** | | | |
| **Period-end rates** | | | |
| 1 US dollar | 27.8256 | 28.4853 | 27.7487 |
| 1 Euro | 36.0564 | 34.8005 | 37.8104 |
| **Average rates for the period** | | | |
| 1 US dollar | 27.8375 | 28.6612 | 28.8150 |
| 1 Euro | 36.6556 | 35.8560 | 35.8185 |

## GOLD MINING COMPANY POLUS

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THREE MONTHS ENDED 31 MARCH 2005

The following statement, which should be read in conjunction with independent auditors' responsibilities stated in the independent auditors' review report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated interim financial statements of Closed Joint Stock Company "Gold Mining Company Polus" and its subsidiaries (the "Group").

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

In preparing the consolidated interim 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 interim financial statements; and
- preparing the consolidated interim 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 proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated interim financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- 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 interim financial statements for three months ended 31 March 2005 were approved on 31 July 2005 by:

| | |
|---|---|
| **Ivanov E. I.** | **Osenmuk A. M.** |
| President | Vice-president, Chief Financial Officer |

Krasnoyarsk
31 July 2005

Deloitte.

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## INDEPENDENT AUDITORS' REVIEW REPORT

**To the management of Closed Joint Stock Company "Gold Mining Company Polus":**

We have reviewed the consolidated interim financial statements for three months ended 31 March 2005 of Closed Joint Stock Company "Gold Mining Company Polus" and its subsidiaries (the "Group"), set out on pages 3-42. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

### Scope

We conducted our review in accordance with International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim financial statements are free of material misstatement. A review consists of making inquiries, primarily of Group's personnel responsible for financial and accounting matter, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Statement of negative assurance

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group at 31 March 2005, and the results of its operations, its cash flows and changes in shareholder's equity for three months then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

**Deloitte & Touche**
Moscow
31 July 2005

# GOLD MINING COMPANY POLUS

## CONSOLIDATED INCOME STATEMENT
## FOR THREE MONTHS ENDED 31 MARCH 2005
***in thousands of US Dollars***

| | Notes | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|---|
| **Sales** | | **79,120** | **52,477** | **441,750** |
| Cost of sales | 3 | (43,759) | (25,241) | (234,944) |
| **Gross profit** | | **35,361** | **27,236** | **206,806** |
| Selling, general and administrative expenses | 7 | (13,257) | (3,370) | (44,825) |
| Other net operating (expenses)/income | 8 | (1,929) | (341) | 12,707 |
| **Operating profit** | | **20,175** | **23,525** | **174,688** |
| Impairment of goodwill on acquisition | 32 | - | - | (114,639) |
| Finance costs | 9 | (1,457) | (107) | (10,573) |
| Net income from investments | 10 | 9,327 | 3,389 | 16,544 |
| Other net non-operating expenses | 11 | (450) | (644) | (4,205) |
| **Profit before taxation** | | **27,595** | **26,163** | **61,815** |
| Taxation | 12 | (11,363) | (9,227) | (59,297) |
| **Profit for the period** | | **16,232** | **16,936** | **2,518** |
| Attributable to: | | | | |
| Shareholder of the parent company | | 15,082 | 16,936 | 8,059 |
| Minority interest | | 1,150 | - | (5,541) |
| | | **16,232** | **16,936** | **2,518** |
| **Basic and fully diluted earnings per share** | | | | |
| **- Basic** | 13 | **87** | **138** | **59** |
| **- Diluted** | 13 | **51** | **70** | **31** |

# GOLD MINING COMPANY POLUS

## CONSOLIDATED BALANCE SHEET
## AT 31 MARCH 2005
*in thousands of US Dollars*

| | Notes | Reviewed 31 March 2005 | Reviewed 31 March 2004 | Audited 31 December 2004 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | **608,119** | **473,498** | **581,237** |
| Property, plant and equipment | 14 | 528,800 | 220,975 | 502,125 |
| Capital construction-in-progress | 15 | 76,384 | 38,079 | 66,279 |
| Investments in associates | 16 | 339 | - | 9,357 |
| Investments in securities and other financial assets | 17 | 2,596 | 214,444 | 3,476 |
| **Current assets** | | **550,449** | **61,716** | **547,442** |
| Inventories | 18 | 74,518 | 33,109 | 70,046 |
| Advances to suppliers and other receivables | 19 | 15,611 | 6,180 | 12,315 |
| Other current assets | 20 | 67,992 | 18,676 | 58,224 |
| Investments in securities and other financial assets | 17 | 353,356 | 20 | 393,842 |
| Cash and cash equivalents | 21 | 17,350 | 3,731 | 13,015 |
| Assets classified as held for sale | 22 | 21,622 | - | - |
| **Total assets** | | **1,158,568** | **535,214** | **1,128,679** |
| **SHAREHOLDER'S EQUITY AND LIABILITIES** | | | | |
| **Share capital and reserves** | | **949,852** | **367,949** | **936,162** |
| Share capital | 23 | 3 | 2 | 3 |
| Share premium | 23 | 522,198 | - | 523,645 |
| Accumulated profits | | 393,676 | 367,947 | 368,587 |
| **Equity attributable to the shareholder of the parent company** | | **915,877** | **367,949** | **892,235** |
| **Minority interest** | 24 | **33,975** | **-** | **43,927** |
| **Non-current liabilities** | | **104,406** | **44,062** | **105,983** |
| Deferred tax liabilities | 25 | 92,124 | 34,177 | 86,447 |
| Environmental obligations | 26 | 10,568 | 9,885 | 10,480 |
| Other long-term liabilities | 27 | 1,714 | - | 9,056 |
| **Current liabilities** | | **104,310** | **123,203** | **86,534** |
| Short-term borrowings | 28 | 31,302 | 93,943 | 35,112 |
| Trade and other payables | 29 | 35,419 | 9,978 | 36,908 |
| Taxes payable | 30 | 15,118 | 19,282 | 14,514 |
| Liabilities associated with assets classified as held for sale | 22 | 22,471 | - | - |
| **Total shareholder's equity and liabilities** | | **1,158,568** | **535,214** | **1,128,679** |

## GOLD MINING COMPANY POLUS

### CONSOLIDATED CASH FLOW STATEMENT
### FOR THREE MONTHS ENDED 31 MARCH 2005
*in thousands of US Dollars*

| | Notes | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash flows from operations | 31 | 11,912 | 26,958 | 181,783 |
| Interest paid | | (1,340) | - | (11,839) |
| Income tax paid | | (12,731) | (14,937) | (49,775) |
| **Net cash (outflow)/inflow from operating activities** | | **(2,159)** | **12,021** | **120,169** |
| **Investing activities** | | | | |
| Advances paid for shares of subsidiaries | | - | (214,005) | - |
| Acquisition of subsidiaries, net of cash acquired | 32 | (25,734) | - | (270,602) |
| Purchase of property, plant and equipment | | (21,800) | (12,027) | (63,486) |
| Proceeds from sale of property, plant and equipment | | 5,994 | - | 328 |
| Purchase of promissory notes | | - | - | (756,115) |
| Proceeds from sale of promissory notes | | 49,153 | 120,627 | 503,918 |
| **Net cash inflow/(outflow) from investing activities** | | **7,613** | **(105,405)** | **(585,957)** |
| **Financing activities** | | | | |
| Proceeds on issue of ordinary shares | | - | - | 498,819 |
| Proceeds from short-term borrowings | | - | 93,367 | 171,563 |
| Repayments of short-term borrowings | | (778) | - | (196,485) |
| Repayments of long-term borrowings, net | | (34) | - | (2,602) |
| **Net cash (outflow)/inflow from financing activities** | | **(812)** | **93,367** | **471,295** |
| Effect of translation to presentation currency | | (307) | 122 | 3,882 |
| **Net increase in cash and cash equivalents** | | **4,335** | **105** | **9,389** |
| **Cash and cash equivalents at beginning of the period** | 21 | **13,015** | **3,626** | **3,626** |
| **Cash and cash equivalents at end of the period** | 21 | **17,350** | **3,731** | **13,015** |

## GOLD MINING COMPANY POLUS

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
### FOR THREE MONTHS ENDED 31 MARCH 2005
***in thousands of US Dollars***

| | Notes | Share capital | Share premium | Accumulated profits | Equity attributable to the shareholder of the parent company | Minority interest | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2003 - audited** | | **2** | **-** | **339,369** | **339,371** | **-** | **339,371** |
| Profit for the period | | - | - | 16,936 | **16,936** | - | **16,936** |
| Effect of translation to presentation currency | | - | - | 11,642 | **11,642** | - | **11,642** |
| **Balance at 31 March 2004 - reviewed** | | **2** | **-** | **367,947** | **367,949** | **-** | **367,949** |
| Minority interest in subsidiaries acquired | | - | - | **-** | **-** | 48,416 | **48,416** |
| Loss for the period | | - | - | (8,877) | **(8,877)** | (5,541) | **(14,418)** |
| Issue of ordinary shares | 23 | 1 | 498,818 | - | **498,819** | - | **498,819** |
| Effect of translation to presentation currency | | - | 24,827 | 9,517 | **34,344** | 1,052 | **35,396** |
| **Balance at 31 December 2004 – audited** | | **3** | **523,645** | **368,587** | **892,235** | **43,927** | **936,162** |
| Minority interest in subsidiaries acquired | | - | **-** | - | - | 39 | **39** |
| Profit for the period | | - | - | 15,082 | **15,082** | 1,150 | **16,232** |
| Increase in equity attributable to the shareholder of the parent company due to the increase of investment in subsidiary | 24 | - | - | 11,016 | **11,016** | (11,016) | **-** |
| Effect of translation to presentation currency | | - | (1,447) | (1,009) | **(2,456)** | (125) | **(2,581)** |
| **Balance at 31 March 2005 - reviewed** | | **3** | **522,198** | **393,676** | **915,877** | **33,975** | **949,852** |

## 1. GENERAL

### Organisation

Closed Joint Stock Company "Gold Mining Company Polus" (the "Company") was incorporated in Severo-Eniseisk, Krasnoyarsk region, Russian Federation, on 30 September 1999. During 2004 the Company acquired controlling shareholding in Open Joint Stock Company "Lenzoloto" and Open Joint Stock Company "Matrosov Mine" and incorporated a wholly owned subsidiary Limited Liability Company "Lenskaya Zolotorudnaya Company". The principal activities of the Company and its subsidiaries (the "Group") is the extraction, refining and sale of gold from open-pit mines. Mining and processing facilities of the Group are located in Krasnoyarsk and Irkutsk regions of the Russian Federation. Further details regarding the nature of the business and structure of the Group are presented in note 38.

At 31 March 2005 the Group employed approximately 9,878 people (31 March 2004: 2,993; 31 December 2004: 9,700).

The Company is a wholly owned subsidiary of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" ("MMC Norilsk Nickel"). MMC Norilsk Nickel together with its subsidiaries comprises the Norilsk Nickel Group.

### Basis of presentation

The consolidated interim 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 International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). In the absence of specific IFRS guidance for the extractive industries, the Group has developed accounting policies in accordance with the best practices in the mining industry insofar they do not conflict with IFRS principles.

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation. The accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated interim financial statements are presented in accordance with IFRS.

The consolidated interim 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", which is more fully described in note 2 (a);
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories", which is more fully described in note 2 (i); and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which is more fully described in note 2 (j).

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

In the current reporting period the Group has adopted all the new and revised Standards and Interpretations issued by IASB and IFRIC that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

**Reclassifications**

Certain comparative information, presented in the consolidated financial statements for prior reporting periods, has been reclassified in order to achieve comparability with the presentation used in the consolidated interim financial statements for three months ended 31 March 2005.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

**(a) Basis of consolidation**

***Subsidiaries***

The consolidated interim financial statements incorporate the financial statements of the parent company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased.

Control is presumed to exist when the parent company:

- owns, directly or indirectly through subsidiaries, more than 50% of the voting equity of an enterprise; or
- owns, directly or indirectly through subsidiaries, less than 50% of the voting equity of an enterprise, but has the ability to:
  - govern the financial and operating polices of the enterprise under a statute or an agreement;
  - appoint or remove the majority of the members of the board of directors, or the equivalent governing body; or
  - cast the majority of votes at meetings of the board of directors or equivalent governing body.

Subsidiaries that meet the definition of control are not consolidated by the Group if control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Such subsidiaries are accounted for as investments (refer to 2 (j)).

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 proportionate 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 interests of the parent.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent 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.

***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 from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted 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 reduced to zero. 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 these circumstances are identified.

Unrealised gains 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 relating to subsidiaries is disclosed as an asset and goodwill relating to associates is included within the carrying value of the investment 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 consolidate income statement immediately.

**(b) Functional and presentation currency**

The functional currency of the Company and all subsidiaries, which reflects the economic substance of the underlying events and transactions of the Group's 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 interim 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, and all items included in shareholder's equity, other than net profit for the reporting period, 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 included in shareholder's 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 interim financial statements does not imply that Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

**(c) Foreign currency transactions and balances**

Transactions in foreign currencies are recorded at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to RUR at the exchange rate at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in the income statement.

**(d) Property, plant and equipment**

***Basis of carrying value of property, plant and equipment***

Property, plant and equipment were valued by independent, professionally qualified valuers. The effective date of the valuation for the Company's property, plant and equipment was 31 December 2002. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. However, a significant part of property, plant and equipment, which is of a specialised nature, was valued at depreciated replacement cost. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

The property, plant and equipment of subsidiaries was fair valued at the respective dates of acquisition.

***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 exploration licenses and the present value of future decommissioning costs.

***Mineral rights, mineral resources and ore reserves***

Mineral rights, mineral resources and ore reserves are recorded as assets when acquired as part of a business combination and are then amortised on a straight-line basis when physically mined, using the life of mine method based on estimated proven and probable 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.

***Mine development costs***

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditure incurred in:

- acquiring mineral rights and exploration licenses;
- developing new mining operations;
- defining further mineralization in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings and the present value of future decommissioning cost.

Mine development costs are amortised on a straight-line basis using the life of mine method, based on estimated proven and probable ore reserves, over a period of 7 to 20 years.

***Mine infrastructure***

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine method, based on estimated proven and probable ore reserves, varying from 5 to 20 years.

***Depreciation***

Depreciation on mining assets is charged from the date when a new mine reaches commercial production quantities and is included in the cost of production.

The Group annually assesses the remaining life of its mines for the purpose of depreciation calculations, and considers, amongst other things, the following:

- the volume of remaining recoverable ore reserves or the remaining mining lease period; and
- potential changes in technology, demand and product substitution.

Because of the uncertainty of these estimates the Group uses a straight-line basis of depreciation.

***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 these assets at the following annual rates:

| | |
|---|---|
| • Buildings, plant and equipment | 2% to 10% |
| • Motor vehicles | 9% to 25% |
| • Office equipment | 10% to 20% |

***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. Capitalised leased assets are depreciated over the lesser of:

- their estimated useful lives, or
- the term of the lease.

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.

**(e) Capital construction-in-progress**

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated.

**(f) Impairment**

An impairment review of assets is carried out when impairment indicators exist in relation to a cash generating unit, by comparing the carrying amount of the assets to their respective recoverable amount.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

The recoverable amount of mining and processing assets is the higher of fair value less cost to sell and value in use, unless the fair value less cost to sell is not possible to determine or if either of these amounts exceeds the assets carrying amount. The recoverable amount of mining assets whose fair value less cost to sell cannot be determined reliably, is estimated on the basis of the present values of net future cash flows.

Changes in the present value of these future cash flows occur mostly from:

- fluctuating long-term gold prices;
- revised estimates of the grade or extent of the ore reserve; and
- changes in future expected operating costs.

The recoverable amount of the Group's investments is their fair value. For investments carried at fair value decline in fair value is recognised in profit or loss if there is objective evidence that investments are impaired.

The recoverable amount of other assets is higher of fair value less cost to sell and value in use, i.e. the amount, which the Group expects to recover from the future use of an asset, including its residual value on disposal.

An impairment loss in respect of an investment is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

Impairment losses are only reversed to the extent that the assets carrying amount does not exceed the original carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

**(g) Research and exploration expenditure**

Research and exploration (including geophysical, topographical, geological and similar types of expenditure) is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, at the time a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

**(h) Deferred expenditures**

Certain Group's production facilities are located in regions with specific weather conditions. Consequently, surface (alluvial) mining operations are subject to seasonality and gold at these locations is only mined during several months of the year. Costs incurred out of season are deferred to the next season. Such expenditures include stripping and excavation costs, costs of repair and maintenance of gold mining equipment and general production costs.

**(i) Inventories**

***Refined gold***

Gold is measured at the lower of net production cost on the weighted average basis, or 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.

Production costs include on-mine and concentrating costs, smelting, treatment 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 a provision for obsolete items.

**(j) Financial instruments**

Financial instruments recognised on the Group's balance sheet mainly include investments, advances to suppliers and other receivables, cash and cash equivalents, 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.

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 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 designated upon initial recognition as at fair value through profit and loss.

All other investments, other than loans and receivables, 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 fair value of investments available-for-sale is recognised directly in equity through the statement of changes in shareholders' equity, until such investments are derecognised, at which time 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 originated by the Group are measured at gross invoice value less provision for doubtful debts where considered appropriate.

***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.

***Trade and other payables***

Trade and other payables are stated at their nominal value.

***Borrowings***

Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and 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.

**(k) Borrowing costs**

Borrowing costs 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 borrowing costs are expensed in the income statement as and when incurred.

Foreign exchange differences from foreign currency borrowings used to fund major qualifying capital projects are expensed as incurred, except for cases where such foreign exchange differences result from severe currency devaluation against which no hedge is possible, or to the extent that the differences represent borrowing costs.

**(l) Provisions**

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

**(m) 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, Medical and Social Insurance funds on behalf of all its employees. These contributions are recognised in the income statement as incurred.

**(n) Taxation**

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

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

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 taxation 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 taxation is also dealt with in equity.

**(o) Revenue recognition**

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

**(p) Operating lease payments**

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

**(q) 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.

Accumulated profits legally distributable by the Group 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.

**(r) Segmental information**

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

**(s) Decommissioning costs**

Future decommissioning costs, discounted to net present value, are capitalised and the 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 discount on decommissioning obligation is included in the income statement.

Decommissioning obligations are periodically reviewed in the light of current laws and regulations, and adjustments made as necessary.

**(t) Ongoing rehabilitation**

Expenditure on ongoing rehabilitation costs is accounted for when incurred.

**(u) Assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition.

Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

*in thousands of US dollars*

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **3. COST OF SALES** | | | |
| Cash operating costs | 35,167 | 25,501 | 193,258 |
| On-mine and concentrating costs (refer to note 4) | 17,119 | 11,103 | 129,346 |
| Smelting costs (refer to note 5) | 12,069 | 8,805 | 35,195 |
| Refining costs | 536 | 542 | 2,601 |
| Tax on mining | 5,443 | 5,051 | 26,116 |
| Amortisation and depreciation of operating assets (refer to note 6) | 10,267 | 6,364 | 40,903 |
| Provision for land rehabilitation | - | 2,532 | 2,532 |
| Increase in metal inventories | (1,675) | (9,156) | (1,749) |
| **Total** | **43,759** | **25,241** | **234,944** |
| **4. ON-MINE AND CONCENTRATING COSTS** | | | |
| Consumables and spares | 9,840 | 5,211 | 59,576 |
| Labour | 6,052 | 5,212 | 53,693 |
| Utilities | 745 | 435 | 11,828 |
| Sundry on-mine and concentrating costs | 482 | 245 | 4,249 |
| **Total** (refer to note 3) | **17,119** | **11,103** | **129,346** |
| **5. SMELTING COSTS** | | | |
| Consumables and spares | 8,629 | 6,189 | 23,640 |
| Labour | 2,352 | 2,368 | 10,155 |
| Utilities | 472 | 147 | 691 |
| Sundry smelting costs | 616 | 101 | 709 |
| **Total** (refer to note 3) | **12,069** | **8,805** | **35,195** |
| **6. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS** | | | |
| Mining and concentrating | 4,963 | 2,877 | 20,715 |
| Smelting | 5,304 | 3,487 | 20,188 |
| **Total** (refer to note 3) | **10,267** | **6,364** | **40,903** |

***in thousands of US dollars***

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | | | |
|---|---|---|---|
| Research and exploration | 4,981 | 525 | 8,092 |
| Salaries | 4,182 | 1,156 | 22,795 |
| Taxes other than mining and income taxes | 1,096 | 392 | 3,307 |
| Depreciation | 565 | 36 | 4,793 |
| Professional services | 322 | 113 | 1,452 |
| Rent expense | 301 | 79 | 1,398 |
| Transportation expenses | 203 | 122 | 746 |
| Commission paid | 124 | - | 449 |
| Repair and maintenance | 14 | 303 | 677 |
| Other | 1,469 | 644 | 1,116 |
| **Total** | **13,257** | **3,370** | **44,825** |

Research and development expenses for three months ended 31 March 2005 and year ended 31 December 2004 mainly related to geological exploration performed by the Group primarily in Natalka field located in Magadan region.

## 8. OTHER NET OPERATING EXPENSES/(INCOME)

| | | | |
|---|---|---|---|
| Net operating loss/(profit) from non-mining activities | 1,376 | - | (2,817) |
| Loss on disposal of property, plant and equipment and assets under construction | 478 | 295 | 3,164 |
| Change in provision for doubtful debts | (113) | (351) | 2,535 |
| Change in provision for tax fines and penalties | - | 370 | (14,815) |
| Gain from change in terms of finance leases | - | - | (1,101) |
| Other | 188 | 27 | 327 |
| **Total** | **1,929** | **341** | **(12,707)** |

## 9. FINANCE COSTS

| | | | |
|---|---|---|---|
| Interest expense on borrowings | 1,340 | - | 10,146 |
| Unwinding of discount on decommissioning obligations (refer to note 26) | 117 | 107 | 427 |
| **Total** | **1,457** | **107** | **10,573** |

*in thousands of US dollars*

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 10. NET INCOME FROM INVESTMENTS

| | | | |
|---|---|---|---|
| Interest income on promissory notes | 9,366 | 3,389 | 16,803 |
| Loss from associates (refer to note 16) | (39) | - | (50) |
| Other | - | - | (209) |
| **Total** | **9,327** | **3,389** | **16,544** |

## 11. OTHER NET NON-OPERATING EXPENSES

| | | | |
|---|---|---|---|
| Maintenance of social infrastructure | 570 | 493 | 2,120 |
| Donations | 153 | 100 | 945 |
| Other | (273) | 51 | 1,140 |
| **Total** | **450** | **644** | **4,205** |

## 12. TAXATION

| | | | |
|---|---|---|---|
| Current taxation | 15,539 | 7,955 | 52,099 |
| Deferred taxation (refer to note 25) | (4,176) | 1,272 | 7,198 |
| **Total** | **11,363** | **9,227** | **59,297** |

The tax rate applied to taxable income in the Russian Federation is 24%.

A reconciliation of theoretical income tax at 24% to the amount of actual income tax expense recorded in the income statement is as follows:

| | | | |
|---|---|---|---|
| **Profit before taxation** | **27,595** | **26,163** | **61,815** |
| Theoretical income tax at 24% | 6,623 | 6,279 | 14,835 |
| Tax effect of goodwill impairment | - | - | 27,417 |
| Tax effect of non-deductible expenses and other permanent differences | 3,087 | 2,948 | 9,185 |
| Taxable losses of subsidiaries not carried forward | 1,653 | - | 7,860 |
| **Total income tax expense** | **11,363** | **9,227** | **59,297** |

*in thousands of US dollars*

## 13. BASIC AND FULLY DILUTED EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share is based on the following information:

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Profit attributed to shareholder of the parent company for the period | 15,082 | 16,936 | 8,059 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 173 | 123 | 137 |
| Possible dilution effect of convertible preference shares (refer to note 23) | 120 | 120 | 120 |
| Weighted average number of ordinary shares for the purposes of fully diluted earnings per share | 293 | 243 | 257 |
| **Earnings per share** | | | |
| **- Basic** | **87** | **138** | **59** |
| **- Fully diluted** | **51** | **70** | **31** |

***in thousands of US dollars***

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings, structures and utilities | Machinery, equipment and transport | Mineral rights | Other | Total |
|---|---|---|---|---|---|
| **Cost/valuation** | | | | | |
| **Balance at 31 December 2003 - audited** | **124,935** | **114,969** | **-** | **597** | **240,501** |
| Additions | - | 3,181 | - | 1,139 | **4,320** |
| Transfers from capital construction-in-progress (refer to note 15) | 791 | - | - | - | **791** |
| Disposals | - | (319) | - | (2) | **(321)** |
| Effect of translation to presentation currency | 4,256 | 3,930 | - | 29 | **8,215** |
| **Balance at 31 March 2004 - reviewed** | **129,982** | **121,761** | **-** | **1,763** | **253,506** |
| Additions | 1,049 | 22,611 | - | 1,320 | **24,980** |
| Acquired on acquisition of subsidiaries (refer to note 32) | 33,756 | 78,831 | 146,349 | 1,045 | **259,981** |
| Transfers from capital construction-in-progress (refer to note 15) | 23,127 | - | - | - | **23,127** |
| Disposals | (92) | (1,972) | - | (112) | **(2,176)** |
| Effect of translation to presentation currency | 5,305 | 6,234 | 3,758 | 127 | **15,424** |
| **Balance at 31 December 2004 – audited** | **193,127** | **227,465** | **150,107** | **4,143** | **574,842** |
| Additions | - | 3,142 | - | 180 | **3,322** |
| Acquired on acquisition of subsidiaries (refer to note 32) | 2,508 | 187 | 46,539 | 14 | **49,248** |
| Transfers from capital construction-in-progress (refer to note 15) | 3,357 | - | - | - | **3,357** |
| Disposals | (236) | (912) | - | (76) | **(1,224)** |
| Assets reclassified as held for sale (refer to note 22) | (23) | (10,557) | (5,706) | (95) | **(16,381)** |
| Effect of translation to presentation currency | (504) | (629) | 98 | (11) | **(1,046)** |
| **Balance at 31 March 2005 - reviewed** | **198,229** | **218,696** | **191,038** | **4,155** | **612,118** |

*in thousands of US dollars*

| | Buildings, structures and utilities | Machinery, equipment and transport | Mineral rights | Other | Total |
|---|---|---|---|---|---|
| **Accumulated amortization and depreciation** | | | | | |
| **Balance at 31 December 2003 - audited** | **(12,534)** | **(11,521)** | **-** | **(87)** | **(24,142)** |
| Amortisation and depreciation charge for the period | (3,666) | (3,857) | - | (44) | **(7,567)** |
| Eliminated on disposal | - | 47 | - | - | **47** |
| Effect of translation to presentation currency | (450) | (416) | - | (3) | **(869)** |
| **Balance at 31 March 2004 - reviewed** | **(16,650)** | **(15,747)** | **-** | **(134)** | **(32,531)** |
| Amortisation and depreciation charge for the period | (13,570) | (21,041) | (3,200) | (318) | **(38,129)** |
| Eliminated on disposal | 3 | 263 | - | 34 | **300** |
| Effect of translation to presentation currency | (984) | (1,236) | (123) | (14) | **(2,357)** |
| **Balance at 31 December 2004 - audited** | **(31,201)** | **(37,761)** | **(3,323)** | **(432)** | **(72,717)** |
| Amortisation and depreciation charge for the period | (4,977) | (8,068) | (1,627) | (120) | **(14,792)** |
| Eliminated on disposal | 234 | 14 | - | 12 | **260** |
| Assets reclassified as held for sale (refer to note 22) | - | 3,005 | 709 | 15 | **3,729** |
| Effect of translation to presentation currency | 86 | 103 | 12 | 1 | **202** |
| **Balance at 31 March 2005 - reviewed** | **(35,858)** | **(42,707)** | **(4,229)** | **(524)** | **(83,318)** |
| **Net book value** | | | | | |
| **31 March 2004** | **113,332** | **106,014** | **-** | **1,629** | **220,975** |
| **31 December 2004** | **161,926** | **189,704** | **146,784** | **3,711** | **502,125** |
| **31 March 2005** | **162,371** | **175,989** | **186,809** | **3,631** | **528,800** |

At 31 March 2005 property, plant and equipment with a net book value of USD 4,802 thousand (31 March 2004: nil, 31 December 2004: USD 4,142 thousand) were pledged to secure long- and short-term borrowings granted to the Group (refer to notes 27 and 28).

***in thousands of US dollars***

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 15. CAPITAL CONSTRUCTION-IN-PROGRESS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Balance at beginning of the period** | **66,279** | **31,011** | **31,011** |
| Additions | 14,183 | 6,785 | 38,184 |
| Acquired on acquisition of subsidiaries (refer to note 32) | 436 | - | 19,389 |
| Transfers to property, plant and equipment (refer to note 14) | (3,357) | (791) | (23,918) |
| Disposals | (939) | (20) | (1,342) |
| Assets reclassified as held for sale (refer to note 22) | (43) | - | - |
| Effect of translation to presentation currency | (175) | 1,094 | 2,955 |
| **Balance at end of the period** | **76,384** | **38,079** | **66,279** |

## 16. INVESTMENTS IN ASSOCIATES

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Balance at beginning of the period** | **9,357** | **-** | **-** |
| Acquired during the period | - | - | 9,149 |
| Change in classification due to increase in shareholding | (8,856) | - | - |
| Share of post acquisition losses (refer to note 10) | (39) | - | (50) |
| Effect of translation to presentation currency | (123) | - | 258 |
| **Balance at end of the period** | **339** | - | **9,357** |

All Group's associates are registered in the Russian Federation. Details of the Group's associates at 31 March 2005 are as follows:

| Name of associate | Principal activity | Date acquired | Share-holding | 31 March 2005 | 31 March 2004 | 31 December 2004 |
|---|---|---|---|---|---|---|
| OJSC "Pervenets" | Gold mining | 6 April 2004 | 26.00% | - | - | 9,018 |
| LLC "Kvartsevye technologii" | Quartz mining | 6 April 2004 | 38.30% | 339 | - | 339 |
| | | | | **339** | - | **9,357** |

At 31 December 2004 OJSC "Lenzoloto", a 57.0% subsidiary of the Group, held a 26.0% investment in OJSC "Pervenets". On 10 February 2005 the Group acquired additional 74.0% interest in OJSC "Pervenets". Accordingly the company's financial results were fully consolidated and the investment was eliminated from investments in associates.

*in thousands of US dollars*

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 17. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Non-current** | | | |
| Equity securities | 1,326 | - | 1,462 |
| Loans advanced | 359 | 18 | 360 |
| Long-term accounts receivable | - | - | 1,111 |
| Advance paid for shares of subsidiaries | - | 214,426 | - |
| Other | 911 | - | 543 |
| **Total non-current** | **2,596** | **214,444** | **3,476** |
| **Current** | | | |
| Promissory notes receivable | 353,270 | - | 393,738 |
| Other | 86 | 20 | 104 |
| **Total current** | **353,356** | **20** | **393,842** |

Short-term promissory notes are purchased from the shareholder and bear interest of 10.4% per annum (refer to note 33).

## 18. INVENTORIES

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Refined gold at net production cost | 224 | 9,544 | 2,445 |
| Work-in-process at production cost | 15,292 | 7,430 | 11,070 |
| **Total metal inventories** | **15,516** | **16,974** | **13,515** |
| Stores and materials at cost | 60,380 | 16,335 | 57,104 |
| Less: Provision for obsolescence | (1,378) | (200) | (573) |
| **Total** | **74,518** | **33,109** | **70,046** |

## 19. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Advances to suppliers | 12,466 | 6,144 | 7,514 |
| Other receivables from non-mining activities | 10,463 | 267 | 12,252 |
| | 22,929 | 6,411 | 19,766 |
| Less: Provision for doubtful debts | (7,318) | (231) | (7,451) |
| **Total** | **15,611** | **6,180** | **12,315** |

*in thousands of US dollars*

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 20. OTHER CURRENT ASSETS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Value added tax recoverable | 42,736 | 14,849 | 40,476 |
| Deferred expenditures | 21,509 | 398 | 14,507 |
| Income tax prepaid | 2,187 | 3,231 | 1,183 |
| Other taxes prepaid | 1,560 | 198 | 2,058 |
| **Total** | **67,992** | **18,676** | **58,224** |

Deferred expenditures mostly comprise excavation costs, costs of repair and maintenance of gold mining equipment and production costs.

## 21. CASH AND CASH EQUIVALENTS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Letters of credit | 10,298 | - | 3,308 |
| Current bank accounts | 6,849 | 3,118 | 8,943 |
| Cash in hand | 74 | 63 | 117 |
| Other cash and cash equivalents | 129 | 550 | 647 |
| **Total** | **17,350** | **3,731** | **13,015** |

*in thousands of US dollars*

## 22. ASSETS HELD FOR SALE

On 15 March 2005, the management of the Group has made a decision to dispose one of gold mining subsidiaries, CJSC "Nedra-Bodaybo" (refer to note 37). This subsidiary has been sold in June 2005. The assets and liabilities attributable to the subsidiary have been classified as a disposal group held for sale and are presented separately in the balance sheet.

The proceeds of disposal exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of the assets as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

| | **Reviewed 31 March 2005** |
|---|---|
| Property, plant and equipment and capital construction-in-progress | 12,695 |
| Investments in securities and other financial assets | 503 |
| Other current assets | 6,444 |
| Inventories | 1,980 |
| **Total assets classified as held for sale** | **21,622** |
| Long-term borrowings | 6,958 |
| Deferred tax liabilities | 1,199 |
| Current portion of employee benefit obligations | 1,149 |
| Short-term borrowing | 5,960 |
| Trade and other payables | 6,249 |
| Taxes payable | 956 |
| **Total liabilities associated with assets classified as held for sale** | **22,471** |
| **Net assets of disposal group** | **(849)** |

*in thousands of US dollars*

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 23. SHARE CAPITAL

| | | | |
|---|---|---|---|
| **Authorised** | | | |
| 1,123 ordinary shares at par value of RUR 400 each | 16 | 16 | 16 |
| 120 preference shares at par value of RUR 100 each | - | - | - |
| **Total** | **16** | **16** | **16** |
| **Issued and fully paid** | | | |
| 31 March 2005: 173 ordinary shares at par value RUR 400 each<br>31 March 2004: 123 ordinary shares at par value RUR 400 each<br>31 December 2004: 173 ordinary shares at par value RUR 400 each | 3 | 2 | 3 |
| 120 preference shares at par value of RUR 100 each | - | - | - |
| **Total** | **3** | **2** | **3** |

During 2004 the Company issued 50 additional ordinary shares for a total consideration of RUR 14,530,498 thousand (USD 498,818 thousand).

Preference shares are freely convertible into ordinary shares.

## 24. MINORITY INTEREST

| | | | |
|---|---|---|---|
| **Balance at beginning of the period** | **43,927** | **-** | **-** |
| Minority interest in subsidiaries acquired (refer to note 32) | 39 | - | 48,416 |
| Minority interest in net profit/(loss) of subsidiaries | 1,150 | - | (5,541) |
| Decrease in minority interest due to increase of investments in subsidiaries by the shareholder of the parent company (refer to comment below) | (11,016) | - | - |
| Effect of translation to presentation currency | (125) | - | 1,052 |
| **Balance at end of the period** | **33,975** | - | **43,927** |

During 2005 six subsidiaries of OJSC “Lenzoloto”, a 57.0% Subsidiary of the Group, were sold to LLC “Lenskaya Zolotorudnaya Company”, a 100% subsidiary of the Group. This transaction resulted in decrease in minority interest and increase in equity attributable to the shareholder of the parent company due to increase of investments in subsidiaries in the amount of USD 11,016 thousand.

*in thousands of US dollars*

## 25. DEFERRED TAX LIABILITIES

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

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Net liability at beginning of the period** | **86,447** | **31,813** | **31,813** |
| Recognised in the income statement for the period (refer to note 12) | (4,176) | 1,272 | 7,198 |
| Change in deferred tax liabilities due to acquisition of subsidiaries (refer to note 32) | 11,169 | - | 44,046 |
| Change in deferred tax liability due to reclassification of liabilities associated with assets held for sale (refer to note 22) | (1,199) | - | - |
| Effect of translation to presentation currency | (117) | 1,092 | 3,390 |
| **Net liability at end of the period** | **92,124** | **34,177** | **86,447** |

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:

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Property, plant and equipment | 97,441 | 35,501 | 87,647 |
| Accrued operating expenses | (3,858) | (963) | 470 |
| Provision for doubtful debts | (1,604) | (576) | (1,473) |
| Inventory valuation | 145 | 215 | (197) |
| **Total** | **92,124** | **34,177** | **86,447** |

*in thousands of US dollars*

## 26. ENVIRONMENTAL OBLIGATIONS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Decommissioning obligations** | | | |
| **Balance at beginning of the period** | **7,851** | **6,978** | **6,978** |
| Unwinding of discount on decommissioning obligations (refer to note 9) | 117 | 107 | 427 |
| Effect of translation to presentation currency | (22) | 239 | 446 |
| **Balance at end of the period** | **7,946** | **7,324** | **7,851** |
| **Provision for land rehabilitation** | | | |
| **Balance at beginning of the year** | 2,629 | - | - |
| Charge to the income statement | - | 2,532 | 2,532 |
| Effect of translation to presentation currency | (7) | 29 | 97 |
| **Balance at end of the year** | **2,622** | **2,561** | **2,629** |

During 2004 the Group performed an estimate of land rehabilitation costs. The provision, discounted to net present value, relates exclusively to mining operations.

| | | | |
|---|---|---|---|
| **Total environmental obligations** | **10,568** | **9,885** | **10,480** |

*in thousands of US dollars*

## 27. OTHER LONG-TERM LIABILITIES

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| Long-term taxes payable | 492 | - | 819 |
| Long-term borrowings | 276 | - | 3,538 |
| Long-term obligations under finance lease | - | - | 3,783 |
| Other payables | 946 | - | 916 |
| **Total** | **1,714** | **-** | **9,056** |

Long-term taxes payable represent a restructured liability to the State budget accumulated by subsidiaries of the Group over several years and mainly comprise of value added and unified social taxes.

Included in long-term borrowings at 31 December 2004 was a USD-denominated loan from Gasprombank at 6% per annum. The loan was secured by property, plant and equipment with carrying value of USD 719 thousand (refer to note 14).

## 28. SHORT-TERM BORROWINGS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| RUR-denominated short-term borrowings | 31,302 | 93,943 | 30,252 |
| USD-denominated short-term borrowings | - | - | 4,460 |
| Current portion of long-term borrowings | - | - | 400 |
| **Total** | **31,302** | **93,943** | **35,112** |

RUR-denominated short-term borrowings as of 31 March 2005 include USD 24,097 thousand (31 March 2004: USD 93,943 thousand; 31 December 2004: USD 24,524 thousand) of promissory notes issued to the shareholder and bearing interest of 10.4% per annum.

The interest rates on short-term borrowings vary as follows:

| | | | |
|---|---|---|---|
| RUR-denominated short-term borrowings | 10.4% to 18.4% | 11.2% | 10% to 20% |
| USD-denominated short-term borrowings | - | - | 6% to 10% |

Short-term borrowings are secured by:

| | | | |
|---|---|---|---|
| Property, plant and equipment (refer to note 14) | 4,802 | - | 3,423 |

*in thousands of US dollars*

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|

## 29. TRADE AND OTHER PAYABLES

| | | | |
|---|---|---|---|
| Trade accounts payable | 8,769 | 1,940 | 10,000 |
| Wages and salaries | 9,852 | 3,380 | 7,888 |
| Payables for production equipment | 4,714 | 2,115 | 4,452 |
| Accrued annual leave | 3,844 | 1,373 | 3,108 |
| Interest payable | 1,513 | - | 1,744 |
| Current portion of obligation under finance lease | - | - | 1,045 |
| Other creditors | 6,727 | 1,170 | 8,671 |
| **Total** | **35,419** | **9,978** | **36,908** |

## 30. TAXES PAYABLE

| | | | |
|---|---|---|---|
| Value added tax payable | 3,573 | - | 4,058 |
| Income tax | 2,781 | 231 | 2,157 |
| Social taxes | 2,419 | 812 | 3,043 |
| Tax on mining | 1,887 | 1,680 | - |
| Property tax | 1,068 | 959 | 566 |
| Provision for fines and penalties | - | 15,359 | - |
| Other taxes | 3,390 | 241 | 4,690 |
| **Total** | **15,118** | **19,282** | **14,514** |

*in thousands of US dollars*

## 31. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Profit before taxation** | **27,595** | **26,163** | **61,815** |
| Adjustments for: | | | |
| Impairment of goodwill on acquisition | - | - | 114,639 |
| Amortisation and depreciation | 14,792 | 7,567 | 45,696 |
| Interest expense on borrowings | 1,340 | - | 10,146 |
| Loss on disposal of property, plant and equipment and assets under construction | 478 | 295 | 3,164 |
| Change in provision for doubtful debts | (113) | (351) | 2,535 |
| Provision for land rehabilitation | - | 2,532 | 2,532 |
| Unwinding of discount on decommissioning obligations | 117 | 107 | 427 |
| Change in provision for obsolete inventory | 806 | - | 355 |
| Loss from associates | 39 | - | 50 |
| Change in provision for tax fines and penalties | - | 370 | (14,815) |
| Accrued income on promissory notes | (9,366) | (3,389) | (16,803) |
| Gain from change in terms of finance leases | - | - | (1,101) |
| **Operating profit before working capital changes** | **35,688** | **33,294** | **208,640** |
| (Increase) in inventories | (7,400) | (5,623) | (12,774) |
| (Increase)/decrease in advances paid and other receivables | (3,494) | (5,911) | 6,835 |
| (Increase)/decrease in other current assets, excluding income tax prepaid | (14,968) | 76 | (11,496) |
| Increase/(decrease) in trade and other payables | 4,301 | 3,920 | (1,799) |
| (Decrease)/increase in taxes payable, excluding income tax | (2,215) | 1,202 | (7,623) |
| **Cash flows from operations** | **11,912** | **26,958** | **181,783** |

*in thousands of US dollars*

## 32. ACQUISITION OF SUBSIDIARIES

| | Reviewed three months ended 31 March 2005 | Reviewed three months ended 31 March 2004 | Audited year ended 31 December 2004 |
|---|---|---|---|
| **Net assets acquired** | | | |
| Mineral rights (refer to note 14) | 46,539 | - | 146,349 |
| Property, plant and equipment (refer to note 14) | 2,709 | - | 113,632 |
| Capital construction-in-progress (refer to note 15) | 436 | - | 19,389 |
| Inventories – refined metals | - | - | 3,843 |
| Inventories – other | 47 | - | 24,328 |
| Trade and other receivables | 41 | - | 12,493 |
| Cash and cash equivalents | 82 | - | 2,369 |
| Other current assets | 73 | - | 49,705 |
| Loans and borrowings | (1,922) | - | (67,679) |
| Trade and other payables | (2,125) | - | (53,635) |
| Deferred taxation (refer to note 25) | (11,169) | - | (44,046) |
| **Net assets at date of acquisition** | **34,711** | **-** | **206,748** |
| Less: Minority interest | (39) | - | (48,416) |
| **Groups' share of net assets acquired** | **34,672** | **-** | **158,332** |
| Less: Carrying value of investment in CJSC "Pervenets" before acquiring control (refer to note 16) | (8,856) | - | - |
| Add: Goodwill on acquisition that was fully impaired (refer to comment below) | - | - | 114,639 |
| **Total consideration** | **25,816** | **-** | **272,971** |
| Satisfied by cash | (25,816) | - | (272,971) |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration | (25,816) | | (272,971) |
| Cash and cash equivalents acquired | 82 | - | 2,369 |
| **Net cash outflow on acquisition of subsidiaries** | **(25,734)** | **-** | **(270,602)** |

### Impairment of goodwill on acquisition

As of 31 December 2004 the Group reviewed the carrying value of goodwill arising on the acquisition of OJSC "Lenzoloto" during 2004 and determined that it should be written-off in the 2004 financial year.

### OJSC "Pervenets"

On 10 February 2005, the Group acquired 74.0% of the issued share capital of the OJSC "Pervenets" for a cash consideration of USD 25,816 thousand.

OJSC "Pervenets" contributed USD nil revenue and USD 185 thousand loss before taxation from the date control was attained to 31 March 2005.

**CJSC “Tonoda”**

On 14 December 2004, LLC “Lenskaya Zolotorudnaya Company”, a subsidiary of the Group acquired 100.0% of the issued share capital of CJSC “Tonoda” for a cash consideration of USD 28,276 thousand. CJSC “Tonoda” holds a licence to mine Chertovo Koryto deposit located in Irkutsk Region of the Russian Federation.

CJSC “Tonoda” did not trade from the date of acquisition to 31 December 2004, and, therefore, contributed USD nil thousand of revenue and USD nil thousand loss before taxation from the date of acquisition to 31 December 2004.

**OJSC “Lenzoloto”**

On 6 April 2004, the Group acquired 50.5% of the issued share capital of OJSC “Lenzoloto” for a cash consideration of USD 179,307 thousand. During July 2004 the Group increased its investment in OJSC “Lenzoloto” to 56.96% for a cash consideration of USD 11,711 thousand, bringing the Group’s total investment in OJSC “Lenzoloto” to USD 191,018 thousand.

OJSC “Lenzoloto” contributed USD 104,097 thousand of revenue and USD 1,179 thousand loss before taxation from the date of acquisition to 31 December 2004.

**OJSC “Matrosov Mine”**

On 6 April 2004, the Group acquired 38.0% of the issued share capital of OJSC “Matrosov mine” for a cash consideration of USD 35,618 thousand. During May and July 2004 the Group increased its investment in OJSC “Matrosov Mine” to 57.1% for a cash consideration of USD 18,059 thousand, bringing the Group’s total investment in OJSC “Matrosov Mine” to USD 53,677 thousand.

OJSC “Matrosov Mine” contributed USD 3,947 thousand of revenue and USD 14,684 thousand loss before taxation from the date of acquisition to 31 December 2004.

*in thousands of US dollars*

## 33. RELATED PARTIES

Related parties are considered to include the parent company, affiliates and entities under common ownership and control with the Group. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Material transactions with related parties not dealt with elsewhere in the consolidated interim financial statements were as follows:

| | Sale of goods | Purchase of services | Interest income | Interest expense | Promissory notes receivable | Trade receivables | Cash deposits | Short-term borrowings | Trade payables |
|---|---|---|---|---|---|---|---|---|---|
| **Three months ended 31 March 2005 - reviewed** | | | | | | | | | |
| By the Company | 78,428 | 1,277 | 9,341 | - | 353,270 | 323 | 3,463 | - | 1,440 |
| By subsidiaries of the Group | 695 | - | - | 985 | - | - | 2,204 | 29,684 | 7,443 |
| **Total** | **79,123** | **1,277** | **9,341** | **985** | **353,270** | **323** | **5,667** | **29,684** | **8,883** |
| **Three months ended 31 March 2004 - reviewed** | | | | | | | | | |
| By the Company | 52,461 | 883 | - | - | - | - | 2,917 | 93,943 | - |
| By subsidiaries of the Group | - | - | - | - | - | - | - | - | - |
| **Total** | **52,461** | **883** | **-** | **-** | **-** | **-** | **2,917** | **93,943** | **-** |
| **Year ended 31 December 2004 - audited** | | | | | | | | | |
| By the Company | 333,705 | 3,928 | 15,290 | 5,192 | 393,738 | 273 | 1,223 | - | - |
| By subsidiaries of the Group | 63,716 | - | - | 815 | - | 1,824 | 1,675 | 28,082 | 3,836 |
| **Total** | **397,421** | **3,928** | **15,290** | **6,007** | **393,738** | **2,097** | **2,898** | **28,082** | **3,836** |

## 34. CONTINGENCIES

### Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. The Group does not have full 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. Presently the Group has developed a comprehensive property risk insurance program which will commence in the second half of 2004 that provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. This comprehensive property insurance program, will reduce the risk of adverse effect of damage or loss of certain assets upon the Group's activities and its financial position.

### Litigation

The Group has been and continues to be subject from time to time to claims and legal proceedings relating to its business activities. 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 three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

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.

### Environmental matters

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

The Group's management believes that it is in compliance with all current existing environmental laws and regulations in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental 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, restore and rehabilitate the environment. During 2004 the Group conducted an internal estimate of environmental obligations for its operations. These estimates were based on management's understanding of the current legal requirements in the Russian Federation and the terms of license agreements. Management believes that Group's environmental obligations in the Russian Federation mainly include:

- rehabilitation of land and other types of ongoing rehabilitation; and
- decommissioning of mining assets and bringing mine sites into a condition that ensures the safety of population, protection of environment, buildings and facilities.

The extent and future expected costs related to environmental obligations are inherently difficult to estimate. They depend on the scale of operations, timing and further development of Russian legislation. The Group estimates its environmental obligations using the current level of mines' expansion, existing technology, current prices and projected inflation levels.

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 of 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 efficacy of the Government economic policies and the continued the development of legal and political systems.

## 35. 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 prices of gold.

*in thousands of US dollars*

The Group does not enter into any forward or hedging contracts or other financial instruments to offset its 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 to which the Group is exposed.

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 may be adversely impacted by appreciation of the RUR against the USD.

The Group does not enter into foreign currency derivative transactions to offset its currency 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 a significant portion of its gold production to a related party and has the only one other customer, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market in the Russian Federation. Payment terms with the Group's customers are such that credit risk is minimal.

**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 it has adequate cash available to meet its payment obligations.

## 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

| | Reviewed 31 March 2005 | | Audited 31 December 2004 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair Value** |
| Investments in associates (refer to note 16) | 339 | 339 | 9,357 | 9,357 |
| Investments in securities and other financial assets ` (refer to note 17) | 353,356 | 353,356 | 397,318 | 397,318 |
| Advances to suppliers and other receivables (refer to note 19) | 15,611 | 15,611 | 12,315 | 12,315 |
| Other current assets (refer to note 20) | 67,992 | 67,992 | 58,224 | 58,224 |
| Cash and cash equivalents (refer to note 21) | 17,350 | 17,350 | 13,015 | 13,015 |
| Other long-term liabilities (refer to note 27) | 1,714 | 1,714 | 9,056 | 9,056 |
| Short-term borrowings (refer to note 28) | 31,302 | 31,302 | 35,112 | 35,112 |
| Trade accounts and other payables (refer to note 29) | 35,419 | 35,419 | 36,908 | 36,908 |
| Taxes payable (refer to note 30) | 15,118 | 15,118 | 14,514 | 14,514 |

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

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management's valuation. The long-term accounts receivable have been discounted using the discount rate for similar transactions.

Advances to suppliers and other receivables, other current assets, cash and 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.

Long-term taxes payable have been discounted using the discount rate for similar transactions.

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

## 37. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

**Acquisition of shares in Russian gold mining companies**

In April - May 2005 an additional 31.3% (2004: 57.1%, refer to note 38) of the issued ordinary and preference shares of OJSC "Matrosov Mine" was acquired by the Group for USD 72,004 thousand.

In July 2005 an additional 5.6% (31 March 2005: 57.0%, refer to note 38) of issued ordinary shares of OJSC "Lenzoloto" was acquired by the Group for USD 2,679 thousand.

**Proposed spin-off of the Norilsk Nickel Group's gold mining assets**

On 15 April 2005 the Board of Directors of MMC Norilsk Nickel approved a plan to spin-off the Norilsk Nickel Group's gold mining assets into a new company by way of a single transaction. The disposal group consists of the Company and its subsidiaries, and 20% interest in Gold Fields Limited, including all liabilities directly associated with those assets. The transaction was announced on 18 April 2005, and is a subject to the final approval by the Extraordinary General Meeting of Shareholders in September 2005. If the spin-off is approved by the shareholders, the transaction is expected to be completed at the end of March 2006.

In accordance with the restructuring plan the shareholders of MMC Norilsk Nickel will receive ordinary shares in the newly created company in proportion to their existing shareholding in MMC Norilsk Nickel.

It is unlikely that significant changes to the restructuring plan will be made or that it will be withdrawn.

**New licenses acquired**

During the period from April till July 2005 the Group obtained new mining licenses for the following gold deposits: Mukodekskoe (Irkutsk region), Bamskoe (Amursk region), Degdekanskoe and Vostochnoe (Magadan region), and won the tender for mining license for Razdolinskoe and Zyryanovskaya (Krasnoyarsk region).

**Disposal of a subsidiary**

In June 2005 Group disposed of its investment in CJSC "Nedra Bodaybo".

**Other acquisitions**

In May 2005 the Group acquired from MMC Norilsk Nickel the indirect ownership of 20% shares in Gold Fields Limited (South Africa) for cash consideration of USD 946,275 thousand. Gold Fields Limited is one of the leading gold producers in the world, with operations in South Africa, Ghana and Australia.

**Issuance of shares**

In May 2005 the Company issued additional 126 ordinary shares with a par value of 400 RUR per share. All shares were sold to the Company's shareholder MMC Norilsk Nickel for cash consideration of USD 1,300,097 thousand.

*in thousands of US dollars*

## 38. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

| | | Shares held | | | % held | | |
|---|---|---|---|---|---|---|---|
| **Subsidiaries in the Russian Federation** | **Nature of business** | **Reviewed 31 March 2005** | **Reviewed 31 March 2004** | **Audited 31 December 2004** | **Reviewed 31 March 2005** | **Reviewed 31 March 2004** | **Audited 31 December 2004** |
| OJSC "Lenzoloto" | Market agent | 847,535 | - | 847,535 | 56.96 | - | 56.96 |
| LLC "Lenskaya Zolotorudnaya Company" | Market agent | - | - | - | 100.00 | - | 100.00 |
| OJSC "Matrosov Mine" | Mining | 43,929 | - | 43,929 | 57.05 | - | 57.05 |
| CJSC "Tonoda" | Mining | 9,100 | - | 9,100 | 100.00[1] | - | 100.00[1] |
| OJSC "Pervenets" | Mining | 100 | - | - | 88,81[1] | - | - |
| CJSC "Lensib" | Mining | 610 | - | 610 | 34.75[1] | - | 34.75[1] |
| CJSC "Svetliy" | Mining | 840 | - | 840 | 47.85[1] | - | 47.85[1] |
| CJSC "Marakan" | Mining | 840 | - | 840 | 47.85[1] | - | 47.85[1] |
| CJSC "Nadezhdinskoe" | Mining | 840 | - | 840 | 47.85[1] | - | 47.85[1] |
| CJSC "Dalnaya Taiga" | Mining | 820 | - | 820 | 46.71[1] | - | 46.71[1] |
| CJSC "Sevzoto" | Mining | 650 | - | 650 | 37.02[1] | - | 37.02[1] |
| CJSC "Charazoto" | Mining | 640 | - | 640 | 36.45[1] | - | 36.45[1] |
| CJSC "Nedra Bodaybo" | Mining | 1,071 | - | 1,071 | 29.05[1] | - | 29.05[1] |
| CJSC "GRK Sukhoy Log" | Mining | 100 | - | 100 | 100.00[1] | - | 56.96[1] |
| CJSC "Vitimenergo" | Electricity production | 355,669 | - | 355,669 | 100.00[1] | - | 56.96[1] |
| LLC "Lengeo" | Geological research | - | - | - | 100.00[1] | - | 56.96[1] |
| LLC "Vitimservice" | Procurement services | - | - | - | 100.00[1] | - | 56.96[1] |
| LLC "Lenrem" | Repair services | - | - | - | 56.96[1] | - | 56.96[1] |
| LLC "LZDT" | Transportation | - | - | - | 100.00[1] | - | 56.96[1] |

[1] Effective % held through other Group subsidiaries.