Gold Mining Company Polus

Consolidated interim financial statements for the six months ended 30 June 2005

INDEX

	30 June 2005	30 June 2004	31 December 2004
EXCHANGE RATES – RUSSIAN ROUBLE			
Period-end rates			
1 US dollar	28.6721	29.0274	27.7487
1 Euro	34.5241	35.2915	37.8104
Average rates for the period			
1 US dollar	27.9595	28.7802	28.8150
1 Euro	36.0352	35.3480	35.8185

GOLD MINING COMPANY POLUS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 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 30 June 2005, the results of its operations, cash flows and changes in shareholder's equity for the six 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 the six months ended 30 June 2005 were approved on 29 September 2005 by:

Ivanov E. I.
President

Osenmuk A. M.
Vice-president, Chief Financial Officer

Moscow
29 September 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 accompanying consolidated interim financial statements for the six months ended 30 June 2005 of Closed Joint Stock Company "Gold Mining Company Polus" and its subsidiaries (the "Group"), set out on pages 3-39. 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.

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated interim financial statements consists of making inquiries, primarily of Group's personnel responsible for financial and accounting matters, 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.

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 30 June 2005, and the results of its operations, its cash flows and changes in shareholder's equity for the six months then ended, in accordance with International Financial Reporting Standards.

Deloitte + Touche

Deloitte & Touche
Moscow
29 September 2005

GOLD MINING COMPANY POLUS

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005
(in thousands of US Dollars)

	Notes	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Sales		**169,377**	**186,476**	**441,750**
Cost of sales	3	95,774	88,353	234,944
Gross profit		**73,603**	**98,123**	**206,806**
Selling, general and administrative expenses	7	21,394	15,241	36,733
Research and exploration expenditure		13,017	2,744	8,092
Other net operating expenses/(income)	8	1,707	2,725	(12,707)
Operating profit		**37,485**	**77,413**	**174,688**
Impairment of goodwill on acquisition	31	-	-	114,639
Finance costs	9	1,613	4,279	10,573
Net income from investments	10	(18,085)	(3,561)	(16,544)
Other net non-operating expenses	11	2,787	620	4,205
Profit before taxation		**51,170**	**76,075**	**61,815**
Taxation	12	15,702	29,484	59,297
Profit for the period		**35,468**	**46,591**	**2,518**
Attributable to:				
Shareholder of the parent company		33,481	51,545	8,059
Minority interest	23	1,987	(4,954)	(5,541)
		35,468	**46,591**	**2,518**
Basic and fully diluted earnings per share				
- Basic	13	**174**	**419**	**59**
- Diluted	13	**107**	**192**	**31**

GOLD MINING COMPANY POLUS

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2005
(in thousands of US Dollars)

	Notes	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
ASSETS				
Non-current assets		**1,728,789**	**581,118**	**581,237**
Goodwill	31	-	106,956	-
Property, plant and equipment	14	514,810	407,202	502,125
Capital construction-in-progress	15	93,891	55,333	66,279
Investments in associates	16	329	8,978	9,357
Investments in securities and other financial assets	17	1,119,759	2,649	3,476
Current assets		**835,179**	**148,502**	**547,442**
Inventories	18	91,417	63,886	70,046
Advances to suppliers and other receivables	19	22,517	18,393	12,315
Other current assets	20	85,799	53,897	58,224
Investments in securities and other financial assets	17	619,284	2,261	393,842
Cash and cash equivalents	21	16,162	10,065	13,015
Total assets		**2,563,968**	**729,620**	**1,128,679**
SHAREHOLDER'S EQUITY AND LIABILITIES				
Share capital and reserves		**2,394,163**	**443,490**	**936,162**
Share capital	22	5	2	3
Share premium		1,783,869	-	523,645
Investments revaluation reserve		176,719	-	-
Accumulated profits		397,297	395,461	368,587
Equity attributable to shareholder of the parent company		**2,357,890**	**395,463**	**892,235**
Minority interest	23	**36,273**	**48,027**	**43,927**
Non-current liabilities		**115,391**	**92,099**	**105,983**
Deferred tax liabilities	24	102,707	67,347	86,447
Environmental obligations	25	10,557	9,806	10,480
Other long-term liabilities	26	2,127	14,946	9,056
Current liabilities		**54,414**	**194,031**	**86,534**
Short-term borrowings	27	5,207	110,444	35,112
Trade and other payables	28	36,227	50,741	36,908
Taxes payable	29	12,980	32,846	14,514
Total shareholder's equity and liabilities		**2,563,968**	**729,620**	**1,128,679**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005
(in thousands of US Dollars)

	Notes	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Operating activities				
Cash flows from operations	30	(7,328)	98,484	181,783
Interest paid		(4,912)	(2,258)	(11,839)
Income tax paid		(13,183)	(29,727)	(49,775)
Net cash (outflow)/inflow from operating activities		**(25,423)**	**66,499**	**120,169**
Investing activities				
Acquisition of subsidiaries, net of cash acquired	31	(30,000)	(214,062)	(270,602)
Proceeds from disposal of subsidiary, net of cash disposed of	32	(107)	-	-
Purchase of property, plant and equipment		(51,597)	(19,566)	(63,486)
Proceeds from sale of property, plant and equipment		985	65	328
Purchase of equity securities available-for-sale	17	(944,940)	-	-
Purchase of promissory notes		(404,420)	(2,176)	(756,115)
Proceeds from sale of promissory notes		177,894	120,999	503,918
Net cash outflow from investing activities		**(1,252,185)**	**(114,740)**	**(585,957)**
Financing activities				
Proceeds on issue of ordinary shares	22	1,299,745	-	498,819
Proceeds from short-term borrowings		3,284	107,909	171,563
Repayments of short-term borrowings		(27,913)	(55,261)	(196,485)
Repayments of long-term borrowings, net		(572)	273	(2,602)
Net cash inflow from financing activities		**1,274,544**	**52,921**	**471,295**
Effect of translation to presentation currency for the period		6,211	1,759	3,882
Net increase in cash and cash equivalents		**3,147**	**6,439**	**9,389**
Cash and cash equivalents at beginning of the period		**13,015**	**3,626**	**3,626**
Cash and cash equivalents at end of the period	21	**16,162**	**10,065**	**13,015**

GOLD MINING COMPANY POLUS

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2005
(in thousands of US Dollars)

	Notes	Share capital	Share premium	Investments revaluation reserve	Accumulated profits	Equity attributable to shareholder of the parent company	Minority interest	Total
Balance at 31 December 2003 - audited		**2**	**-**	**-**	**339,369**	**339,371**	**-**	**339,371**
Minority interest in subsidiaries acquired during the period	23	-	-	-	-	**-**	53,820	**53,820**
Profit for the period		-	-	-	51,545	**51,545**	(4,954)	**46,591**
Effect of translation to presentation currency for the period		-	-	-	4,547	**4,547**	(839)	**3,708**
Balance at 30 June 2004 - reviewed		**2**	**-**	**-**	**395,461**	**395,463**	**48,027**	**443,490**
Minority interest in subsidiaries acquired during the period	23	-	-	-	-	**-**	(5,404)	**(5,404)**
Loss for the period		-	-	-	(43,486)	**(43,486)**	(587)	**(44,073)**
Ordinary shares issued	22	1	498,818	-	-	**498,819**	-	**498,819**
Effect of translation to presentation currency for the period		-	24,827	-	16,612	**41,439**	1,891	**43,330**
Balance at 31 December 2004 – audited		**3**	**523,645**	**-**	**368,587**	**892,235**	**43,927**	**936,162**
Minority interest in subsidiaries acquired during the period	23	-	-	-	-	**-**	(60)	**(60)**
Dividends paid		-	-	-	(192)	**(192)**	-	**(192)**
Profit for the period		-	-	-	33,481	**33,481**	1,987	**35,468**
Net decrease in minority interest due to change of shareholding structure in subsidiaries	23	-	-	-	8,376	**8,376**	(8,376)	**-**
Ordinary shares issued	22	2	1,299,743	-	-	**1,299,745**	-	**1,299,745**
Increase in fair value of available-for-sale investments		-	-	176,719	-	**176,719**	-	**176,719**
Effect of translation to presentation currency for the period		-	(39,519)	-	(12,955)	**(52,474)**	(1,205)	**(53,679)**
Balance at 30 June 2005 - reviewed		**5**	**1,783,869**	**176,719**	**397,297**	**2,357,890**	**36,273**	**2,394,163**

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. The Group also performs research and exploration works, primarily in Natalka field located in Magadan region. Further details regarding the nature of the business and structure of the Group are presented in note 38.

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"). IFRS 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.

In addition, the Group has elected to adopt IAS 39 "Financial Instruments: Recognition and Measurement" (including amendments issued in March 2004) in advance. The new accounting policy is described in note 2 (j). The adoption of the standard had no effect on the amount of equity attributable to shareholder of the parent company as of 30 June 2004 and 31 December 2004, and any other comparative amounts.

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 six months ended 30 June 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.

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

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 or the reasonable resource estimate as categorized using Russian Resource Reporting Code regarding alluvial gold reserves.

Estimated proven and probable ore reserves as well as reasonable resource estimate as categorized using Russian Resource Reporting Code 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. Currently these are 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. Currently these vary 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 and demand.

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 placed into commercial 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, general production costs and mine specific administration 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 are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate provisions 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 the objective evidence receivables are impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of six 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 initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

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 in 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.

(in thousands of US Dollars)

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004

3. COST OF SALES

Cash operating costs	83,261	73,347	193,258
On-mine and concentrating costs (refer to note 4)	49,025	40,076	129,346
Smelting costs (refer to note 5)	21,143	19,182	35,195
Refining costs	1,132	1,391	2,601
Tax on mining	11,961	12,698	26,116
Amortisation and depreciation of operating assets (refer to note 6)	24,696	16,234	40,903
Provision for land rehabilitation	191	2,532	2,532
Increase in metal inventories	(12,374)	(3,760)	(1,749)
Total	**95,774**	**88,353**	**234,944**

4. ON-MINE AND CONCENTRATING COSTS

Consumables and spares	24,598	14,692	59,576
Labour	20,246	15,467	53,693
Utilities	3,535	4,759	11,828
Sundry on-mine and concentrating costs	646	5,158	4,249
Total (refer to note 3)	**49,025**	**40,076**	**129,346**

5. SMELTING COSTS

Consumables and spares	15,593	11,822	23,640
Labour	5,017	6,206	10,155
Utilities	309	587	691
Sundry smelting costs	224	567	709
Total (refer to note 3)	**21,143**	**19,182**	**35,195**

6. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

Mining and concentrating	13,060	10,793	20,715
Smelting	11,636	5,441	20,188
Total (refer to note 3)	**24,696**	**16,234**	**40,903**

(in thousands of US Dollars)

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries	12,864	9,725	22,795
Taxes other than mining and income taxes	2,116	1,306	3,307
Depreciation	1,386	230	4,793
Professional services	1,080	613	1,452
Rent expense	502	226	1,398
Repair and maintenance	644	933	677
Transportation expenses	601	239	746
Insurance	181	194	-
Other	2,020	1,775	1,565
Total	**21,394**	**15,241**	**36,733**
8. OTHER NET OPERATING EXPENSES/(INCOME)			
Net operating profit from non-mining activities	(506)	(164)	(2,817)
Loss on disposal of property, plant and equipment and assets under construction	1,112	1,308	3,164
Change in provision for doubtful debts	346	730	2,535
Change in provision for tax fines and penalties	-	771	(14,815)
Gain from change in terms of finance leases	-	-	(1,101)
Other	755	80	327
Total	**1,707**	**2,725**	**(12,707)**
9. FINANCE COSTS			
Interest expense on borrowings	1,380	4,065	10,146
Unwinding of discount on decommissioning obligations (refer to note 25)	233	214	427
Total	**1,613**	**4,279**	**10,573**

(in thousands of US Dollars)

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004

10. NET INCOME FROM INVESTMENTS

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Interest income on promissory notes	(17,279)	(3,718)	(16,803)
Loss from associates (refer to note 16)	39	16	50
Other	(845)	141	209
Total	**(18,085)**	**(3,561)**	**(16,544)**

11. OTHER NET NON-OPERATING EXPENSES

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Maintenance of social infrastructure	1,060	-	2,120
Donations	426	300	945
Other	1,301	320	1,140
Total	**2,787**	**620**	**4,205**

12. TAXATION

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Current taxation	24,462	23,247	52,099
Deferred taxation (refer to note 24)	(8,760)	6,237	7,198
Total	**15,702**	**29,484**	**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:

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Profit before taxation	**51,170**	**76,075**	**61,815**
Theoretical income tax at 24%	12,281	18,258	14,835
Tax effect of goodwill impairment	-	-	27,417
Tax effect of provision for tax fines and penalties	-	3,786	-
Tax effect of non-deductible expenses and other permanent differences	1,311	6,183	9,185
Taxable losses of subsidiaries not carried forward	2,110	1,257	7,860
Total income tax expense	**15,702**	**29,484**	**59,297**

(in thousands of US Dollars)

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004

13. BASIC AND DILUTED EARNINGS PER SHARE

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

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Profit attributed to shareholder of the parent company for the period	33,481	51,545	8,059
Weighted average number of ordinary shares for the purposes of basic earnings per share	193	123	137
Possible dilution effect of convertible preference shares (refer to note 22)	120	120	120
Weighted average number of ordinary shares for the purposes of diluted earnings per share	313	243	257
Earnings per share			
- Basic	**174**	**419**	**59**
- Diluted	**107**	**192**	**31**

(in thousands of US Dollars)

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Mineral rights	Other	Total
Cost					
Balance at 31 December 2003 – audited	**124,935**	**114,969**	**-**	**597**	**240,501**
Additions	-	12,985	-	1,429	**14,414**
Acquired on acquisition of subsidiaries (refer to note 31)	32,123	76,528	85,020	1,034	**194,705**
Transfers from capital construction-in-progress (refer to note 15)	1,940	-	-	-	**1,940**
Disposals	(14)	(860)	-	(28)	**(902)**
Effect of translation to presentation currency for the period	1,282	300	(1,366)	(21)	**195**
Balance at 30 June 2004 – reviewed	**160,266**	**203,922**	**83,654**	**3,011**	**450,853**
Additions	1,049	12,807	-	1,030	**14,886**
Acquired on acquisition of subsidiaries (refer to note 31)	1,633	2,303	61,329	11	**65,276**
Transfers from capital construction-in-progress (refer to note 15)	21,978	-	-	-	**21,978**
Disposals	(78)	(1,431)	-	(86)	**(1,595)**
Effect of translation to presentation currency for the period	8,279	9,864	5,124	177	**23,444**
Balance at 31 December 2004 – audited	**193,127**	**227,465**	**150,107**	**4,143**	**574,842**
Additions	-	13,204	-	737	**13,941**
Acquired on acquisition of subsidiaries (refer to note 31)	2,508	187	52,021	14	**54,730**
Transfers from capital construction-in-progress (refer to note 15)	5,031	-	-	-	**5,031**
Disposals	(289)	(2,075)	-	(130)	**(2,494)**
Disposed on disposal of subsidiary (refer to note 32)	(23)	(9,534)	(5,681)`	(87)	**(15,325)**
Effect of translation to presentation currency for the period	(6,330)	(7,433)	(5,680)	(145)	**(19,588)**
Balance at 30 June 2005 – reviewed	**194,024**	**221,814**	**190,767**	**4,532**	**611,137**

(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	(7,837)	(10,367)	(1,068)	(125)	(19,397)
Eliminated on disposal	-	77	-	1	78
Effect of translation to presentation currency for the period	(118)	(82)	9	1	(190)
Balance at 30 June 2004 – reviewed	**(20,489)**	**(21,893)**	**(1,059)**	**(210)**	**(43,651)**
Amortisation and depreciation charge for the period	(9,399)	(14,531)	(2,132)	(237)	(26,299)
Eliminated on disposal	3	233	-	33	269
Effect of translation to presentation currency for the period	(1,316)	(1,570)	(132)	(18)	(3,036)
Balance at 31 December 2004 – audited	**(31,201)**	**(37,761)**	**(3,323)**	**(432)**	**(72,717)**
Amortisation and depreciation charge for the period	(10,262)	(15,768)	(3,456)	(258)	(29,744)
Eliminated on disposal	1	391	-	5	397
Disposed on disposal of subsidiary	-	2,008	710	15	2,733
Effect of translation to presentation currency for the period	1,262	1,548	175	19	3,004
Balance at 30 June 2005 – reviewed	**(40,200)**	**(49,582)**	**(5,894)**	**(651)**	**(96,327)**
Net book value					
30 June 2004	**139,777**	**182,029**	**82,595**	**2,801**	**407,202**
31 December 2004	**161,926**	**189,704**	**146,784**	**3,711**	**502,125**
30 June 2005	**153,824**	**172,232**	**184,873**	**3,881**	**514,810**

At 30 June 2005 property, plant and equipment with carrying value of USD 2,379 thousand (30 June 2004: 17,844 thousand, 31 December 2004: USD 4,142 thousand) were pledged to secure short-term borrowings granted to the Group (refer to note 27).

(in thousands of US Dollars)

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004

15. CAPITAL CONSTRUCTION-IN-PROGRESS

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Balance at beginning of the period	**66,279**	**31,011**	**31,011**
Additions	35,587	10,442	38,184
Acquired on acquisition of subsidiaries (refer to note 31)	436	19,381	19,389
Transfers to property, plant and equipment (refer to note 14)	(5,031)	(1,940)	(23,918)
Disposals	(447)	(550)	(1,342)
Disposed on disposal of subsidiary (refer to note 32)	(42)	-	-
Effect of translation to presentation currency for the period	(2,891)	(3,011)	2,955
Balance at end of the period	**93,891**	**55,333**	**66,279**

16. INVESTMENTS IN ASSOCIATES

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Balance at beginning of the period	**9,357**	**-**	**-**
Acquired during the period	-	8,994	9,149
Change in classification due to increase in shareholding (refer to note 31)	(8,856)	-	-
Share of post-acquisition losses (refer to note 10)	(39)	(16)	(50)
Effect of translation to presentation currency for the period	(133)	-	258
Balance at end of the period	**329**	**8,978**	**9,357**

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

Name of associate	Principal activity	Date acquired	Share-holding	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
OJSC "Pervenets"	Gold mining	6 April 2004	26.00%	-	8,653	9,018
LLC "Kvartsevye technologii"	Quartz mining	6 April 2004	38.30%	329	325	339
				329	**8,978**	**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)

17. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Non-current			
Equity securities available-for-sale	1,119,385	128	1,462
Loans advanced	349	452	360
Long-term accounts receivable	-	-	1,111
Promissory notes receivable	-	503	-
Other	25	1,566	543
Total non-current	**1,119,759**	**2,649**	**3,476**
Current			
Promissory notes receivable	619,196	1,397	393,738
Other	88	864	104
Total current	**619,284**	**2,261**	**393,842**

Equity securities available-for-sale include 20.0% investment in Gold Fields Limited (South Africa) recorded at fair value at 30 June 2005 of 1,117,609 USD thousand. This investment was made in May 2005 through acquisition from "MMC Norilsk Nickel" of 100% interest in Jenington Investment Inc. for 944,940 USD thousand.

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

18. INVENTORIES

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Refined gold at net production cost	5,691	2,417	2,445
Work-in-process at production cost	20,054	14,187	11,070
Total metal inventories	**25,745**	**16,604**	**13,515**
Stores and materials at cost	67,012	48,159	57,104
Less: Provision for obsolescence	(1,340)	(877)	(573)
Total	**91,417**	**63,886**	**70,046**

(in thousands of US Dollars)

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004

19. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

Advances to suppliers	15,903	11,511	7,514
Other receivables from non-mining activities	14,402	12,635	12,252
	30,305	24,146	19,766
Less: Provision for doubtful debts	(7,788)	(5,753)	(7,451)
Total	**22,517**	**18,393**	**12,315**

20. OTHER CURRENT ASSETS

Value added tax recoverable	51,108	25,762	40,476
Deferred expenditures	28,573	19,140	14,507
Income tax prepaid	4,818	5,859	1,183
Other taxes prepaid	1,300	3,136	2,058
Total	**85,799**	**53,897**	**58,224**

Deferred expenditures mostly comprise excavation costs, general production costs and mine specific administration costs associated with preparation for the seasons in which the alluvial operations undertake mining activities.

21. CASH AND CASH EQUIVALENTS

Letters of credit	11,295	8,929	3,308
Current bank accounts	4,459	698	8,943
Cash in hand	74	63	117
Other cash and cash equivalents	334	375	647
Total	**16,162**	**10,065**	**13,015**

(in thousands of US Dollars)

22. SHARE CAPITAL

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Authorised			
1,123 ordinary shares at par value of RUR 400 each	16	15	16
120 preference shares at par value of RUR 100 each	-	-	-
Total	**16**	**15**	**16**
Issued and fully paid			
30 June 2004: 123 ordinary shares at par value of RUR 400 each 31 December 2004: 173 ordinary shares at par value of RUR 400 each 30 June 2005: 299 ordinary shares at par value of RUR 400 each	5	2	3
120 preference shares at par value of RUR 100 each	-	-	-
Total	**5**	**2**	**3**

During the second half of 2004 the Company issued 50 additional ordinary shares for a total consideration of RUR 14,530,498 thousand (USD 498,819 thousand). In 2005 the Company issued 126 additional ordinary shares for a total consideration of RUR 36,616,855 thousand (USD 1,299,745 thousand).

Preference shares are freely convertible into ordinary shares.

(in thousands of US Dollars)

23. MINORITY INTEREST

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Balance at beginning of the period	**43,927**	**-**	**-**
Minority interest in subsidiaries acquired (refer to note 31)	(60)	53,820	48,416
Minority interest in net profit/(loss) from subsidiaries for the period	1,987	(4,954)	(5,541)
Net decrease in minority interest due to change of shareholding structure in subsidiaries (refer to comment below)	(8,376)	-	-
Effect of translation to presentation currency for the period	(1,205)	(839)	1,052
Balance at end of the period	**36,273**	**48,027**	**43,927**

In March 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 a decrease in minority interest and an increase in equity attributable to shareholder of the parent company in the amount of USD 11,016 thousand.

In April 2005 26% share of OJSC “Lenzoloto” in OJSC “Pervenets” was sold to LLC “Lenskaya Zolotorudnaya Company”. This transaction resulted in decrease in minority interest and increase in equity attributable to shareholder of the parent company in the amount of USD 3,903 thousand.

During April-May 2005 OJSC “Matrosov Mine”, a subsidiary of the Group, issued additional ordinary shares, that were acquired by the Group. Prior to this transaction all losses of the company applicable to minority interest were allocated against the interest of shareholder of the parent company. As a result of the transaction minority interest in the increased net assets of OJSC “Matrosov Mine” in the amount of USD 6,543 thousand was recognised.

(in thousands of US Dollars)

24. DEFERRED TAX LIABILITIES

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

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 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)	(8,760)	6,237	7,198
Change in deferred tax liability arising on revaluation of available-for-sale investments	16,921	-	-
Change in deferred tax liability due to acquisition of subsidiaries (refer to note 31)	12,485	29,337	44,046
Change in deferred tax liability due to disposal of subsidiary	(1,193)	-	-
Effect of translation to presentation currency for the period	(3,193)	(40)	3,390
Net liability at end of the period	**102,707**	**67,347**	**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 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Property, plant and equipment	90,627	69,822	87,647
Valuation of investments	16,501	-	-
Accrued operating expenses	(3,664)	(2,279)	470
Provision for doubtful debts	(1,818)	(1,292)	(1,473)
Inventory valuation	1,061	1,096	(197)
Total	**102,707**	**67,347**	**86,447**

(in thousands of US Dollars)

25. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Balance at beginning of the period	**7,851**	**6,978**	**6,978**
Unwinding of discount on decommissioning obligation during the period (refer to note 9)	233	214	427
Effect of translation to presentation currency for the period	(258)	101	446
Balance at end of the period	**7,826**	**7,293**	**7,851**

Provision for land rehabilitation

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Balance at beginning of the period	**2,629**	**-**	**-**
Charge to the income statement	191	2,532	2,532
Effect of translation to presentation currency for the period	(89)	(19)	97
Balance at end of the period	**2,731**	**2,513**	**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.

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Total environmental obligations	**10,557**	**9,806**	**10,480**

26. OTHER LONG-TERM LIABILITIES

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004
Long-term taxes payable	1,175	2,801	819
Long-term borrowings	-	5,299	3,538
Long-term obligations under finance lease	-	5,631	3,783
Other payables	952	1,215	916
Total	**2,127**	**14,946**	**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.

(in thousands of US Dollars)

	Reviewed 30 June 2005	Reviewed 30 June 2004	Audited 31 December 2004

27. SHORT-TERM BORROWINGS

RUR-denominated short-term borrowings	5,207	94,633	30,252
USD-denominated short-term borrowings	-	10,211	4,460
Current portion of long-term borrowings	-	5,600	400
Total	**5,207**	**110,444**	**35,112**

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

RUR-denominated short-term borrowings	10.4% to 17%	10% to 20%	10% to 20%
USD-denominated short-term borrowings	-	6% to 11%	6% to 10%

Short-term borrowings are secured by:

Property, plant and equipment (refer to note 14)	2,379	17,844	4,142

28. TRADE AND OTHER PAYABLES

Trade accounts payable	10,278	12,357	10,000
Wages and salaries	14,239	13,534	7,888
Payables for production equipment	2,291	5,155	4,452
Accrued annual leave	6,929	4,173	3,108
Interest payable	113	5,125	1,744
Current portion of obligation under finance lease	-	1,155	1,045
Other creditors	2,377	9,242	8,671
Total	**36,227**	**50,741**	**36,908**

29. TAXES PAYABLE

Value added tax payable	4,801	3,794	4,058
Income tax	228	5,620	2,157
Social taxes	2,299	1,629	3,043
Tax on mining	2,487	2,239	-
Property tax	771	339	566
Provision for fines and penalties	172	15,642	-
Other taxes	2,222	3,583	4,690
Total	**12,980**	**32,846**	**14,514**

(in thousands of US Dollars)

30. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Profit before taxation	**51,170**	**76,075**	**61,815**
Adjustments for:			
Impairment of goodwill on acquisition	-	-	114,639
Amortisation and depreciation	29,744	19,397	45,696
Interest expense on borrowings	1,380	4,065	10,146
Loss on disposal of property, plant and equipment and assets under construction	1,112	1,308	3,164
Change in provision for doubtful debts	346	775	2,535
Provision for land rehabilitation	191	2,532	2,532
Unwinding of discount on decommissioning obligations	233	214	427
Change in provision for obsolete inventory	806	642	355
Loss from associates	39	16	50
Change in provision for tax fines and penalties	-	772	(14,815)
Accrued income on promissory notes	(17,279)	(3,717)	(16,803)
Gain from change in terms of finance leases	-	-	(1,101)
Operating profit before working capital changes	**67,742**	**102,079**	**208,640**
Increase in inventories	(26,957)	(10,241)	(12,774)
(Increase)/decrease in advances to suppliers and other receivables	(11,491)	1,529	6,835
Increase in other current assets, excluding income tax prepaid	(26,449)	(3,822)	(11,496)
Increase/(decrease) in trade and other payables	4,623	8,997	(1,799)
Decrease in taxes payable, excluding income tax	(14,796)	(58)	(7,623)
Cash flows from operations	**(7,328)**	**98,484**	**181,783**

(in thousands of US Dollars)

31. ACQUISITION OF SUBSIDIARIES

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
Net assets acquired			
Property, plant and equipment (refer to note 14)	54,730	194,705	259,981
Capital construction-in-progress (refer to note 15)	436	19,381	19,389
Inventories – refined metals	-	3,777	3,843
Inventories – other	47	24,131	24,328
Trade and other receivables	41	12,484	12,493
Cash and cash equivalents	81	2,362	2,369
Other current assets	74	48,264	49,705
Loans and borrowings	(1,922)	(64,595)	(67,679)
Trade and other payables	(2,125)	(49,716)	(53,635)
Deferred taxation (refer to note 24)	(12,485)	(29,337)	(44,046)
Net assets at date of acquisition	**38,877**	**161,456**	**206,748**
Minority interest	60	(53,820)	(48,416)
Groups' share of net assets acquired	**38,937**	**107,636**	**158,332**
Less: Carrying value of investment in subsidiary before acquiring control (refer to note 16)	(8,856)	-	-
Add: Goodwill on acquisition that was fully impaired (refer to comment below)	-	108,788	114,639
Total consideration	**30,081**	**216,424**	**272,971**
Satisfied by cash	(30,081)	(216,424)	(272,971)
Net cash outflow arising on acquisition:			
Cash consideration	(30,081)	(216,424)	(272,971)
Cash and cash equivalents acquired	81	2,362	2,369
Net cash outflow on acquisition of subsidiaries	**(30,000)**	**(214,062)**	**(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" 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 481 thousand loss before taxation from the date control was attained to 30 June 2005.

(in thousands of US Dollars)

CJSC "Tonoda"

On 9 December 2004, 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.

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 "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.

During April-May 2005, the Group acquired 100% of additional shares issued by OJSC "Matrosov Mine", bringing its total share in the company to 87.44%. On 31 May 2005, the Group further increased its investment in OJSC "Matrosov Mine" up to 88.4% for a cash consideration of USD 4,265 thousand.

	Reviewed six months ended 30 June 2005	Reviewed six months ended 30 June 2004	Audited year ended 31 December 2004
32. DISPOSAL OF SUBSIDIARY			
Net assets disposed of			
Property, plant and equipment (refer to note 14)	12,592	-	-
Capital construction-in-progress (refer to note 15)	42	-	-
Investments in securities and other financial assets	501	-	-
Trade and other receivables	319	-	-
Cash and cash equivalents	107	-	-
Inventories	1,970	-	-
Other current assets	5,987	-	-
Trade and other payables	(22,362)	-	-
Net assets at date of disposal	**(844)**	**-**	**-**
Group's share of assets disposed of			
Less: Gain on disposal	844	-	-
Proceeds from disposal of subsidiaries			
Less: Cash and cash equivalents disposed of	(107)	-	-
Net cash outflow from disposal of subsidiaries	**(107)**	**-**	**-**

In June 2005 CJSC "Nedra Bodaybo", a gold mining subsidiary, was disposed of for a cash consideration of less than USD 1 thousand.

(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 goods and services	Interest income	Interest expense	Promissory notes receivable	Trade receivables	Cash deposits	Short-term borrowings	Trade payables	Purchase of investments
Six months ended 30 June 2005 – reviewed										
By the Company	105,818	10,113	17,229	-	606,825	725	10,039	-	-	944,940
By subsidiaries of the Group	21,662	-	-	1,028	12,371	-	4,342	4,047	885	-
Total	**127,480**	**10,113**	**17,229**	**1,028**	**619,196**	**725**	**14,381**	**4,047**	**885**	**944,940**
Six months ended 30 June 2004 – reviewed										
By the Company	161,264	1,901	3,374	1,884	21	-	7,886	49,573	-	-
By subsidiaries of the Group	14,627	-	-	1,331	1,397	720	14	41,985	-	-
Total	**175,891**	**1,901**	**3,374**	**3,215**	**1,418**	**720**	**7,900**	**91,558**	**-**	**-**
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. In 2004 Norilsk Nickel Group developed a comprehensive property risk insurance program 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 and taxation risks

The Group has been and continues to be subject from time to time to claims and legal proceedings relating to its business activities. Unresolved tax litigation and possible taxation risks at 30 June 2005 amount to approximately USD 1,483 thousand. Management believes that the probability of unfavourable outcome of litigation and taxation risks is moderate.

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 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.

The Group does not enter into any forward or hedging contracts or other financial instruments to offset its commodity price risk.

(in thousands of US Dollars)

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 30 June 2005		Audited 31 December 2004	
	Carrying value	Fair value	Carrying value	Fair Value
Investments in associates (refer to note 16)	329	329	9,357	9,357
Investments in securities and other financial assets ` (refer to note 17)	1,739,043	1,739,043	397,318	397,318
Advances to suppliers and other receivables (refer to note 19)	22,517	22,517	12,315	12,315
Other current assets (refer to note 20)	85,799	85,799	58,224	58,224
Cash and cash equivalents (refer to note 21)	16,162	16,162	13,015	13,015
Other long-term liabilities (refer to note 26)	2,127	2,127	9,056	9,056
Short-term borrowings (refer to note 27)	5,207	5,207	35,112	35,112
Trade accounts and other payables (refer to note 28)	36,227	36,227	36,908	36,908
Taxes payable (refer to note 29)	12,980	12,980	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.

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 July 2005 an additional 5.6% (30 June 2005: 57.0%, refer to note 38) of issued ordinary shares of OJSC “Lenzoloto” was acquired by the Group for USD 2,679 thousand.

In September 2005, 99.2% of share capital of LLC “Aldanzoloto “GRK”, 50% of the issued ordinary shares of OJSC “South-Verkhoyansk Mining Company”, and 100% of the issued ordinary shares of OJSC “Yakut Mining Company” were acquired by the Group. According to the purchase agreement total consideration is to be finalized by the end of 2005, but will not exceed USD 285 million.

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

On 15 April 2005 the Board of Directors of OJSC “MMC Norilsk Nickel” approved a plan to spin-off the Group into a new company by way of a single transaction. The transaction is a subject to the final approval by the Extraordinary General Meeting of Shareholders of OJSC “MMC Norilsk Nickel” on 30 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 OJSC “MMC Norilsk Nickel” will receive ordinary shares in the newly created company in proportion to their existing shareholding in OJSC “MMC Norilsk Nickel”.

(in thousands of US Dollars)

38. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Shares held			Effective % held		
Subsidiaries	**Nature of business**	**Reviewed 30 June 2005**	**Reviewed 30 June 2004**	**Audited 31 December 2004**	**Reviewed 30 June 2005**	**Reviewed 30 June 2004**	**Audited 31 December 2004**
OJSC "Lenzoloto"	Market agent	847,535	751,100	847,535	56.96	50.48	56.96
LLC "Lenskaya Zolotorudnaya Company"	Market agent	-	-	-	100.00	-	100.00
OJSC "Matrosov Mine"	Mining	232,747	34,883	43,929	88.35	45.30	57.05
"Jenington International Inc."	Market agent	1,000,000	-	-	100.00	-	-
CJSC "Tonoda"	Mining	9,100	-	9,100	100.00[1]	-	100.00[1]
OJSC "Pervenets"	Mining	100	-	-	100.00[1]	-	-
CJSC "Lensib"	Mining	610	610	610	34.75[1]	30.79[1]	34.75[1]
CJSC "Svetliy"	Mining	840	840	840	47.85[1]	42.40[1]	47.85[1]
CJSC "Marakan"	Mining	840	840	840	47.85[1]	42.40[1]	47.85[1]
CJSC "Nadezhdinskoe"	Mining	840	840	840	47.85[1]	42.40[1]	47.85[1]
CJSC "Dalnaya Taiga"	Mining	820	820	820	46.71[1]	41.39[1]	46.71[1]
CJSC "Sevzoto"	Mining	650	650	650	37.02[1]	32.81[1]	37.02[1]
CJSC "Charazoto"	Mining	640	640	640	36.45[1]	32.31[1]	36.45[1]
CJSC "Nedra Bodaybo"	Mining	-	1,071	1,071	-	25.75[1]	29.05[1]
CJSC "GRK Sukhoy Log"	Mining	100	100	100	100.00[1]	50.48[1]	56.96[1]
CJSC "Vitimenergo"	Electricity production	355,679	355,679	355,679	100.00[1]	50.48[1]	56.96[1]
LLC "Lengeo"	Geological research	-	-	-	100.00[1]	50.48[1]	56.96[1]
LLC "Vitimservice"	Procurement services	-	-	-	100.00[1]	50.48[1]	56.96[1]
LLC "Lenrem"	Repair services	-	-	-	56.96[1]	50.48[1]	56.96[1]
LLC "LZDT"	Transportation	-	-	-	100.00[1]	50.48[1]	56.96[1]

[1] Effective % held through other Group subsidiaries