

Polyus Gold

**Condensed consolidated financial statements
for the six months ended 30 June 2007
(unaudited)**

POLYUS GOLD

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following statement, which should be read in conjunction with 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 condensed consolidated financial statements of Open Joint Stock Company "Polyus Gold" and its subsidiaries (the "Group").

Management is responsible for the preparation of the condensed consolidated financial statements that present fairly the financial position of the Group at 30 June 2007 and the results of its operations, cash flows and changes in equity for the period then ended, in accordance with International Financial Reporting Standards ("IFRS").

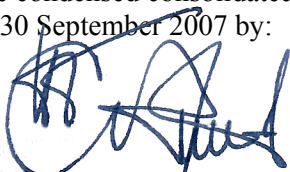
In preparing the condensed consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The condensed consolidated financial statements for the six months ended 30 June 2007 were approved on 30 September 2007 by:



Skitovich P.G.
General Director

Moscow, Russia
30 September 2007



Steschenko D.A.
Chief Accountant

INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying condensed consolidated balance sheet of Open Joint Stock Company "Polyus Gold" and subsidiaries (collectively, the "Group") as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of financial information consists of making inquiries, primarily of persons 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2007 and of its financial performance, its changes in equity and its cash flows for the six months then ended in accordance with International Financial Reporting Standards.



Moscow, Russia
30 September 2007

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CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Sales		309,360	297,331
Cost of sales	3	(204,410)	(165,690)
Gross profit		104,950	131,641
Selling, general and administrative expenses	4	(185,397)	(34,308)
Research and exploration expenses		(1,828)	(1,121)
Other net operating expenses	5	(9,757)	(3,301)
Operating (loss)/profit		(92,032)	92,911
Finance costs	6	(2,667)	(2,873)
Net income from investments	7	21,483	976,513
Other non-operating expenses		(2,061)	(2,837)
(Loss)/profit before income tax		(75,277)	1,063,714
Income tax	8	(18,142)	(32,380)
(Loss)/profit for the period		(93,419)	1,031,334
Attributable to:			
Shareholders of the parent company		(93,738)	1,035,125
Minority interest		319	(3,791)
		(93,419)	1,031,334
(Loss)/earnings per share			
Basic and diluted (US cents)	9	(54)	10

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CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

	Notes	30 June 2007	31 December 2006
ASSETS			
Non-current assets		1,898,995	1,780,240
Property, plant and equipment	10	1,888,738	1,768,447
Investments in securities and other financial assets	11	852	848
Long-term portion of reimbursable value added tax		9,405	10,945
Current assets		1,922,984	1,863,762
Inventories	12	207,773	168,829
Advances to suppliers and other receivables	13	66,821	39,234
Other current assets	14	145,587	123,073
Investments in securities and other financial assets	11	1,082,084	1,238,429
Cash and cash equivalents	15	420,719	294,197
TOTAL ASSETS		3,821,979	3,644,002
EQUITY AND LIABILITIES			
Capital and reserves		3,070,562	3,117,506
Share capital	16	6,871	6,871
Additional paid-in capital		2,190,661	2,190,661
Treasury shares	16	(995,557)	(995,557)
Investment revaluation reserve		24,985	19,620
Translation reserve		319,924	260,116
Retained earnings		1,486,041	1,603,386
Equity attributable to shareholders of the parent company		3,032,925	3,085,097
Minority interest		37,637	32,409
Non-current liabilities		340,753	339,415
Deferred tax liabilities	17	265,197	266,100
Environmental obligations		75,442	71,513
Other long-term liabilities		114	1,802
Current liabilities		410,664	187,081
Obligations under finance lease		3,084	2,885
Deferred consideration for acquisition of subsidiaries		59,943	75,833
Short-term borrowings		11,202	12,116
Liabilities under share option plan	18	133,915	-
Trade and other payables	19	153,303	70,513
Dividends payable		23,850	-
Taxes payable		25,367	25,734
TOTAL EQUITY AND LIABILITIES		3,821,979	3,644,002

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

	Six months ended 30 June 2007	Six months ended 30 June 2006
Operating activities		
(Loss)/profit before income tax	(75,277)	1,063,714
Adjustments for:		
Amortisation and depreciation	50,952	39,714
Net income from investments	(17,354)	(969,745)
Other	16,278	41
Operating (loss)/profit before working capital changes	(25,401)	133,724
Increase in inventories	(36,235)	(12,945)
Increase in advances to suppliers and other receivables	(30,536)	(18,021)
Increase in other current assets and value added tax, excluding income tax prepaid	(6,038)	(23,697)
Increase in trade and other payables	65,496	6,339
Decrease in taxes payable, excluding income tax	(9,800)	(3,891)
Increase in liabilities under share option plan	132,548	-
Cash flows from operations	90,034	81,509
Interest paid	(696)	(3,395)
Income tax paid	(27,758)	(42,855)
Net cash inflow from operating activities	61,580	35,259
Investing activities		
Purchase of promissory notes and other financial assets	(564,215)	(1,142,077)
Proceeds from sale of promissory notes and other financial assets	733,107	475,610
Purchase of property, plant and equipment	(156,194)	(83,223)
Repayment of deferred consideration for acquisition of subsidiaries	22,677	-
Interest received	19,472	-
Proceeds from sale of shares of Gold Fields Ltd.	-	1,925,402
Other	5,385	9,515
Net cash inflow from investing activities	60,232	1,185,227
Financing activities		
Cash contribution by Norilsk Nickel in connection with the spin-off	-	360,197
Repayments of promissory notes	-	(10,838)
Other	(2,956)	(1,563)
Net cash (outflow)/inflow from financing activities	(2,956)	347,796
Effect of translation to presentation currency	7,666	19,342
Net increase in cash and cash equivalents	126,522	1,587,624
Cash and cash equivalents at beginning of the period	294,197	28,408
Cash and cash equivalents at end of the period	420,719	1,616,032

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

in thousands of US Dollars

	Share capital	Additional paid-in capital	Treasury shares	Investment revaluation reserve	Translation reserve	Retained earnings	Equity attributable to shareholders of the parent company	Minority interest	Total
Balance at 31 December 2005	5	1,837,330	-	816,709	8,350	446,169	3,108,563	29,632	3,138,195
Profit for the period	-	-	-	-	-	1,035,125	1,035,125	(3,791)	1,031,334
Recognised gain on available-for-sale investments sold during the period	-	-	-	(816,709)	-	-	(816,709)	-	(816,709)
Issue of shares of OJSC "Polyus Gold"	6,866	353,331	-	-	-	-	360,197	-	360,197
Increase in minority interest due to increase of share capital of a subsidiary	-	-	-	-	-	(753)	(753)	753	-
Effect of translation to presentation currency	-	-	-	-	178,202	-	178,202	1,780	179,982
Balance at 30 June 2006	6,871	2,190,661	-	-	186,552	1,480,541	3,864,625	28,374	3,892,999
Profit for the period	-	-	-	-	-	122,845	122,845	3,059	125,904
Buy back of issued shares	-	-	(995,557)	-	-	-	(995,557)	-	(995,557)
Increase in fair value of available-for-sale investments	-	-	-	19,620	-	-	19,620	-	19,620
Effect of translation to presentation currency	-	-	-	-	73,564	-	73,564	976	74,540
Balance at 31 December 2006	6,871	2,190,661	(995,557)	19,620	260,116	1,603,386	3,085,097	32,409	3,117,506
Loss for the period	-	-	-	-	-	(93,738)	(93,738)	319	(93,419)
Dividends	-	-	-	-	-	(23,607)	(23,607)	-	(23,607)
Increase in fair value of available-for-sale investments	-	-	-	5,365	-	-	5,365	-	5,365
Increase in minority interest due to sale of preferred shares in OJSC "Lenzoloto"	-	-	-	-	-	-	-	4,216	4,216
Effect of translation to presentation currency	-	-	-	-	59,808	-	59,808	693	60,501
Balance at 30 June 2007	6,871	2,190,661	(995,557)	24,985	319,924	1,486,041	3,032,925	37,637	3,070,562

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

1. GENERAL

Organisation

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

The principal activities of the Company and its subsidiaries (the “Group”) are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research and exploration works, primarily at the Natalka field located in the Magadan region and the Nezhdaninskoe field located in the Sakha Republic. Further details regarding the nature of the business and structure of the Group are presented in note 23.

The immediate shareholders of the Company as at 30 June 2007 are presented in note 16.

The principal beneficial shareholders of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov.

Basis of presentation

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Disposal of shares in subsidiary

During six months ended 30 June 2007, the Group sold all of its preferred shares in OJSC “Lenzoloto”, a subsidiary, for a cash consideration of USD 1,240 thousand, incurring a loss of USD 2,976 thousand. As a result of this transaction, the effective ownership of the Group in this subsidiary decreased from 68.2% to 64.1%.

During six months ended 30 June 2007, the Group also sold 100% of ordinary shares in OJSC “Sibzolorazvedka”.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

In preparation of these condensed consolidated financial statements the Group used the same accounting policies, presentation and methods of computation as were applied in consolidated financial statements for the year ended 31 December 2006.

Exchange rates used for translation of assets and liabilities denominated in Russian Rouble (“RUR”), functional currency of the Group, into United States of America Dollar (“USD” or “US Dollar”), presentation currency, were as follows (RUR to 1 USD):

	<u>30 June 2007</u>	<u>30 June 2006</u>	<u>31 December 2006</u>
Period-end rates	25.8162	27.0789	26.3311
Average rates for the period	26.0827	27.6799	27.1852

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

	Six months ended 30 June 2007	Six months ended 30 June 2006
3. COST OF SALES		
Cash operating costs	177,318	142,623
On-mine costs	94,869	79,321
Smelting and concentrating costs	60,895	43,590
Refining costs	1,345	1,498
Tax on mining	20,209	18,214
Amortisation and depreciation of operating assets	48,457	34,665
Change in provision for land restoration	549	250
Increase in metal inventories	(21,914)	(11,848)
Total	204,410	165,690
4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Share option plan (refer to note 18)	132,548	-
Salaries	32,362	20,966
Taxes other than mining and income taxes	5,237	3,815
Professional services	2,627	1,171
Depreciation	2,495	1,893
Research and development	2,232	542
Bank charges	563	848
Repair and maintenance	505	440
Other	6,828	4,633
Total	185,397	34,308
5. OTHER NET OPERATING EXPENSES		
Loss on disposal of property, plant and equipment	5,564	1,033
Change in allowance for doubtful debts	4,007	2,422
Change in allowance for obsolescence of inventory	1,924	-
Net operating (gain)/loss from non-mining activities	(726)	328
Other	(1,012)	(482)
Total	9,757	3,301
6. FINANCE COSTS		
Unwinding of discount on decommissioning obligations	1,928	1,671
Interest on borrowings	739	1,202
Total	2,667	2,873

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

in thousands of US Dollars

	Six months ended 30 June 2007	Six months ended 30 June 2006
7. NET INCOME FROM INVESTMENTS		
Net income from loans under repurchase agreements	11,093	-
Income accrued on deposits	10,903	37,973
Interest income on promissory notes	7,384	9,775
Net loss from revaluation of investments denominated in foreign currency	(6,933)	(69,713)
Loss on disposal of preferred shares of OJSC "Lenzoloto"	(2,976)	-
Gain on disposal of investments and other financial assets	2,109	991,710
Other	(97)	6,768
Total	21,483	976,513

For the six months ended 30 June 2006 gain on disposal of investments and other financial assets included gain on sale of investment in Gold Fields Ltd. in the amount of USD 980,462 thousand.

8. INCOME TAX

Current tax	24,288	36,842
Deferred tax	(6,146)	(4,462)
Total	18,142	32,380

9. (LOSS)/EARNINGS PER SHARE

(Loss)/profit attributable to shareholders of the parent company:

from 1 January to 30 June 2007	(93,738)	-
from 17 March to 30 June 2006	-	19,986

Weighted average number of ordinary shares in issue:

from 1 January to 30 June 2007	173,480,967	-
from 17 March to 30 June 2006	-	190,627,747

Basic and diluted (loss)/earnings per share (US cents)	(54)	10
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Earnings per share for the six months ended 30 June 2006 were calculated based on the profit attributable to shareholders of the parent company for the period subsequent to the incorporation of the Company, and the weighted average number of ordinary shares in issue during that period. Such earnings per share amount is not comparable to loss per share for the six months ended 30 June 2007.

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

in thousands of US Dollars

10. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction- in-progress	Total
Cost					
Balance at 31 December 2005	59,010	1,058,034	40,838	98,603	1,256,485
Additions	20,834	20,114	1,152	45,960	88,060
Transfers from capital construction-in-progress	-	6,143	-	(6,143)	-
Disposals	-	(2,489)	(1,629)	(735)	(4,853)
Effect of translation to presentation currency	4,175	67,091	2,558	7,074	80,898
Balance at 30 June 2006	84,019	1,148,893	42,919	144,759	1,420,590
Additions	36,029	73,106	6,596	62,807	178,538
Acquired on acquisition of subsidiaries	606	375,649	-	-	376,255
Transfers from capital construction-in-progress	-	41,032	-	(41,032)	-
Disposals	-	(13,602)	(72)	(2,655)	(16,329)
Effect of translation to presentation currency	2,900	39,311	1,312	4,379	47,902
Balance at 31 December 2006	123,554	1,664,389	50,755	168,258	2,006,956
Additions	45,931	28,305	4,466	71,556	150,258
Transfers from capital construction-in-progress	-	308	-	(308)	-
Disposals	-	(7,527)	(674)	(4,507)	(12,708)
Disposed of on disposal of subsidiary	(234)	(745)	(965)	(1)	(1,945)
Effect of translation to presentation currency	2,936	33,407	1,040	4,045	41,428
Balance at 30 June 2007	172,187	1,718,137	54,622	239,043	2,183,989
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2005	-	(132,650)	(6,126)	(5,264)	(144,040)
Charge for the period	-	(39,254)	(460)	-	(39,714)
Eliminated on disposals	-	491	11	-	502
Effect of translation to presentation currency	-	(9,207)	(395)	(329)	(9,931)
Balance at 30 June 2006	-	(180,620)	(6,970)	(5,593)	(193,183)
Charge for the period	-	(39,862)	(6,106)	-	(45,968)
Eliminated on disposals	-	6,843	228	-	7,071
Impairment loss	(118)	-	(272)	(1)	(391)
Effect of translation to presentation currency	(1)	(5,593)	(285)	(159)	(6,038)
Balance at 31 December 2006	(119)	(219,232)	(13,405)	(5,753)	(238,509)
Charge for the period	-	(53,147)	(2,870)	-	(56,017)
Eliminated on disposals	-	2,901	97	-	2,998
Disposed of on disposal of subsidiary	120	745	699	1	1,565
Effect of translation to presentation currency	(1)	(4,883)	(289)	(115)	(5,288)
Balance at 30 June 2007	-	(273,616)	(15,768)	(5,867)	(295,251)
Net book value					
30 June 2006	84,019	968,273	35,949	139,166	1,227,407
31 December 2006	123,435	1,445,157	37,350	162,505	1,768,447
30 June 2007	172,187	1,444,521	38,854	233,176	1,888,738

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

in thousands of US Dollars

Mining assets at 30 June 2007 included mineral rights of USD 899,035 thousand (30 June 2006: USD 513,641 thousand, 31 December 2006: USD 897,163 thousand).

Amortisation and depreciation capitalised during the six months ended 30 June 2007 amounted to USD 5,065 thousand (30 June 2006: USD 3,156 thousand; the year ended 31 December 2006: USD 6,560 thousand).

At 30 June 2007 the carrying amount of the Group's machinery and equipment included USD 4,169 thousand (30 June 2006: USD 7,106 thousand; 31 December 2006: USD 5,087 thousand) in respect of assets held under finance leases.

	<u>30 June 2007</u>	<u>31 December 2006</u>
11. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS		
Non-current		
Loans advanced	446	445
Equity investments available-for-sale	364	357
Other	42	46
	<u>852</u>	<u>848</u>
Total non-current		
Current		
Equity investments available-for-sale	384,985	379,620
Loans under repurchase agreements	180,908	111,373
Bank deposits	172,988	364,438
Investments in listed companies held for trading	139,921	192,155
Promissory notes receivable	107,114	103,929
Investment deposit in Rosbank	86,055	83,362
Other	10,113	3,552
	<u>1,082,084</u>	<u>1,238,429</u>
Total current		

At 30 June 2007 current equity investments available-for-sale represented investment in shares of Rosfund, SPC (Cayman Islands), acquired in July 2006 for USD 360,000 thousand. Change in fair value of this investment was recognised directly in equity.

Bank deposits at 4.25-6.85% per annum were denominated in RUR and mature before October 2007.

Investments in listed companies held for trading and loans under repurchase agreements were acquired by Rosbank, a related party (the "Bank"), on behalf of the Group under asset management agreements. The principal amounts invested by the Group of USD 102,649 thousand and USD 193,677 thousand, respectively, are not guaranteed by the Bank.

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

Investment deposit in Rosbank primarily represented promissory notes purchased and held by Rosbank on behalf of the Group. The principal amount of this deposit of USD 85,024 thousand is guaranteed by the Bank.

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

in thousands of US Dollars

	<u>30 June 2007</u>	<u>31 December 2006</u>
12. INVENTORIES		
Work-in-process at production cost	62,795	40,706
Refined gold at net production cost	<u>63</u>	<u>2</u>
Total metal inventories	62,858	40,708
Stores and materials at cost	146,940	129,094
Less: Allowance for obsolescence	<u>(2,025)</u>	<u>(973)</u>
Total	<u>207,773</u>	<u>168,829</u>
13. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES		
Advances to suppliers	51,089	28,758
Other receivables from non-mining activities	<u>29,889</u>	<u>20,389</u>
	80,978	49,147
Less: Allowance for doubtful debts	<u>(14,157)</u>	<u>(9,913)</u>
Total	<u>66,821</u>	<u>39,234</u>
14. OTHER CURRENT ASSETS		
Reimbursable value added tax	92,431	101,178
Deferred expenditures	28,294	11,287
Income tax prepaid	17,660	8,228
Other taxes prepaid	<u>7,202</u>	<u>2,380</u>
Total	<u>145,587</u>	<u>123,073</u>
<p>Deferred expenditures related to the preparation for the seasonal alluvial mining activities mostly comprised stripping and excavation costs, general production and specific administration costs.</p>		
15. CASH AND CASH EQUIVALENTS		
Bank deposits	317,200	244,519
Current bank accounts	100,331	47,856
- RUR	203	1,413
- foreign currencies	<u>2,985</u>	<u>409</u>
Other cash and cash equivalents	<u>2,985</u>	<u>409</u>
Total	<u>420,719</u>	<u>294,197</u>

Bank deposits were denominated in USD at interest rates of 4.25-5.29% per annum with maturity within three months after the reporting dates.

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

in thousands of US Dollars

16. SHARE CAPITAL

At 30 June 2007, authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUR 1.

During November 2006 the Company bought back 17,146,780 ordinary shares from shareholders for a total consideration USD 995,557 thousand. Treasury shares held by a subsidiary of the Group have been recorded at cost and presented as a separate component in equity.

The immediate shareholders of the Company as at 30 June 2007 and 31 December 2006 were as follows:

Shareholders	30 June 2007		31 December 2006	
	Number of shares	% held	Number of shares	% held
CJSC "ING Bank Evrazia" (nominal)	63,772,049	36.8%	63,996,683	36.9%
Bristaco Holdings Co. Limited	24,866,670	14.3%	24,866,670	14.3%
Lovenco Holdings Co. Limited	24,866,670	14.3%	24,866,670	14.3%
OJSC AKB "Rosbank" (nominal)	20,601,827	11.9%	-	-
CJSC "KM Invest"	14,100,053	8.1%	14,100,053	8.1%
NP "National Deposit Centre" (nominal)	12,388,354	7.1%	8,641,729	5.0%
CJSC "Deposit Clearing Company"	7,726,772	4.5%	-	-
Panolio Trading Limited	-	-	6,021,971	3.5%
Praderato Trading Limited	-	-	6,021,971	3.5%
Other	5,158,572	3.0%	24,965,220	14.4%
	173,480,967	100.0%	173,480,967	100.0%

POLYUS GOLD

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

	<u>30 June 2007</u>	<u>31 December 2006</u>
17. DEFERRED TAX LIABILITIES		
The movement in the Group's deferred tax position was as follows:		
Net liability at beginning of the period	266,100	171,345
Recognised in the income statement for the period	(6,146)	(11,631)
Change in deferred tax liabilities realised on revaluation of available- for-sale investments	-	(583)
Increase due to acquisition of subsidiaries	-	91,344
Effect of translation to presentation currency	5,243	15,625
	<u>265,197</u>	<u>266,100</u>
Net liability at end of the period	265,197	266,100

Deferred tax is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The tax effects of temporary differences that give rise to deferred taxation are presented below:

Property, plant and equipment	268,573	268,637
Inventory valuation	4,643	4,080
Investments valuation	873	1,548
Accrued operating expenses	(6,276)	(6,324)
Valuation of receivables	(2,616)	(1,841)
	<u>265,197</u>	<u>266,100</u>
Total	265,197	266,100

At 30 June 2007 the unutilised tax losses of the entities at the development stage available for offset against the future taxable income, amounted to USD 9,145 thousand (31 December 2006: USD 16,873 thousand).

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 74,115 thousand (31 December 2006: USD 69,708 thousand), because management believes that it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

18. LIABILITIES UNDER SHARE OPTION PLAN

On 3 April 2007 the Company's Board of Directors approved an option-based executive compensation plan under which certain members of management and directors of the Group were granted options to buy up to 9,531,380 ordinary shares of the Company at the price of USD 14 per share. Subsequently the number of shares for the share option plan was reduced to 4,765,693 ordinary shares.

Obligations under the share option plan were recorded within the current liabilities in the Group's consolidated balance sheet as at 30 June 2007.

POLYUS GOLD

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

	<u>30 June 2007</u>	<u>31 December 2006</u>
19. TRADE AND OTHER PAYABLES		
Advances received in respect of share option plan	56,871	-
Trade accounts payable	39,924	20,799
Accrual for annual leave	17,985	14,316
Wages and salaries	14,313	6,277
Interest payable	7,028	9,255
Other creditors	17,182	19,866
Total	<u>153,303</u>	<u>70,513</u>

POLYUS GOLD

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

20. RELATED PARTIES

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

	<u>Sale of gold to Rosbank</u>	<u>Purchase of assets, supplies and services</u>	<u>Cash deposits</u>	<u>Short-term investments</u>	<u>Promissory notes receivable</u>	<u>Trade receivable</u>	<u>Trade payables</u>
Six months ended 30 June 2007							
By the Company	-	-	35,405	211,373	-	-	-
By other subsidiaries of the Group	<u>264,116</u>	<u>35,910</u>	<u>106,266</u>	<u>115,785</u>	<u>107,114</u>	<u>3,076</u>	<u>15,009</u>
Total	<u>264,116</u>	<u>35,910</u>	<u>141,671</u>	<u>327,158</u>	<u>107,114</u>	<u>3,076</u>	<u>15,009</u>
Six months ended 30 June 2006							
By the Company	-	-	81,537	-	-	-	-
By other subsidiaries of the Group	<u>209,943</u>	<u>18,957</u>	<u>25,064</u>	<u>132,098</u>	<u>100,915</u>	<u>8,609</u>	<u>343</u>
Total	<u>209,943</u>	<u>18,957</u>	<u>106,601</u>	<u>132,098</u>	<u>100,915</u>	<u>8,609</u>	<u>343</u>

Compensation of key management personnel

The remuneration of key management personnel of the Group for the six months ended 30 June 2007 amounted to USD 5,947 thousand (30 June 2006: USD 2,569 thousand).

POLYUS GOLD

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) *in thousands of US Dollars*

21. CONTINGENCIES

Litigation and tax contingencies

Unresolved tax litigation at 30 June 2007 amounted to approximately USD 1,433 thousand (31 December 2006: nil). Management has assessed the unfavourable outcome of such litigation as possible.

With regard to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposure at 30 June 2007 of approximately USD 1,687 thousand (31 December 2006: USD 1,387 thousand).

22. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Execution of share option plan

In July 2007 the Group's management exercised their options in respect of the share option plan. The total number of shares acquired equalled to 4,575,065. Remaining portion of shares under share option plan of 190,628 shares is expected to be sold by the end of 2007.

POLYUS GOLD

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED) in thousands of US Dollars

23. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	Effective % held ¹	
			30 June 2007	31 December 2006
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	100.0	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	99.2	99.2
OJSC "Lenzoloto"	Russian Federation	Market agent	64.1	68.2
LLC "Lenskaya Zolotorudnaya Company"	Russian Federation	Market agent	100.0	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	64.1	68.2
CJSC "Lensib"	Russian Federation	Mining	39.1	41.6
CJSC "Svetliy"	Russian Federation	Mining	53.8	57.3
CJSC "Marakan"	Russian Federation	Mining	53.8	57.3
CJSC "Nadezhdinskoe"	Russian Federation	Mining	53.8	57.3
CJSC "Dalnaya Taiga"	Russian Federation	Mining	52.5	55.9
CJSC "Sevzoto"	Russian Federation	Mining	41.7	44.3
CJSC "Charazoto"	Russian Federation	Mining	41.0	43.6
CJSC "GRK Sukhoy Log"	Russian Federation	Mining	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	93.3	93.3
CJSC "Tonoda"	Russian Federation	Mining (development stage)	100.0	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	100.0	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	100.0	100.0
OJSC "Yakut Mining Company"	Russian Federation	Mining (development stage)	100.0	100.0
LLC "GRK BarGold"	Russian Federation	Mining (development stage)	93.3	93.3
CJSC "Vitimenergo"	Russian Federation	Electricity production	100.0	100.0
CJSC "Mamakanskaya GES"	Russian Federation	Electricity production	100.0	100.0
CJSC "Vitimenergosbyt"	Russian Federation	Electricity distribution	100.0	100.0
LLC "Vitimservice"	Russian Federation	Procurement services	100.0	100.0
LLC "Lenrem"	Russian Federation	Repair services	64.1	68.2
LLC "LZDT"	Russian Federation	Transportation	100.0	100.0
OJSC "Sibzolotorazvedka" ³	Russian Federation	Geological research	-	100.0
LLC "Lengeo"	Russian Federation	Geological research	100.0	100.0
LLC "MGRP"	Russian Federation	Geological research	93.3	93.3
LLC "KGRP"	Russian Federation	Geological research	100.0	100.0
LLC "AGRP" ²	Russian Federation	Geological research	100.0	-
LLC "IGRP" ²	Russian Federation	Russian Federation	100.0	-
OJSC "Polus Gtologorazvedka" ²	Russian Federation	Russian Federation	100.0	-
Jenington International Inc.	British Virgin Islands	Market agent	100.0	100.0
Polyus Investments Ltd.	Cyprus	Market agent	100.0	100.0

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

² Established by the Group in 2007.

³ Disposed of in 2007.