POLYUS

WE KNOW THE WORTH OF GOLD

POLYUS GOLD:

IFRS consolidated financial statements for the year ended 31 December 2007

2007 financials: The major factors influencing 2007 financial results

- Increase in the average gold selling price for the 2007 year by 16% maintaining the same level of ounces sold for the year.
- Planned increase in overburden operations not related to the extraction of ore, namely excessive stripping, as a result of beginning of extensive development of lower grade sulfide ore Olympiada mine.
- Accrual of $133 million expense under share option plan.
- Strengthening of Russian Rouble in relation to US Dollar by 6.3% for the period ended 31 December 2007 compared to the previous year (2007 average – 25,5772; 2006 average – 27,1852).
- Increase in the payroll expenses due to bonus payments to employees of Krasnoyarsk business unit related to earlier commissioning of Olimpiada Mill-3.
- Increase of material and fuel expenses exceeding inflation

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2007 financials: Consolidated income statement

USD'000	2007	2006	CHANGE
Gold sales	849,023	734,559	16%
Other sales	18,096	18,127	0%
TOTAL REVENUE	**867,119**	**752,686**	**15%**
Cost of gold sales	(509,158)	(422,512)	21%
including excessive stripping	**(53,254)**	-	
Cost of other sales	(25,866)	(18,816)	37%
GROSS PROFIT	**332,095**	**311,358**	**7%**
Selling, general and administrative expenses	(261,776)	(79,678)	229%
including share option plan	**(132,548)**	-	
Research and exploration expenses	(6,217)	(7,574)	-18%
Other operating income	7,696	2,094	268%
Other operating expenses	(18,025)	(14,108)	28%
OPERATING PROFIT	**53,773**	**212,092**	**-75%**
Finance costs	(6,629)	(6,453)	3%
Income from investments	61,537	1,102,111	-94%
including gain on the sale of investment in Gold Fields	-	980,462	
Foreign exchange gain/(loss), net	9,583	(73,924)	-113%
including translation of foreign operations	-	(82,321)	
PROFIT BEFORE INCOME TAX	**118,264**	**1,233,826**	**-90%**
Income tax	(71,177)	(74,385)	-4%
PROFIT FOR THE YEAR	**47,087**	**1,159,441**	**-96%**

2007 financials: EBITDA

USD'000	2007	2006
PROFIT FOR THE YEAR	**47,087**	**1,159,441**
Income tax	71,177	74,385
Amortisation and depreciation	92,415	78,477
Net finance costs	2,574	6,453
Interest income	(51,493)	(107,616)
Gain on disposal of investments	(9,898)	(987,696)
Foreign exchange (gain) / loss, net	(9,583)	73,924
Adjustments for non-recurring items		
Loss on disposal of property, plant and equipment	6,421	1,494
Impairment of property, plant and equipment	312	-
Release of decommissioning obligations	-	2,094
Impairment of goodwill	-	2,194
Change in allowance for reimbursable value added tax	-	2,814
Share option plan	132,548	-
Excessive stripping	53,254	
EBITDA	**334,814**	**305,964**

2007 financials: Cost of gold sales

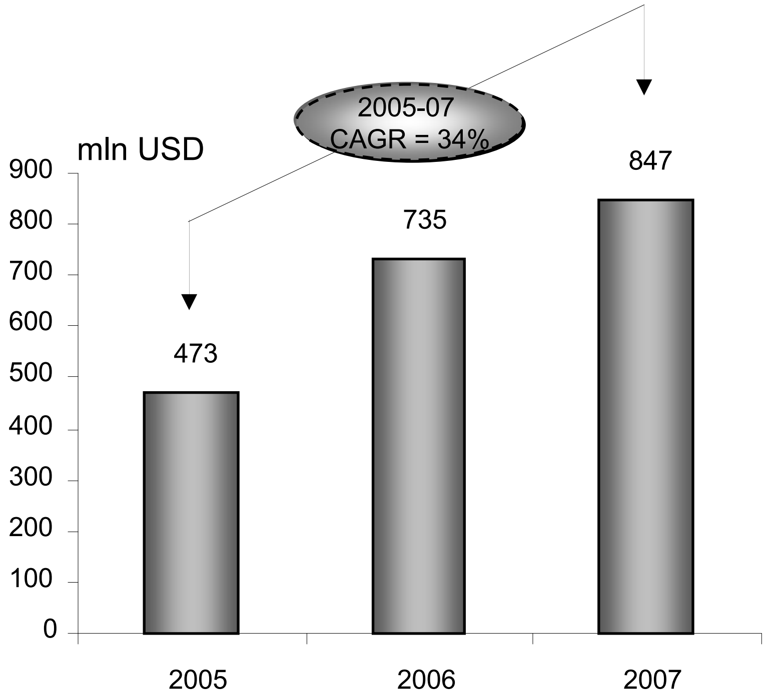
USD'000	2007	2006	Change
Consumables and spares	200,601	152,854	31%
Labour	144,008	104,358	38%
Tax on mining	51,138	42,361	21%
Utilities	32,166	24,897	29%
Refining	3,569	3,462	3%
Sundry	10,742	20,280	-47%
CASH OPERATING COSTS	**442,224**	**348,212**	**27%**
Amortisation and depreciation	87,196	73,718	18%
Change in provision for land restoration	482	7,318	-93%
NON-CASH OPERATING COSTS	**87,678**	**81,036**	**8%**
Increase in metal inventories	(20,744)	(6,736)	208%
COST OF GOLD SALES	**509,158**	**422,512**	**21%**

2007 financials: Total cash costs

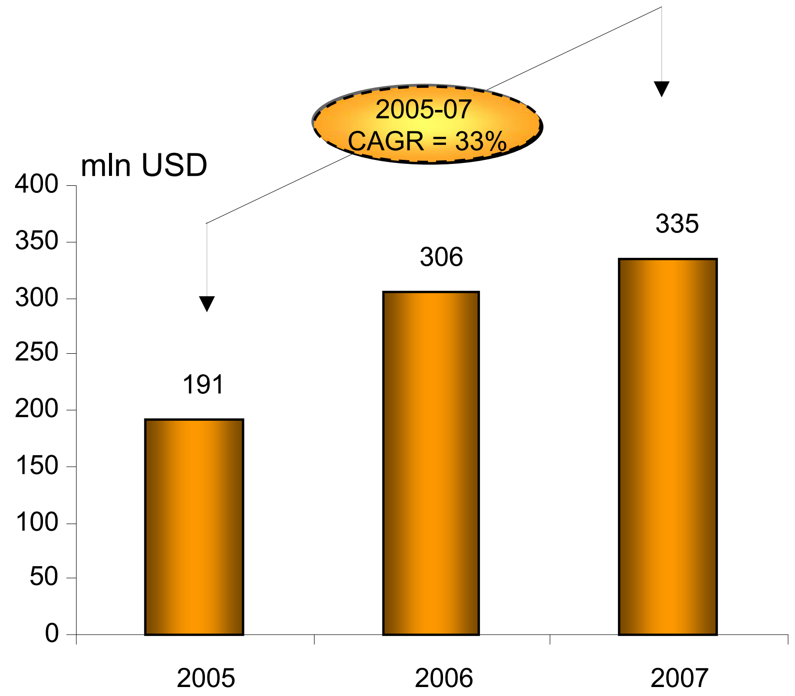
USD'000	2007	2006
COST OF GOLD SALES	**509,158**	**422,512**
amortisation and depreciation	(87,196)	(73,718)
change in vacation reserve	(4,190)	(2,663)
change in provision for land restoration	(482)	(7,318)
non-cash change in metal inventories	3,944	1,167
TOTAL CASH COSTS	**421,234**	**339,980**
Thousand ounces of gold sold	1,210	1,216
TCC, USD per ounce	**348**	**280**
TCC without excessive stripping, USD per ounce	**304**	**-**

2007 financials: Revenue and EBITDA show 30%+ CAGR in two years

- Sales increased 15% from 2006, showing 2-year CAGR of 34%.

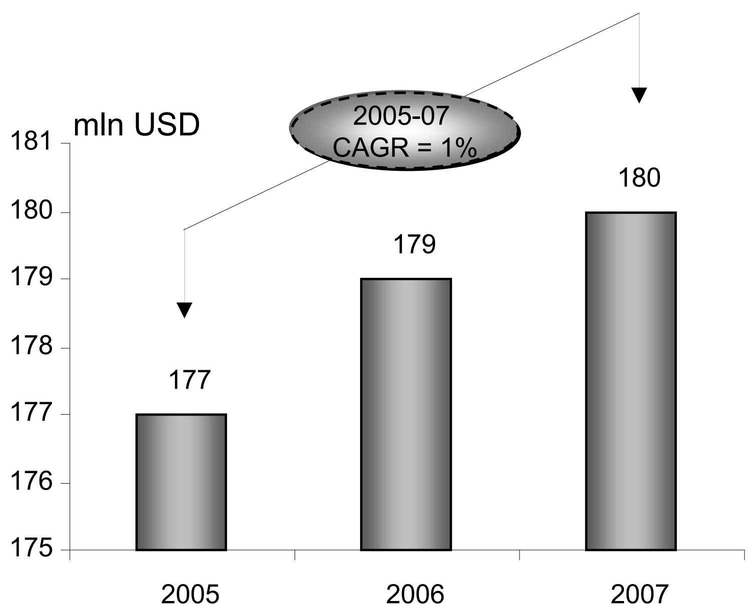


- 2007 EBITDA were USD 335 million, an increase of 9.5% from 2006 and 33% 2-year CAGR.

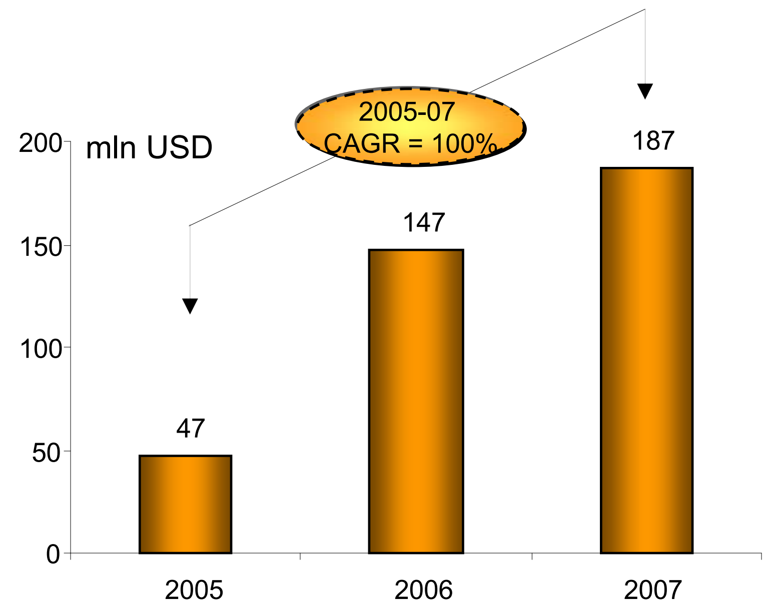


2007 financials: 100% 2-year CAGR in operating cash flow

- **<u>Net income*</u> of the group slightly increased, compensated by higher material costs and lavish compensation to Mill-3 constructors**



- **Enormous 100% 2-year CAGR in <u>operating cash flow</u>**



*Polyus' net income adjusted for USD 132.5 million option plan expenses in 2007 and USD 980.5 million one-off investment income in 2006

2007 financials: Expenses – one of the lowest TCC but extensive Capex

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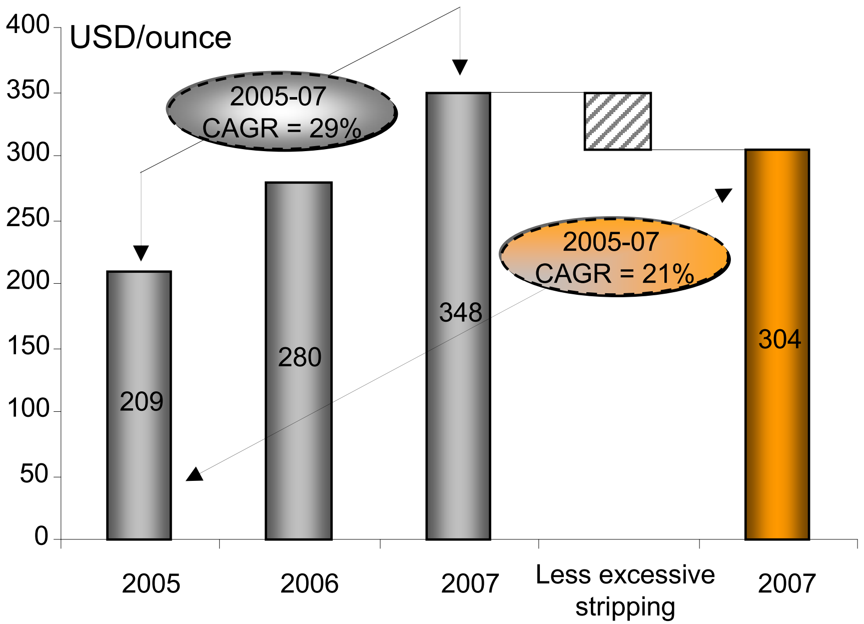
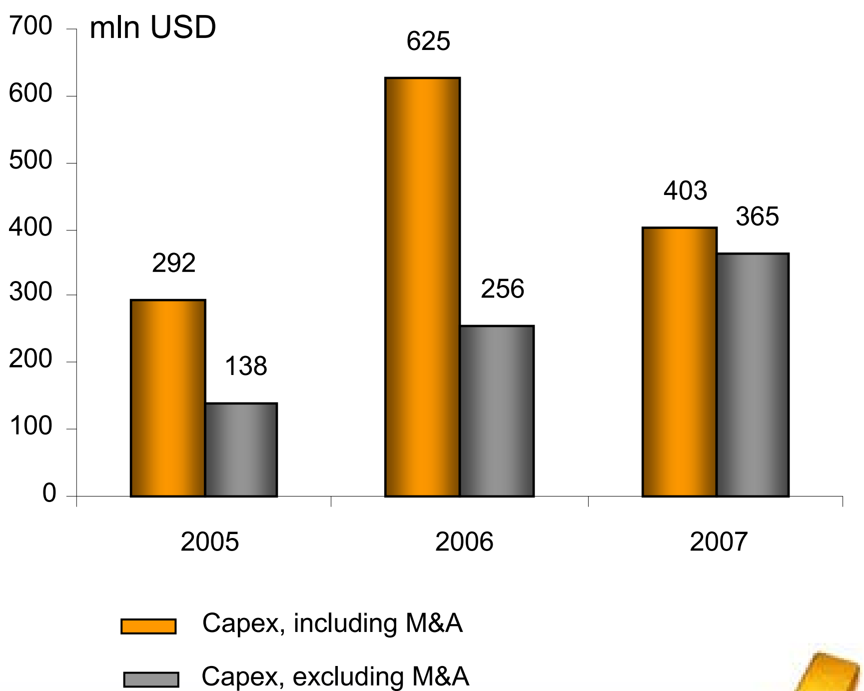
- **2007 IFRS based TCC equal to 348 USD/ounce, but we also calculate excessive stripping-adjusted TCC (304 USD/ounce), the figure which does not take into account excessive stripping works. CAGR of 21-29% lower than CAGR in Revenue and EBITDA**

- **Extensive Capex program brings operations closer to the date**

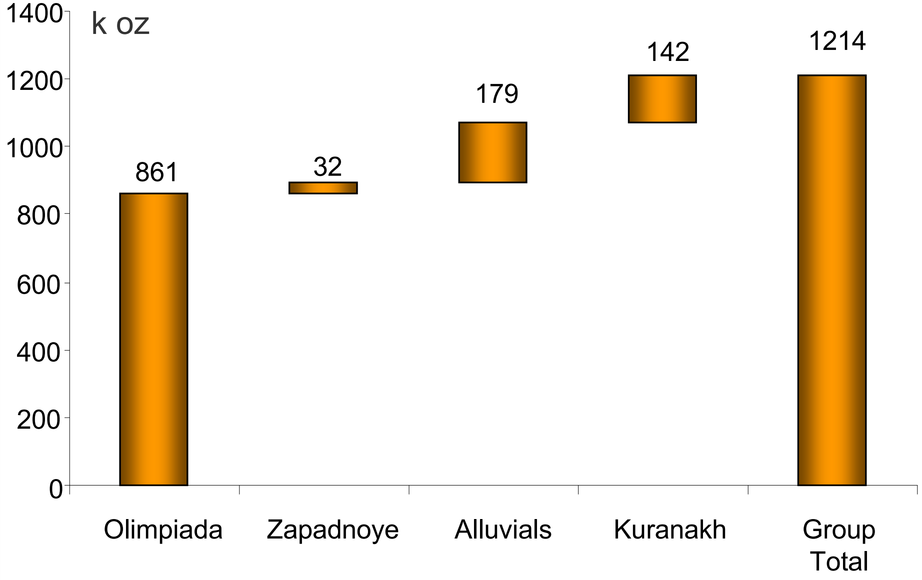




Excessive stripping works of USD 53 million which are included in COS in 2007 audited results, but we continue to analyze the options to capitalize such costs in future. Excessive stripping gives additional 44 USD/ounce in TCC calculations.

2007 financials: Production and TCC breakdown

- **<u>Gold production</u> in 2007 by the Group's production units,**



- **<u>Total Cash Costs</u> by production units**