

Polyus Gold

**Condensed consolidated
financial statements
for the six months ended 30 June 2008
(unaudited)**

POLYUS GOLD

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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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 2008

The following statement, which should be read in conjunction with report on the review of condensed consolidated financial statements 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 2008 and the results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

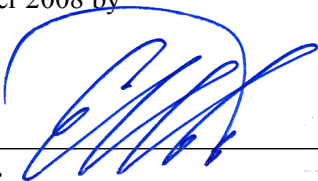
In preparing the condensed consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether International Financial Reporting Standards 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.

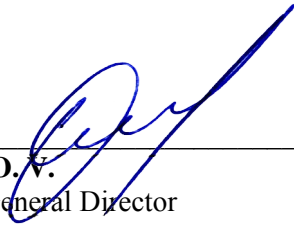
Management is also responsible for:

- 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 2008 were approved on 26 September 2008 by:



Ivanov E. I.
General Director



Ignatov O. V.
Deputy General Director

Moscow, Russia
26 September 2008

REPORT ON THE REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To 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 (the "Group") as at 30 June 2008 and the related condensed consolidated statements of income, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months then ended, and a summary of significant accounting policies and selected explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). 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 Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated financial statements 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 are not prepared in accordance with IAS 34.

Emphasis of matter

Comparative information for the six months ended 30 June 2007 has been retrospectively adjusted for changes in accounting policies, as further discussed in note 4 to the condensed consolidated financial statements.



Moscow, Russia
26 September 2008

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CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007 (as restated*)
Gold sales		505,730	309,360
Other sales		13,179	8,689
Total revenue		518,909	318,049
Cost of gold sales	5	(301,855)	(204,410)
Cost of other sales		(13,230)	(7,964)
Gross profit		203,824	105,675
General and administrative expenses	6	(64,954)	(181,042)
Research and exploration expenses		(4,430)	(3,425)
Other income	7	20,587	1,137
Other expenses	7	(7,444)	(16,656)
Finance costs		(2,335)	(2,667)
Net income from investments	8	25,047	34,801
Foreign exchange gain		350	6,940
Profit/(loss) before income tax		170,645	(55,237)
Current tax expense		(46,316)	(24,288)
Deferred tax benefit		8,110	4,666
Profit/(loss) for the period		132,439	(74,859)
Attributable to:			
Shareholders of the parent company		132,751	(75,509)
Minority interest		(312)	650
		132,439	(74,859)
Earnings/(loss) per share			
Weighted average number of ordinary shares in issue during the period		178,124,637	173,480,967
Basic and diluted (US cents)		75	(44)

* The comparative information for the six months ended 30 June 2007 reflects adjustments made in connection with changes in accounting policies (refer to note 4).

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CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	Notes	30 June 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,049,429	1,783,432
Investments in securities and other financial assets	10	2,864	2,147
Long-term portion of reimbursable value added tax		36,975	11,824
		2,089,268	1,797,403
Current assets			
Inventories	11	247,007	231,985
Reimbursable value added tax		77,661	108,926
Accounts receivable		16,292	13,477
Advances paid to suppliers		35,215	26,204
Investments in securities and other financial assets	10	752,122	1,270,918
Income tax receivable		5,976	3,398
Other current assets	12	41,381	20,680
Cash and cash equivalents	13	672,110	226,174
		1,847,764	1,901,762
TOTAL ASSETS		3,937,032	3,699,165
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	14	6,871	6,871
Additional paid-in capital		2,116,655	2,118,165
Treasury shares		(724,927)	(730,450)
Investments revaluation reserve		41,531	36,907
Translation reserve		544,443	420,157
Retained earnings		1,418,060	1,337,346
Equity attributable to shareholders of the parent company		3,402,633	3,188,996
Minority interest		45,335	47,187
		3,447,968	3,236,183
Non-current liabilities			
Deferred tax liabilities		190,795	183,356
Environmental obligations		88,038	81,341
		278,833	264,697
Current liabilities			
Deferred consideration on acquisition of subsidiaries		2,778	37,943
Short-term borrowings		-	20,909
Trade payables		56,713	21,651
Other payables and accrued expenses		54,992	83,932
Dividends payable	14	22,721	-
Minority interest liability	15	19,043	-
Income tax payable		28,579	12,663
Other taxes payable		25,405	21,187
		210,231	198,285
TOTAL LIABILITIES		489,064	462,982
TOTAL EQUITY AND LIABILITIES		3,937,032	3,699,165

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	Six months ended 30 June 2008	Six months ended 30 June 2007 (as restated*)
Operating activities		
Profit/(loss) before income tax	170,645	(55,237)
Adjustments for:		
Amortisation and depreciation	55,633	50,620
(Profit)/loss on disposal of property, plant and equipment	(1,951)	5,564
Finance costs	2,335	2,667
Net income from investments	(25,047)	(34,801)
Change in estimate of deferred consideration for acquisition of subsidiaries	(15,746)	-
Foreign exchange gain	(350)	(6,940)
Share option plan	-	132,548
Other	(2,801)	18,561
Operating profit before working capital changes	182,718	112,982
Increase in inventories	(3,661)	(36,235)
Increase in advances to suppliers and other receivables	(9,817)	(30,536)
Increase in other current assets and reimbursable value added tax	(13,138)	(6,038)
Increase in trade and other payables	1,884	110,850
Decrease in other taxes payable	(318)	(9,800)
Cash flows from operations	157,668	141,223
Interest paid	(2,527)	(696)
Income tax paid	(27,126)	(27,758)
Net cash generated from operating activities	128,015	112,769
Investing activities		
Increase of ownership in subsidiaries	(22,128)	-
Repayment of deferred consideration on acquisition of subsidiaries	(20,069)	(22,677)
Purchase of property, plant and equipment	(230,101)	(162,094)
Proceeds from sale of property, plant and equipment	4,635	4,146
Interest received	19,103	19,472
Purchase of promissory notes and other financial assets	(2,024)	(564,215)
Proceeds from sale of promissory notes and other financial assets	574,506	734,347
Net cash generated from investing activities	323,922	8,979

* The comparative information for the six months ended 30 June 2007 reflects adjustments made in connection with changes in accounting policies (refer to note 4).

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) *(in thousands of US Dollars)*

	Six months ended 30 June 2008	Six months ended 30 June 2007 (as restated*)
Financing activities		
Proceeds from borrowings	-	525
Repayments of borrowings	(19,843)	(1,596)
Repayments of finance lease obligations	(1,668)	(1,885)
Proceeds from issuance of Company's shares from treasury stock	1,334	-
Dividends paid to minority shareholders of the Group's subsidiary	(658)	-
Net cash used in financing activities	(20,835)	(2,956)
Effect of translation to presentation currency	14,834	7,730
Net increase in cash and cash equivalents	445,936	126,522
Cash and cash equivalents at beginning of the period	226,174	294,197
Cash and cash equivalents at end of the period	672,110	420,719

* The comparative information for the six months ended 30 June 2007 reflects adjustments made in connection with changes in accounting policies (refer to note 4).

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008 (in thousands of US Dollars)

Notes	Equity attributable to shareholders of the parent company							Minority interest	Total
	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2006	6,871	2,190,661	(995,557)	19,620	259,876	1,320,151	2,801,622	32,647	2,834,269
Increase in fair value of available-for-sale investments	-	-	-	5,365	-	-	5,365	-	5,365
Translation of foreign operations	-	-	-	-	(13,873)	-	(13,873)	-	(13,873)
Effect of translation to presentation currency	-	-	-	-	102,951	-	102,951	696	103,647
Total income recognised directly in equity – as restated	-	-	-	5,365	89,078	-	94,443	696	95,139
Loss for the period – as restated	-	-	-	-	-	(75,509)	(75,509)	650	(74,859)
Total recognised income and expense for the period – as restated	-	-	-	-	-	(75,509)	(75,509)	650	(74,859)
Dividends to shareholders of the parent company	-	-	-	-	-	(21,722)	(21,722)	-	(21,722)
Increase in minority interest due to decrease in share capital of a subsidiary	-	-	-	-	-	-	-	4,216	4,216
Balance at 30 June 2007 – as restated	6,871	2,190,661	(995,557)	24,985	348,954	1,222,920	2,798,834	38,209	2,837,043
Balance at 31 December 2007	6,871	2,118,165	(730,450)	36,907	420,157	1,337,346	3,188,996	47,187	3,236,183
Increase in fair value of available-for-sale investments, net of deferred tax of USD 7,054 thousand	10	-	-	4,624	-	-	4,624	8,023	12,647
Translation of foreign operations	-	-	-	-	(59,054)	-	(59,054)	-	(59,054)
Effect of translation to presentation currency	-	-	-	-	183,647	-	183,647	2,276	185,923
Total income recognised directly in equity	-	-	-	4,624	124,593	-	129,217	10,299	139,516
Profit for the period	-	-	-	-	-	132,751	132,751	(312)	132,439
Total recognised income and expense for the period	-	-	-	-	-	132,751	132,751	(312)	132,439
Dividends to shareholders of the parent company	14	-	-	-	-	(22,258)	(22,258)	-	(22,258)
Dividends to minority shareholders in the Group's subsidiaries	-	-	-	-	-	-	-	(658)	(658)
Decrease in minority interest due to change of shareholding structure of subsidiaries	-	-	-	-	-	1,108	1,108	(1,108)	-
Decrease in minority interest due to increase in share capital of a subsidiary	-	-	-	-	-	(17,029)	(17,029)	(5,099)	(22,128)
Issuance of shares from treasury stock under share option plan	-	(1,510)	5,523	-	(307)	-	3,706	-	3,706
Minority interest liability	15	-	-	-	-	(13,858)	(13,858)	(4,974)	(18,832)
Balance at 30 June 2008		6,871	2,116,655	(724,927)	41,531	544,443	1,418,060	45,335	3,447,968

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (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, 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.

The principal beneficial shareholders of the Group at 30 June 2008 and 31 December 2007 were Mr. Vladimir Potanin and Mr. Mikhail Prokhorov.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

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 (“IAS”) 34 “Interim Financial Reporting”, except for effective income tax rate, that was calculated based on actual income tax expense.

The condensed consolidated financial statements do not include all the information and disclosures required in the preparation of the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as of 31 December 2007.

Accounting policies

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2007.

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 US Dollar):

	<u>30 June 2008</u>	<u>30 June 2007</u>	<u>31 December 2007</u>
Period-end rates	23.46	25.82	24.55
Average rates for the period	23.94	26.08	25.58

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) *(in thousands of US Dollars)*

3. RECLASSIFICATIONS

Certain comparative information, presented in the condensed consolidated income statement for the six months ended 30 June 2007 has been reclassified in order to achieve comparability with the presentation used in the condensed consolidated financial statements for the six months ended 30 June 2008.

The effect of the reclassifications is summarised below:

	<u>After</u> <u>reclassifications</u>	<u>Before</u> <u>reclassifications</u>	<u>Difference</u>
Other sales	8,689	-	8,689
Cost of other sales	(7,964)	-	(7,964)
Other income	1,137	-	1,137
Other expenses	(16,656)	-	(16,656)
Other net operating expenses	-	(9,757)	9,757
Other non-operating expenses	-	(2,061)	2,061
General and administrative expenses	(186,574)	(185,397)	(1,177)
Foreign exchange gain	(6,933)	-	(6,933)
Research and exploration expenses	(4,060)	(1,828)	(2,232)
Net income from investments	34,801	21,483	13,318
			<u><u>-</u></u>

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) *(in thousands of US Dollars)*

4. CHANGES IN ACCOUNTING POLICIES

In 2007, subsidiaries of the Group operating in Cyprus and the British Virgin Islands significantly increased their investing activities which led to economical autonomy of these entities from the Company, and as result the functional currency of these entities changed from RUR to USD. Comparative figures for 2007 include the effect of this change in accounting policy. Assets and liabilities of these subsidiaries were translated into the new functional currency using the exchange rate as at 1 January 2007. The translated amounts for non-monetary items were treated as their new historical cost.

In addition, management of the Group changed its accounting policy for administrative overhead costs directly attributable to exploration and evaluation activities. In accordance with the new policy, such costs, which previously were recognised in the income statement as incurred, are capitalised within exploration and evaluation assets. The reason for the change was to make the accounting policy consistent with the substance of the expenses and the way the Group manages its exploration and evaluation activities. Management believes that the new policy is consistent with common industry practices and will result in more accurate information about expenditures related to the exploration and evaluation activities. The change in accounting policy has been applied retrospectively in the consolidated financial statements for the year ended 31 December 2007.

Effect from the changes in accounting policies on the financial results of operation of the Group for the six months ended 30 June 2007 is presented below.

	Six months ended 30 June 2007
Increase in foreign exchange gain	13,873
Decrease in general and administrative expenses	5,532
Decrease in deferred income tax benefit	(1,480)
Decrease in research and exploration expenses	635
Net increase in profit for the period	18,560
Net decrease in loss per share	11

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	Six months ended 30 June 2008	Six months ended 30 June 2007 (as restated*)
5. COST OF GOLD SALES		
Cash operating costs	246,435	177,318
On-mine costs	128,733	94,869
Smelting and concentrating costs	81,474	60,895
Refining costs	2,019	1,345
Tax on mining	34,209	20,209
Amortisation and depreciation of operating assets	52,805	48,457
Change in provision for land restoration	618	549
Decrease/(increase) in gold-in-process and refined gold	1,997	(21,914)
Total	301,855	204,410
6. GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries	31,265	28,051
Taxes other than mining and income taxes	9,711	5,237
Professional services	5,938	2,442
Bank charges	5,699	3,923
Rent expenses	2,434	139
Depreciation	2,103	2,163
Repair and maintenance	810	439
Communication services	589	565
Share option plan	-	132,548
Other	6,405	5,535
Total	64,954	181,042
7. OTHER INCOME AND EXPENSES		
<i>Other income</i>		
Change in estimate of deferred consideration for acquisition of subsidiaries	15,746	-
Profit on disposal of property, plant and equipment	1,951	-
Other	2,890	1,137
Total	20,587	1,137

* The comparative information for the six months ended 30 June 2007 reflects adjustments made in connection with the changes in accounting policies (refer to note 4).

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	Six months ended 30 June 2008	Six months ended 30 June 2007 (as restated*)
<i>Other expenses</i>		
Donations	2,257	1,545
Change in allowance for reimbursable value added tax	2,218	-
Change in allowance for doubtful debts	(58)	4,007
Change in allowance for obsolescence of inventory	(413)	1,924
Loss on disposal of property, plant and equipment	-	5,564
Loss on disposal of preferred shares of a subsidiary	-	2,976
Other	3,440	640
Total	7,444	16,656

8. NET INCOME FROM INVESTMENTS

Income from financial assets at fair value through profit and loss

Net income from investments in listed companies held for trading	415	4,539
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Income from held-to-maturity investments

Interest income on promissory notes	2,958	7,384
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Income from loans and deposits

Income on bank deposits	15,088	10,903
Interest income on loans under repurchase agreements	6,047	11,093
Other	539	882

Total	25,047	34,801
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* The comparative information for the six months ended 30 June 2007 reflects adjustments made in connection with the changes in accounting policies (refer to note 4).

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non- mining assets	Capital construction- in-progress	Total
Cost					
Balance at 31 December 2006	133,930	1,281,171	50,755	168,258	1,634,114
Additions – as restated	52,098	32,386	4,466	67,476	156,426
Transfers	-	308	-	(308)	-
Disposals	-	(11,607)	(674)	(427)	(12,708)
Disposed of on disposal of subsidiary	(239)	(765)	(984)	(1)	(1,989)
Effect of translation to presentation currency	3,212	25,782	1,061	4,045	34,100
Balance at 30 June 2007 – as restated	189,001	1,327,275	54,624	239,043	1,809,943
Balance at 31 December 2007	301,238	1,584,243	60,739	193,716	2,139,936
Additions	84,964	34,493	1,141	128,251	248,849
Transfers	-	8,155	-	(8,155)	-
Disposals	-	(3,620)	(497)	(817)	(4,934)
Effect of translation to presentation currency	15,747	74,351	2,833	11,468	104,399
Balance at 30 June 2008	401,949	1,697,622	64,216	324,463	2,488,250
Accumulated amortisation, depreciation and impairment					
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	122	760	713	1	1,596
Effect of translation to presentation currency	(3)	(4,898)	(303)	(115)	(5,319)
Balance at 30 June 2007	-	(273,616)	(15,768)	(5,867)	(295,251)
Balance at 31 December 2007	-	(330,678)	(19,655)	(6,171)	(356,504)
Charge for the period	-	(63,174)	(3,508)	-	(66,682)
Eliminated on disposals	-	1,897	353	-	2,250
Effect of translation to presentation currency	-	(16,621)	(978)	(286)	(17,885)
Balance at 30 June 2008	-	(408,576)	(23,788)	(6,457)	(438,821)
Net book value					
30 June 2007 – as restated	189,001	1,053,659	38,856	233,176	1,514,692
31 December 2007	301,238	1,253,565	41,084	187,545	1,783,432
30 June 2008	401,949	1,289,046	40,428	318,006	2,049,429

Mining assets at 30 June 2008 included mineral rights of USD 550,440 thousand (31 December 2007: USD 534,451 thousand).

Amortisation and depreciation capitalised during the six months ended 30 June 2008 amounted to USD 11,049 thousand (30 June 2007: USD 5,397 thousand – as restated).

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

At 30 June 2008, machinery and equipment with a carrying value of the Group's included USD 2,312 thousand (31 December 2007: USD 3,236 thousand) were held under finance lease agreements.

The balances of property, plant and equipment at 30 June 2008 were recorded net of value added tax ("VAT") incurred on acquisition of exploration and evaluation and mining assets of USD 38,678 thousand (31 December 2007: USD 11,824 thousand). This VAT is reimbursable when the respective assets are put into operation. Management of the Group believes that VAT amounts are recoverable in full.

	<u>30 June 2008</u>	<u>31 December 2007</u>
10. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS		
Non-current		
Loans advanced	2,456	1,731
Equity investments available-for-sale	400	416
Other	8	-
Total non-current	<u>2,864</u>	<u>2,147</u>
Current		
Available-for-sale investments	419,371	400,483
Loans under repurchase agreements	231,048	201,719
Equity investments in listed companies held for trading	59,676	187,628
Promissory notes receivable	42,027	110,865
Bank deposits	-	280,648
Investment deposit in Rosbank	-	89,575
Total current	<u>752,122</u>	<u>1,270,918</u>

Available-for-sale investments, carried at fair value

At 30 June 2008, equity investments available-for-sale mainly represented investment in Rosfund, SPC (Cayman Islands) in the amount of USD 389,371 thousand (31 December 2007: USD 399,060 thousand) and investment in OJSC "Vysochaishy" in the amount of USD 30,000 thousand (31 December 2007: USD nil thousand).

For the six months ended 30 June 2008 decrease in fair value of Rosfund investment in the amount of USD 9,689 thousand (2007: increase of USD 17,287 thousand) and increase in fair value of investment in "OJSC Vysochaishy" in the amount of USD 22,336 (net of deferred tax in the amount of USD 7,054 thousand) were recognised in equity.

Loans and receivables, carried at amortised cost

Loans under repurchase agreements, acquired by Rosbank on behalf of the Group under Asset management agreements, have effective interest rates of 5.6% (2007: 9.9%).

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Financial assets at fair value through profit or loss, carried at fair value

Equity investments in listed companies held for trading were acquired by Rosbank, on behalf of the Group, under Asset management agreements. The principal amount invested by the Group of USD 326,124 thousand was not guaranteed by Rosbank.

Held-to-maturity investments, carried at amortised cost

Interest rate on promissory notes, purchased from Rosbank, is 6.0% (2007: vary from 6.0% to 10.4%).

11. INVENTORIES

	<u>30 June 2008</u>	<u>31 December 2007</u>
Gold-in-process at net production cost	61,780	62,414
Refined gold at net production cost	<u>3,245</u>	<u>1,606</u>
Total metal inventories	65,025	64,020
Stores and materials at cost	184,081	170,373
Less: Allowance for obsolescence	<u>(2,099)</u>	<u>(2,408)</u>
Total	<u>247,007</u>	<u>231,985</u>

12. OTHER CURRENT ASSETS

Deferred expenditures	37,253	13,751
Other prepaid taxes	<u>4,128</u>	<u>6,929</u>
Total	<u>41,381</u>	<u>20,680</u>

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

13. CASH AND CASH EQUIVALENTS

Bank deposits	472,746	163,005
Current bank accounts	107,478	40,113
– RUR	1,998	690
– foreign currencies	76,231	6,641
Cash on accounts under Asset management agreement	13,657	15,725
Other cash and cash equivalents	<u>13,657</u>	<u>15,725</u>
Total	<u>672,110</u>	<u>226,174</u>

Bank deposits were denominated in USD and represented deposits in third party banks at interest rates of 4.0-9.0% 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 2008 (UNAUDITED) (in thousands of US Dollars)

14. SHARE CAPITAL

At 30 June 2008, and 31 December 2007, authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUR 1.

In February 2008, the Group's management exercised options in respect of the share option plan of 95,314 treasury shares of the Company were sold to management for total cash consideration USD 1,334 thousand. This transaction resulted in a decrease of treasury shares by USD 5,523 thousand and decrease of additional paid-in capital by USD 1,510 thousand.

On 26 June 2008, the Company declared a final dividend in respect of the year ended 31 December 2007 in the amount of RUR 2.95 (USD 0.13) per share. The dividend was declared in the amount of USD 22,258 thousand. The amount is net of USD 1,559 thousand attributable to treasury shares.

15. MINORITY INTEREST LIABILITY

In May 2008, a subsidiary of the Group, CJSC "Polyus", completed the purchase of an additional 2.7% of the shares of another subsidiary of the Group OJSC "Matrosov mine" ("Matrosov mine"). As a result of the additional purchase, the percentage of ownership of Matrosov mine by CJSC "Polyus" increased to 97.5%. Under Russian legislation, Polyus has an obligation to make an offer to purchase the remaining shares held by minority shareholders. The Group recognised a liability equal to the fair value of the ultimate cash obligation. A decrease in minority interest in respect of this transaction was recognised in condensed consolidated statement of changes in equity in the amount of USD 4,974 thousand for the six months ended 30 June 2008. The difference between the carrying value of the minority interest derecognised in equity and the fair value of the obligation was recognised in the condensed consolidated statement of statement of changes in equity.

16. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and members of 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.

From 24 April 2008, OJSC "MMC Norilsk Nickel" and its subsidiaries are no longer considered related parties for the Group.

From 13 February 2008 Rosbank and its subsidiaries are no longer considered related parties for the Group.

During the six months ended 30 June 2008 and 30 June 2007, the Group entered into the following transactions with related parties:

	Six months ended 30 June 2008	Six months ended 30 June 2007
<i>Gold sales</i>		
Rosbank	57,753	264,116
Total	57,753	264,116

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	Six months ended 30 June 2008	Six months ended 30 June 2007
<i>Purchase of goods and services</i>		
Taimyrskaya Toplivnaya Kompaniya	7,654	5,487
Norilsk Nickel	6,407	24,946
Insurance Company "Soglasie"	1,853	587
Rosbank	-	3,614
Yeniseyskoe Rechnoe Parohodstvo	-	1,273
Kraus-M	-	3
Total	15,914	35,910
<i>Income from investments</i>		
Rosbank	567	513
Total	567	513
Outstanding balances with related parties		
	30 June 2008	31 December 2007
<i>Cash and cash equivalents</i>		
Rosbank	N/A	86,414
Total	N/A	86,414
<i>Investments in securities and other financial assets</i>		
Rosbank	N/A	89,575
Total	N/A	89,575
<i>Accounts receivable</i>		
Insurance Company "Soglasie"	95	6
Norilsk Nickel	N/A	67
Rosbank	N/A	46
Taimyrskaya Toplivnaya Kompaniya	N/A	16
Total	95	135
<i>Advances paid to suppliers</i>		
Insurance Company "Soglasie"	48	30
Yeniseyskoe Rechnoe Parohodstvo	-	85
Total	48	115

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SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) (in thousands of US Dollars)

	30 June 2008	31 December 2007
<i>Trade payables</i>		
Norilsk Nickel	N/A	3,525
Taimyrskaya Toplivnaya Kompaniya	N/A	371
Total	-	3,896
<i>Other payables</i>		
Insurance Company "Soglasie"	10	17
Norilsk Nickel	N/A	2,573
Total	10	2,590

The amounts outstanding are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of amounts owed by related parties.

	Six months ended 30 June 2008	Six months ended 30 June 2007
Compensation of key management personnel		
Short-term employee benefits	5,807	5,947
Share-based payment	-	132,548
Total	5,807	138,495

17. CONTINGENCIES

Litigation and tax contingencies

With regards to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposure at 30 June 2008 of approximately USD 10,030 thousand (31 December 2007: USD 347 thousand).

18. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In the third quarter of 2008, the Company paid dividends for the 2007 financial year. The total amount of paid dividends was USD 22,476 thousand (at 30 June 2008 exchange rate). The amount is net of USD 1,334 thousand attributable to treasury shares.

In July 2008, the Company sold 350,000 ordinary shares of "OJSC Vysochaishy" for cash consideration of USD 30,000 thousand.

In July 2008, a subsidiary of the Company purchased 100% of CJSC "Kuranakhzoloto" for total cash consideration of USD 50,000 thousand.

POLYUS GOLD

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (in thousands of US Dollars)

19. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	Shares held		Effective % held ¹	
			30 June 2008	31 December 2007	30 June 2008	31 December 2007
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	419	419	100.0	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	114,155,000,000	113,441,640,810	100.0	99.7
OJSC "Lenzoloto"	Russian Federation	Market agent	952,532	952,532	64.1	64.1
LLC "Lenskaya Zolotorudnaya Company"	Russian Federation	Market agent	-	-	100.0	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	513,237,103	482,431,903	66.2	64.1
CJSC "Lensib"	Russian Federation	Mining	610	610	40.4	39.1
CJSC "Svetliy"	Russian Federation	Mining	840	840	55.6	53.8
CJSC "Marakan"	Russian Federation	Mining	840	840	55.6	53.8
CJSC "Nadezhdinskoe"	Russian Federation	Mining	840	840	55.6	53.8
CJSC "Dalnaya Taiga"	Russian Federation	Mining	820	820	54.3	52.6
CJSC "Sevzoto"	Russian Federation	Mining	650	650	43.1	41.7
CJSC "Charazoto"	Russian Federation	Mining	640	640	42.4	41.0
CJSC "GRK Sukhoy Log"	Russian Federation	Mining	540	540	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	576,891	560,862	97.5	94.8
CJSC "Tonoda"	Russian Federation	Mining (development stage)	14,100	14,100	100.0	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	100	100	100.0	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	704,986	704,986	100.0	100.0
OJSC "Yakut Mining Company"	Russian Federation	Mining (development stage)	735,000	735,000	100.0	100.0
LLC "GRK BarGold"	Russian Federation	Mining (development stage)	-	-	100.0	94.8
CJSC "Vitimenergo"	Russian Federation	Electricity production	225,764	225,764	100.0	100.0
LLC "Lengeo"	Russian Federation	Geological research	-	-	100.0	100.0
LLC "MGRP"	Russian Federation	Geological research	-	-	100.0	94.8
LLC "KGRP"	Russian Federation	Geological research	-	-	100.0	100.0
LLC "AGRP"	Russian Federation	Geological research	-	-	100.0	100.0
LLC "YaGRP"	Russian Federation	Geological research	-	-	100.0	100.0
LLC "IGRP"	Russian Federation	Geological research	-	-	100.0	100.0
OJSC "Polyus Geologorazvedka"	Russian Federation	Geological research	6,000,000	6,000,000	100.0	100.0
Polyus Exploration Ltd.	British Virgin Islands	Geological research	18,069,503	16,250	100.0	100.0
Jenington International Inc.	British Virgin Islands	Market agent	1,000,000	1,000,000	100.0	100.0
Polyus Investments Ltd.	Cyprus	Market agent	1,000	1,000	100.0	100.0
LLC "Pervoye GRP" ²	Russian Federation	Geological research	-	-	100.0	-
OJSC "Korporatsiya Razvitiya Vostochnoy Yakutii" ²	Russian Federation	Other	749	-	74.9	-

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

² Established by the Group in 2008