OJSC GV Gold (formerly OJSC Vysochaishy) and subsidiaries

Consolidated Financial Statements for each of the years in the three-year period ended 31 December 2006

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC GV Gold (formerly OJSC Vysochaishy)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC GV Gold (formerly OJSC Vysochaishy) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2006, 2005 and 2004, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories of the Group's proportionally consolidated joint ventures stated at RUR 41,473 thousand as at 1 January 2004 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2004.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, 2005 and 2004, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG Limited

KPMG Limited

16 April 2007

	Note	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Revenue	4	1,409,210	825,165	353,846
Cost of sales	5	(735,108)	(499,864)	(252,314)
Gross profit		674,102	325,301	101,532
Administrative expenses	6	(100,445)	(44,419)	(18,680)
Other expenses, net	7	(33,887)	(17,501)	(12,793)
Financial income	9	43,472	234	39,287
Financial expenses	9	(85,999)	(141,508)	(83,254)
Profit before tax		497,243	122,107	26,092
Income tax expense	10	(124,585)	(30,082)	(5,811)
Net profit for the year		372,658	92,025	20,281
Basic and diluted earnings per share	22	RUR 74.53	RUR 18.41	RUR 4.06

These consolidated financial statements were approved by the Board of Directors on 16 April 2007 and were signed on its behalf by:

Director

Sergei Vassiliev

Deputy Director on Finance

Natalia Andreeva

The consolidated income statements are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 36.

	Note	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
ASSETS				
Non-current assets				
Property, plant and equipment	11	1,790,888	1,915,585	1,991,011
Intangible assets		2,555	2,632	-
VAT receivable	16	58,306	-	-
		1,851,749	1,918,217	1,991,011
Current assets				
Receivables from related parties	12	-	-	10,776
Inventories	15	114,581	77,042	56,788
Trade and other receivables	17	159,393	178,611	133,688
Cash and cash equivalents	18	57,959	13,508	15,002
		331,933	269,161	216,254
Total assets		2,183,682	2,187,378	2,207,265

The consolidated balance sheets are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 36.

	Note	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
EQUITY AND LIABILITIES				
Equity	19			
Share capital		100	100	100
Additional paid-in capital		14,494	14,494	14,494
Retained earnings		1,340,638	967,980	875,955
Total equity		1,355,232	982,574	890,549
Non-current liabilities				
Loans and borrowings	20	1,778	257,181	725,995
Deferred tax liabilities	14	217,237	253,145	266,615
Provisions	21	76,786	63,361	53,560
		295,801	573,687	1,046,170
Current liabilities				
Loans and borrowings	20	400,075	559,438	189,804
Trade and other payables	23	132,574	71,679	80,742
		532,649	631,117	270,546
Total equity and liabilities		2,183,682	2,187,378	2,207,265

The consolidated balance sheets are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 36.

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
OPERATING ACTIVITIES			
Profit before taxation	497,243	122,107	26,092
Adjustments for:			
Depreciation and amortisation	197,444	156,103	87,489
Foreign exchange (gain)/loss	(42,937)	23,151	(39,240)
Provision for fixed assets impairment	7,787	-	-
Interest expense and accretion of interest	85,999	118,357	83,254
Interest income	(535)	(234)	(47)
Operating profit before changes in working capital and provisions	745,001	419,484	157,548
Increase in inventories	(37,539)	(20,254)	(15,273)
Increase in trade and other receivables	(18,946)	(50,923)	(52,197)
Increase in provision trade and other receivables	1,534	6,000	5,700
Increase/(decrease) in trade and other payables	66,807	(11,009)	(16,850)
Increase in asset retirement obligation	10,251	7,118	7,012
Cash flows from operations before income taxes	**767,108**	**350,416**	**85,940**
Income taxes paid	(197,729)	(41,606)	(17,715)
Cash flows from operating activities	**569,379**	**308,810**	**68,225**

The consolidated statements of cash flows are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 36.

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
INVESTING ACTIVITIES			
Interest received	535	234	47
Acquisition of property, plant and equipment	(80,457)	(74,789)	(233,397)
Acquisition of intangible assets	-	(2,694)	-
Loans provided to related companies	-	-	(10,776)
Repayment of loans provided to related companies	-	10,776	233
Advances repaid by joint ventures	-	-	233,835
Cash flows utilised in investing activities	(79,922)	(66,473)	(10,058)
FINANCING ACTIVITIES			
Proceeds from borrowings	294,205	10,000	190,984
Repayment of borrowings	(666,034)	(138,732)	(153,868)
Interest paid	(73,177)	(115,099)	(86,024)
Cash flows utilised in financing activities	(445,006)	(243,831)	(48,908)
Net increase/(decrease) in cash and cash equivalents	44,451	(1,494)	9,259
Cash and cash equivalents at beginning of year	13,508	15,002	5,743
Cash and cash equivalents at end of year (note 18)	57,959	13,508	15,002

The consolidated statements of cash flows are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 36.

'000 RUR	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Total**
Balance at 1 January 2004	100	-	855,674	855,774
Gain on liquidation of a joint venture, net of tax of RUR 4,577 thousand (see note 19(c))	-	14,494	-	14,494
Net profit and total recognised income and expenses for the year	-	-	20,281	20,281
Balance at 31 December 2004	100	14,494	875,955	890,549
Net profit and total recognised income and expenses for the year	-	-	92,025	92,025
Balance at 31 December 2005	100	14,494	967,980	982,574
Net profit and total recognised income and expenses for the year	-	-	372,658	372,658
Balance at 31 December 2006	100	14,494	1,340,638	1,355,232

The consolidated statements of changes in equity are to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 36.

1 Background

(a) Organisation and operations

OJSC GV Gold, formerly OJSC Vysochaishy (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock and closed joint stock companies as defined in the Civil Code of the Russian Federation. The Company was established as a closed joint stock company on 5 March 1998. In May 2001 the Company was reorganised into an open joint stock company. In November 2006 the Company registered a change to its legal name to OJSC GV Gold.

The Company's registered office is: Berezovaya street, 17; Bodaibo; Irkutsk region.

The Group's principal activities are the extraction, refining and sale of gold. Mining and processing facilities are located in Irkutsk region of the Russian Federation.

Prior to 1 October 2004 the Company participated in two joint ventures (see note 13).

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that mining assets were revalued to determine deemed cost as part of the adoption of IFRSs; and the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 11 (a) – mining assets;
- Note 16 – VAT receivable; and
- Note 21 – provisions.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(t). These accounting policies have been consistently applied. The Group elected to adopt IFRS 6, *Exploration for and Evaluation of Mineral Resources,* on 1 January 2003, the date of transition to IFRSs, before the effective date.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Compnay has the power to govern the financial and operating policies of an entiry so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using proportionate consolidation, from the date that joint control commences until the date that joint control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions including transactions with joint ventures, are eliminated in preparing the consolidated financial statements.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to RUR at the foreign exchange rate ruling at that date.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs directly attributable to qualifying assets (see note 3(q)), and the costs of dismantling and removing the items and restoring the site on which they are located.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(iv) Exploration and evaluation assets

The Group elected to adopt of IFRS 6, *Exploration for and Evaluation of Mineral Resources,* on 1 January 2003, the date of transition to IFRSs, before the effective date.

Exploration and evaluation expenditures are capitalised as exploration and evaluation assets when it is expected that expenditure related to an area of interest will be recouped by future exploitation, sale, or at the reporting date the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

Exploration and evaluation assets are transferred to mining property, plant and equipment or intangible assets when a mine, related to an area of interest, reaches commercial production.

(v) Stripping costs

Expenditures relating to stripping of overburden layer of ore, including estimated site restoration costs, are included in the cost of production in the period in which they are incurred.

(vi) Mining assets

The cost of mining assets at the date of adopting IFRSs, 1 January 2003, was determined by reference to their fair value at that date ("deemed cost"). Mining assets are recorded as construction in progress and transferred to mining property, plant and equipment when a new mine reaches commercial production.

Mining assets include expenditure incurred in:

- Acquiring mineral and development rights;
- Developing new mining operations.

Mining assets include interest capitalised during the construction period, when financed by borrowings.

(vii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets, except for mining assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 7 to 30 years
- Plant and equipment 5 to 15 years
- Transportation and others 5 to 10 years.

Depreciation of mining assets is calculated on a "unit of production" basis over estimated proven and probable reserves determined under the JORC code. Depreciation commences on the date when a new mine reaches commercial production.

(d) Intangible assets

(i) Intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

(ii) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use.

(e) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Investments are accounted for as follows:

- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments is their quoted bid price at the balance sheet date.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(i) Refined gold

Gold is stated at the lower of net production cost determined on the weighted average basis and net realisable value.

Production costs include mining and concentrating costs, smelting, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets. The value of by-product is deducted in arriving at net production cost of gold.

(ii) ***Work in progress***

The cost of work in progress includes an appropriate share of production overhead based on normal operating capacity.

(iii) Raw materials and consumables

Raw materials and consumables consist of consumable stores and are stated at weighted average cost less a provision for obsolete items.

(g) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Impairment

The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

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

(i) Calculation of recoverable amount

The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

In respect of property, plant and equipment, including mining assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) State pension fund

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are recognised initially at fair value.

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to the initial recognition of assets and liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

(q) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, the accretion of interest on provisions, interest income on funds invested, dividend income and foreign exchange gains and losses.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses, except for borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of such assets.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

(r) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments recognised.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning and land restoration costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Capitalised amounts are depreciated together with respective items of property, plant and equipment. The accretion of discount on the decommissioning obligation is included in interest expense. Decommissioning obligations are periodically reviewed considering current laws and regulations, and adjustments made as necessary.

Ongoing rehabilitation costs are expensed when incurred.

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 31 December 2006, and have not been applied in preparing these consolidated financial statements. The following pronouncements potentially could have an impact on the Group's financial position or performance:

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Parent Company's capital.

4 Revenue

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Revenue from sales of gold	1,396,602	806,078	287,555
Revenue from sales of silver	4,945	2,690	1,199
Revenue from services provided and other	7,663	16,397	65,092
	1,409,210	825,165	353,846

5 Cost of sales

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Wages and salaries	(201,763)	(105,957)	(47,898)
Depreciation	(197,367)	(156,041)	(87,489)
Material expenses and supplies	(105,037)	(68,619)	(40,854)
Other taxes	(83,028)	(50,658)	(17,797)
Repair and maintenance expenses	(67,427)	(51,019)	(24,329)
Electricity costs	(27,556)	(19,242)	(8,281)
Rent expenses	(18,791)	(8,062)	-
Refining costs	(10,840)	(6,322)	(2,481)
Increase in asset retirement obligation	(10,251)	(7,118)	(7,012)
Per diem expenses	-	(15,394)	(9,403)
Other expenses	(13,048)	(11,432)	(6,770)
	(735,108)	(499,864)	(252,314)

6 Administrative expenses

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Wages and salaries	(52,203)	(31,419)	(13,806)
Services	(43,174)	(6,723)	(1,512)
Other administrative expenses	(5,068)	(6,277)	(3,362)
	(100,445)	(44,419)	(18,680)

7 Other expenses, net

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Property tax	(11,191)	(10,528)	(4,122)
Impairment loss (see note 11(d))	(7,787)	-	-
Bank services	(6,535)	(2,858)	(630)
Doubtful debt expense	(1,534)	-	-
Write-off of VAT receivable	-	(6,000)	(5,700)
Other, net	(6,840)	1,885	(2,341)
	(33,887)	(17,501)	(12,793)

8 Total personnel costs

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Wages and salaries	(203,813)	(111,944)	(46,434)
Unified social tax	(50,153)	(25,432)	(15,270)
	(253,966)	(137,376)	(61,704)

The average number of employees during 2006 was 577 (2005: 521, 2004: 438).

9 Financial income and expenses

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Financial income			
Interest income	535	234	47
Foreign exchange gain	42,937	-	39,240
	43,472	234	39,287
Financial expenses			
Foreign exhange loss	-	(23,151)	-
Interest expense	(82,825)	(115,674)	(81,033)
Accretion expense	(3,174)	(2,683)	(2,221)
	(85,999)	(141,508)	(83,254)

10 Income tax expense

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Current tax expense			
Current year	(160,493)	(43,552)	(17,715)
Deferred tax benefit			
Origination and reversal of temporary differences	35,908	13,470	11,904
	(124,585)	(30,082)	(5,811)

The Group's applicable tax rate is the corporate income tax rate of 24% (2005: 24%, 2004: 24%).

Reconciliation of effective tax rate:

	2006 '000 RUR	%	2005 '000 RUR	%	2004 '000 RUR	%
Profit before tax	497,243	100	122,107	100	26,092	100
Income tax at applicable tax rate	(119,338)	(24)	(29,306)	(24)	(6,262)	(24)
(Non-deductible)/non-taxable items	(5,247)	(1)	(776)	(1)	451	2
	(124,585)	(25)	(30,082)	(25)	(5,811)	(22)

11 Property, plant and equipment

'000 RUR	**Buildings**	**Plant and equipment**	**Mining assets**	**Transportation and other**	**Construction in progress**	**Total**
Cost/Deemed cost						
At 1 January 2004	47,290	276,681	1,173,854	33,847	272,000	1,803,672
Additions	27,136	51,579	-	-	247,649	326,364
Disposals	-	(2)	-	(467)	-	(469)
Transfers	194,492	130,701	-	61,162	(386,355)	-
At 31 December 2004	**268,918**	**458,959**	**1,173,854**	**94,542**	**133,294**	**2,129,567**
Additions	-	-	-	5,790	75,455	81,245
Disposals	-	(259)	-	(900)	-	(1,159)
Transfers	3,897	40,060	-	2,289	(46,246)	-
At 31 December 2005	**272,815**	**498,760**	**1,173,854**	**101,721**	**162,503**	**2,209,653**
Additions	-	-	-	23,645	56,867	80,512
Disposals	(231)	-	-	(142)	-	(373)
Transfers	71,156	45,076	-	36,467	(152,699)	-
At 31 December 2006	**343,740**	**543,836**	**1,173,854**	**161,691**	**66,671**	**2,289,792**

’000 RUR	Buildings	Plant and equipment	Mining assets	Transportation and other	Construction in progress	Total
Depreciation and impairment losses						
At 1 January 2004	(1,133)	(23,172)	(7,300)	(3,873)	-	(35,478)
Depreciation charge	(12,576)	(54,174)	(28,008)	(8,359)	-	(103,117)
Disposals	-	2	-	37	-	39
At 31 December 2004	**(13,709)**	**(77,344)**	**(35,308)**	**(12,195)**	**-**	**(138,556)**
Depreciation charge	(21,886)	(69,480)	(49,913)	(14,762)	-	(156,041)
Disposals	-	5	-	524	-	529
At 31 December 2005	**(35,595)**	**(146,819)**	**(85,221)**	**(26,433)**	**-**	**(294,068)**
Depreciation charge	(28,040)	(73,703)	(74,380)	(21,244)	-	(197,367)
Impairment losses	(7,028)	-	-	-	(759)	(7,787)
Disposals	200	-	-	118	-	318
At 31 December 2006	**(70,463)**	**(220,522)**	**(159,601)**	**(47,559)**	**(759)**	**(498,904)**
Net book value						
At 1 January 2004	**46,157**	**253,509**	**1,166,554**	**29,974**	**272,000**	**1,768,194**
At 31 December 2004	**255,209**	**381,615**	**1,138,546**	**82,347**	**133,294**	**1,991,011**
At 31 December 2005	**237,220**	**351,941**	**1,088,633**	**75,288**	**162,503**	**1,915,585**
At 31 December 2006	**273,277**	**323,314**	**1,014,253**	**114,132**	**65,912**	**1,790,888**

(a) Mining assets

Management commissioned SRK Consulting Limited to independently appraise the fair value of mining assets as at 1 October 2006, which was used as the basis for determining their deemed cost on the date of transition to IFRS, 1 January 2003. The fair value of mining assets was determined to be RUR 1,173,854 thousand.

The fair value was determined by discounting the future cash flows relating to Golec Vysochaishy mine generated from continuing operations.

The following key assumptions were used in determining the fair value:

- The cash flow projections were made for the mine life until 2018. Cash flows were projected based on the actual operating results and the business plan;
- A production volume of 39.7 tons of gold from 15.6 megatons of ore extracted over the mine's life. Gold prices were assumed at an average of USD 456 per ounce for 2003-2006 and USD 488 per ounce for 2007 and onwards;
- Average actual operating costs per ounce of gold for the most recent 18-month period adjusted for inflation were used;
- A pre-tax discount rate of 21.96% was applied in determining the fair value.

The values assigned to the key assumptions represent management's assessment of future trends in the gold industry and are based on both external sources and internal sources. The above estimates are particularly sensitive in the following areas:

- 1% change in the projected gold price assumptions for 2007 and subsequently results in a 2.5% change in the fair value of mining assets;
- 1% change in the pre-tax discount rate results in a 8% change in the fair value of mining assets.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2006 the net book value of leased plant and machinery was RUR 161,086 thousand (2005: RUR 242,290 thousand, 2004: RUR 279,970 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Interest cost capitalised during 2006 was nil (2005: nil, 2004: RUR 13,716 thousand).

(d) Impairment losses

Impairment losses of RUR 7,787 thousand primarily relate to the retirement of an obsolete water-treatment system.

(e) Security

At 31 December 2006 properties with a carrying amount of RUR 158,474 thousand were pledged as collateral for a bank loan (see note 20) (2005: nil, 2004: nil).

12 Receivables from related parties

	2006	2005	2004
	'000 RUR	'000 RUR	'000 RUR
Loans granted	-	-	10,776

In November and December 2004 the Group provided short-term interest-free loans to OAO Pervenets, a related party controlled by the Group's shareholders, in the amount of RUR 10,776 thousand. These loans were repaid in February 2005.

13 Joint ventures

Prior to 1 October 2004 the Group participated in two joint ventures:

	Proportion of ownership interest
Joint venture with OAO Pervenec	50%
Joint venture with ZAO LT Resource	50%

The primary purpose of the joint venture with OAO Pervenec was the exploitation of the resources of OAO Pervenec to extract and process gold extracted from the gold deposits of the Group and OAO Pervenec before the Group had a necessary processing facility in place. The primary purpose of the joint venture with ZAO LT Resource was the construction of the necessary processing facility.

The following is summarised IFRS financial information in aggregate, in respect of joint ventures:

	2004	
	'000 RUR	'000 RUR
	Total	Group's share
Revenue for the period	365,160	182,580
Net profit for the period	16,978	8,489

The joint ventures were liquidated effective 1 October 2004 when the construction of the ore processing plant was completed and it was operating at full capacity thus enabling the Group to process ore extracted from the Golets Vysochaishy mine independently. Upon liquidation of the joint venture with ZAO LT Resource the Group recognized a gain of RUR 14,494 thousand net of tax of RUR 4,577 thousand which was recognized in additional paid-in capital in these consolidated financial statements (see note 19(c)).

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

’000 RUR	Assets			Liabilities			Net		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Property, plant and equipment	-	-	-	(278,646)	(313,291)	(342,801)	(278,646)	(313,291)	(342,801)
Inventories	-	-	-	(1,380)	(3,800)	(1,055)	(1,380)	(3,800)	(1,055)
VAT receivable	2,316	-	-	-	-	-	2,316	-	-
Trade and other receivables	5,541	3,499	1,703	-	-	-	5,541	3,499	1,703
Finance lease liabilities	28,076	45,175	64,149	-	-	-	28,076	45,175	64,149
Provisions	15,217	11,995	9,643	-			15,217	11,995	9,643
Trade and other payables	11,639	3,277	1,746		-	-	11,639	3,277	1,746
Tax assets/(liabilities)	62,789	63,946	77,241	(280,026)	(317,091)	(343,856)	(217,237)	(253,145)	(266,615)
Set off of tax	(62,789)	(63,946)	(77,241)	62,789	63,946	77,241	-	-	-
Net tax assets/(liabilities)	-	-	-	(217,237)	(253,145)	(266,615)	(217,237)	(253,145)	(266,615)

All movement in deferred tax balances have been recognised in income.

15 Inventories

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Raw materials and consumables	86,375	57,005	50,991
Work in progress	28,206	20,037	5,797
	114,581	77,042	56,788
Write-down of inventories in the current year	(612)	-	-

16 VAT receivable

At 31 December 2006, 2005 and 2004 VAT receivable included balances transferred to the Group upon termination of the joint activity agreement with ZAO LT Resource in 2004 (see note 13).

At 31 December 2005 and 2004 current trade and other receivables included VAT receivable of RUR 67,954 thousand and RUR 73,954 thousand, net of provisions of RUR 11,700 thousand and RUR 5,700 thousand, respectively.

In December 2006 the Group reclassified the balance of transferred VAT receivable to non-current assets as it is now expected to be recovered only in 2008. At 31 December 2006 transferred VAT receivable amounted to RUR 58,306 thousand, net of a provision of RUR 11,700 thousand and a discount of RUR 9,648 thousand.

According to the joint activity agreement the responsibility for accounting operations related to the joint activity was imposed on ZAO LT Resource. The latter did not claim input VAT related to capital expenditures for recovery and transferred all source documents including VAT invoices to the Group upon termination of the agreement.

In the period when the joint activity agreement was being realised the Tax Code of the Russian Federation did not provide explicitly for the rules for recovery of input VAT related to the joint activity. Moreover, tax legislation did not contain any provision regarding the rules for recovery of input VAT after termination of the joint activity agreement.

Currently different approaches are used by courts in respect of the right of the participant which is not the operator within the respective joint activity to offset/recover input VAT. There is a risk that the tax authorities could challenge recovery of input VAT related to the joint activity. Management believes that the Group will be able to recover this input VAT in full and assesses the risk of non-recoverability of this VAT receivable as possible.

17 Trade and other receivables

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Advances given	31,725	33,912	14,991
VAT receivable (see note 16)	79,950	130,096	114,538
Income tax receivable	31,324		
Trade accounts receivable	11,666	14,026	3,568
Other receivables	4,728	577	591
	159,393	178,611	133,688
Provision for doubtful VAT receivable and advances given	(971)	(11,700)	(5,700)

18 Cash and cash equivalents

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Petty cash	19	2	13
Current accounts	57,940	13,506	14,989
Cash and cash equivalents in the balance sheet and in the consolidated statement of cash flows	57,959	13,508	15,002

19 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2006	Ordinary shares 2005	Ordinary shares 2004
Authorised shares	5,000,000	100	100
Par value	RUR 0.02	RUR 1,000	RUR 1,000
Issued at end of year	5,000,000	100	100

In November 2006 the Company registered a change in its Charter, whereby each ordinary share before the change was split into 50,000 new ordinary shares with a corresponding decrease in par value to RUR 0.02 per share. The share split was treated retrospectively for the purpose of earning per share calculation for 2006, 2005 and 2004 (see note 22).

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2006 the Company had retained earnings, including the profit for the current year, of RUR 672,262 thousand (2005: RUR 193,635 thousand; 2004: RUR 50,459 thousand).

In addition, the terms of the loan facility outstanding at 31 December 2006 prohibit any distribution of dividends until all obligations under the loan agreement are fulfilled (see note 20).

(c) Additional paid-in capital

In 2004 upon liquidation of the joint venture with ZAO LT Resource, a related party under common control with the Group, the Group realized a gain of RUR 14,494 thousand, net of tax of RUR 4,577 thousand, representing the excess of the carrying value of net assets received upon liquidation over the Group's share in the joint venture. Because the gain was considered to represent a capital contribution by the Company's ultimate shareholders, it was recognised directly in additional paid-in capital (see note 13).

20 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 24.

	2006	2005	2004
	'000 RUR	'000 RUR	'000 RUR
Non-current			
Secured bank loans	-	164,016	554,974
Finance lease liabilities	1,778	93,165	171,021
	1,778	257,181	725,995
Current			
Current portion of secured bank loans	296,119	464,372	93,545
Current portion of finance lease liabilities	103,956	95,066	96,259
	400,075	559,438	189,804

Bank loans mature as follows:

	2006 '000 RUR	2005 '000 RUR	2004 '000 RUR
Secured USD bank loan –11% fixed rate			
2006	-	368,416	355,183
2007	-	164,016	199,791
Secured USD bank loan – 15%-19.5% fixed rate			
2005		-	93,545
2006	-	65,956	-
Secured RUR bank loan –14.3% fixed rate			
2006	-	30,000	-
Secured RUR bank loan – MosPrime plus 4% variable rate			
2007	296,119	-	-
	296,119	628,388	648,519

Finance lease liabilities are payable as follows:

	2006		
'000 RUR	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	123,009	28,555	94,454
Between one and five years	1,836	80	1,756
	124,845	28,635	96,210

	2005		
'000 RUR	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	116,006	24,587	91,419
Between one and five years	102,227	28,644	73,583
	218,233	53,231	165,002

	2004		
'000 RUR	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	121,942	27,424	94,518
Between one and five years	215,214	53,176	162,038
	337,156	80,600	256,556

At 31 December 2006 the bank loan is secured by properties with a carrying amount of RUR 158,474 thousand (2005: nil, 2004: nil) (see note 11(e)).

The finance lease liabilities are secured by the leased assets (see note 11(b)).

Loan facility outstanding at 31 December 2006 is subject to a covenant restricting dividends distribution (see note 19(b)).

21 Provisions

'000 RUR	**Asset retirement obligation**	**Terminal benefits**	**Total**
Balance at 1 January 2004	19,302	25,025	44,327
Provisions raised during the year	7,012	-	7,012
Accretion of interest	967	1,254	2,221
Balance at 31 December 2004	**27,281**	**26,279**	**53,560**
Provisions raised during the year	7,118	-	7,118
Accretion of interest	1,366	1,317	2,683
Balance at 31 December 2005	**35,765**	**27,596**	**63,361**
Provisions raised during the year	10,251	-	10,251
Accretion of interest	1,791	1,383	3,174
Balance at 31 December 2006	**47,807**	**28,979**	**76,786**

The Group engaged SRK Consulting Limited to evaluate the cost of site restoration based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of the mine (which is assumed to close in 2018), expected site restoration activities (removal of waste disposal, restoration of mine sites), current prices for similar activities and a risk-free discount rate of 5.01%.

Terminal benefits relate to costs associated with retrenchment of the Group's workforce towards the end of the mine's life. In accordance with Russian legislation, compensation for redundancy equal to three months' salary is payable on termination of employment. It is assumed that the number of employees will be 500 at the end of the mine's life.

Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as these.

Generally the standard of restoration is determined based on discussions with Government officials at the time that restoration commences.

22 Earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year.

The weighted average number of shares was calculated as follows:

Number of shares unless otherwise stated	**Ordinary shares 2005**	**Ordinary shares 2004**
On issue at beginning and end of year	100	100
Effect of the share split (see note 19)	4,999,900	4,999,900
Weighted average number of shares	5,000,000	5,000,000

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal basic earning per share.

23 Trade and other payables

	2006 '000 RUR	**2005 '000 RUR**	**2004 '000 RUR**
Trade payables	23,568	3,912	15,624
Payables to employees	34,044	23,564	8,264
Other taxes payable	40,055	32,686	23,716
Promissory notes	-	-	22,233
Other payables and accrued expenses	34,907	11,517	10,905
	132,574	71,679	80,742

24 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Prior to 2006 the Group primarily borrowed at fixed rates. In November 2006 the Group refinanced outstanding bank loans with a new variable rate facility.

(c) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD. Management does not hedge the Group's exposure to foreign currency risk.

Prior to 2006 the Group's borrowings were primarily denominated in USD. The new facility obtained in November 2006 is denominated in RUR.

(d) Fair values

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

In assessing fair values, management used the following major methods and assumptions:

Trade and other receivables and payables. For receivables and payables with a maturity of less than six months fair value is not materially different from the carrying amount because the effect of the time value of money is not material. For VAT receivable expected future cash flows were discounted at 10%.

25 Contingencies

(a) Commitments

In 2006 the Group concluded five agreements for machinery and equipment purchases for RUR 94,222 thousands. During 2006 the Group paid RUR 37,436 thousands under these agreements. As at 31 December 2006 the Group had a capital commitment of RUR 56,786 thousands (2005: RUR 12,700 thousands), which was paid in 2007.

(b) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Group is ultimately controlled by several individuals who each own less than 50% of the Company's equity. In addition, the Group has a controlling relationship with all of its subsidiaries (see note 27 for a list of significant subsidiaries).

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

	2006	2005	2004
	'000 RUR	'000 RUR	'000 RUR
Salaries and bonuses	25,277	7,066	3,845
Unified social tax	1,927	1,039	1,342
	27,204	8,105	5,187

(c) Transactions with other related parties

The Group's transactions with other related parties, all of which are under common control with the Group, are disclosed below.

(i) Revenue

'000 RUR	Transaction value 2006	Transaction value 2005	Transaction value 2004
Sale of gold	52,047	-	-
Sale of silver	4,945	2,690	1,198
Other sales	6,917	14,692	10,972
	63,909	17,382	12,170

(ii) Expenses

'000 RUR	Transaction value 2006	Transaction value 2005	Transaction value 2004
Interest expense	34,850	52,926	36,882
Other administrative expenses	38,357	35,302	6,771
	73,207	88,228	43,653

(iii) Balances

'000 RUR	Outstanding balance 2006	Outstanding balance 2005	Outstanding balance 2004
Trade and other receivables	12,675	10,521	865
Finance lease obligation	(105,734)	(183,653)	(267,280)
Loans granted	-	-	10,776
Trade and other payables	-	-	(416)
Loans received	-	(95,912)	(93,545)
	(93,059)	(269,044)	(349,600)

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(iv) Pricing policies

The price for gold is determined based on the first morning fixing for gold on the London Bullion market Association less a discount of 0.55%.

27 Significant subsidiaries

	Country of incorporation	Ownership/voting	Ownership/voting	Ownership/voting
		2006	2005	2004
ZAO Leprindo*	Russian Federation	100%	100%	-
ZAO Inakit*	Russian Federation	100%	100%	-

* - these subsidiaries were established by the Group during 2005.

28 Events subsequent to the balance sheet date

In January 2007 the Group registered 209,000 additional shares issue with the Russian Federal Services on Financial Markets.