Gold Mining Company Polus

Consolidated annual financial statements for the year ended 31 December 2004

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EXCHANGE RATES – RUSSIAN ROUBLE

	2004	2003
Year-end rates		
1 US dollar	27.7487	29.4545
1 Euro	37.8104	36.8240
Average rates for the year		
1 US dollar	28.8150	30.6884
1 Euro	35.8185	34.6654

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of the independent auditors set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated annual financial statements of Closed Joint Stock Company "Gold Mining Company Polus" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated annual financial statements that present fairly the financial position of the Group at 31 December 2004, the results of its operations, cash flows and changes in shareholder's equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated annual financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated annual financial statements for the year ended 31 December 2004 were approved on 31 May 2005 by:

Ivanov E. I.	**Osenmuk A. M.**
President	Vice-president, Chief Financial Officer

Krasnoyarsk
31 May 2005

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REPORT OF THE INDEPENDENT AUDITORS

To the management of Closed Joint Stock Company "Gold Mining Company Polus":

We have audited the consolidated annual financial statements for the year ended 31 December 2004 of Closed Joint Stock Company "Gold Mining Company Polus" and its subsidiaries (the "Group"), set out on pages 3-37. The consolidated annual financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated annual financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform our audit to obtain reasonable assurance that the consolidated annual financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual financial statements;
- assessing the accounting principles used in the preparation of the consolidated annual financial statements;
- assessing the significant estimates made by management in the preparation of the consolidated annual financial statements; and
- evaluating the overall presentation of the consolidated annual financial statements.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2004, and the results of its operations, its cash flows and changes in shareholder's equity for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte & Touche
Moscow
31 May 2005

GOLD MINING COMPANY POLUS

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004
in thousands of US Dollars

	Notes	2004	2003
Sales		**441,750**	**299,018**
Cost of sales	3	(234,944)	(107,352)
Gross profit		**206,806**	**191,666**
Selling, general and administrative expenses	7	(44,825)	(17,262)
Other net operating income/(expenses)	8	12,707	(15,094)
Operating profit		**174,688**	**159,310**
Impairment of goodwill on acquisition	33	(114,639)	-
Finance costs	9	(10,573)	(379)
Net income from investments	10	16,544	6,854
Other non-operating expenses	11	(4,205)	(1,667)
Profit before taxation		**61,815**	**164,118**
Taxation	12	(59,297)	(44,528)
Profit after taxation		**2,518**	**119,590**
Minority interest	23	5,541	-
Net profit for the year		**8,059**	**119,590**
Basic and fully diluted earnings per share			
- Basic	13	**59**	**972**
- Diluted	13	**31**	**492**

GOLD MINING COMPANY POLUS

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2004
in thousands of US Dollars

	Notes	2004	2003
ASSETS			
Non-current assets		**581,237**	**247,391**
Property, plant and equipment	14	502,125	216,360
Capital construction-in-progress	15	66,279	31,011
Investments in associates	16	9,357	-
Investments in securities and other financial assets	17	3,476	20
Current assets		**547,442**	**161,422**
Inventories	18	70,046	26,548
Advances to suppliers and other receivables	19	12,315	2,510
Other current assets	20	58,224	14,658
Investments in securities and other financial assets	17	393,842	114,080
Cash and cash equivalents	21	13,015	3,626
Total assets		**1,128,679**	**408,813**
SHAREHOLDER'S EQUITY AND LIABILITIES			
Share capital and reserves		**936,162**	**339,371**
Share capital	22	3	2
Share premium	22	523,645	-
Accumulated profits		368,587	339,369
Shareholder's equity		**892,235**	**339,371**
Minority interest	23	**43,927**	**-**
Non-current liabilities		**105,983**	**38,791**
Long-term borrowings	24	3,538	-
Long-term obligations under finance leases	25	3,783	-
Deferred tax liabilities	26	86,447	31,813
Other long-term payables	27	1,735	-
Environmental obligations	28	10,480	6,978
Current liabilities		**86,534**	**30,651**
Current portion of obligations under finance leases	25	1,045	-
Short-term borrowings	29	35,112	-
Trade and other payables	30	35,863	6,742
Taxes payable	31	14,514	23,909
Total shareholder's equity and liabilities		**1,128,679**	**408,813**

GOLD MINING COMPANY POLUS

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004
in thousands of US Dollars

	Notes	2004	2003
Operating activities			
Cash flows from operations	32	189,034	186,150
Interest paid		(11,839)	-
Income tax paid		(49,775)	(39,144)
Net cash inflow from operating activities		**127,420**	**147,006**
Investing activities			
Acquisition of subsidiaries, net of cash acquired	33	(270,602)	-
Purchase of property, plant and equipment		(63,486)	(42,130)
Proceeds from sale of property, plant and equipment		328	-
Purchase of promissory notes		(756,115)	(102,645)
Proceeds from sale of promissory notes		496,667	-
Net cash outflow from investing activities		**(593,208)**	**(144,775)**
Financing activities			
Proceeds on issue of ordinary shares		498,819	-
Proceeds from short-term borrowings		171,563	-
Repayments of short-term borrowings		(196,485)	-
Repayments of long-term borrowings, net		(1,485)	-
Repayments of obligations under finance leases		(1,117)	-
Net cash inflow from financing activities		**471,295**	**-**
Effect of translation to presentation currency		3,882	318
Net increase in cash and cash equivalents		**9,389**	**2,549**
Cash and cash equivalents at beginning of the year	21	**3,626**	**1,077**
Cash and cash equivalents at end of the year	21	**13,015**	**3,626**

GOLD MINING COMPANY POLUS

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004
in thousands of US Dollars

	Share capital	Share premium	Accumulated profits	Total
Balance at 31 December 2002	**2**	**-**	**199,011**	**199,013**
Net profit for the year	-	-	119,590	**119,590**
Effect of translation to presentation currency	-	-	20,768	**20,768**
Balance at 31 December 2003	**2**	**-**	**339,369**	**339,371**
Net profit for the year	-	-	8,059	**8,059**
Issue of ordinary shares (refer to note 22)	1	498,818	-	**498,819**
Effect of translation to presentation currency	-	24,827	21,159	**45,986**
Balance at 31 December 2004	**3**	**523,645**	**368,587**	**892,235**

1. GENERAL

Organisation

Closed Joint Stock Company "Gold Mining Company Polus" (the "Company") was incorporated in Severo-Eniseisk, Krasnoyarsk region, Russian Federation, on 30 September 1999. During 2004 the Company acquired controlling shareholding in Open Joint Stock Company 'Lenzoloto" and Open Joint Stock Company "Matrosov Mine" and incorporated a wholly owned subsidiary Limited Liability Company "Lenskaya Zolotorudnaya Company". The principal activity of the Company and its subsidiaries (the "Group") is the extraction, refining and sale of gold from open-pit mines. Mining and processing facilities of the Group are located in Krasnoyarsk and Irkutsk regions of the Russian Federation. Further details regarding the nature of the business and structure of the Group are presented in note 40.

At 31 December 2004 the Group employed approximately 9,700 people (2003: 2,800).

The Company is a wholly owned subsidiary of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" ("MMC Norilsk Nickel"). MMC Norilsk Nickel together with its subsidiaries comprises the Norilsk Nickel Group.

Basis of presentation

The consolidated annual financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by International Accounting Standards Board, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee, who replaced the Standing Interpretations Committee ("SIC"). In the absence of specific IFRS guidance for the extractive industry in general, the Group has developed accounting policies in accordance with best practices in the mining industry insofar they do not conflict with IFRS principles.

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation. The accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated annual financial statements are presented in accordance with IFRS.

The consolidated annual financial statements of the Group are prepared on the historical cost basis, except for:

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations", which is more fully described in note 2 (a);
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories", which is more fully described in note 2 (i); and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which is more fully described in note 2 (j).

Reclassifications

Certain comparative information, presented in the annual financial statements for the year ended 31 December 2003, has been reclassified in order to achieve comparability with the presentation used in the consolidated annual financial statements for the year ended 31 December 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

The Group's significant accounting policies are set out below:

(a) Basis of consolidation

Subsidiaries

The consolidated annual financial statements incorporate the financial statements of the holding company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased.

Control is presumed to exist when the holding company:

- owns, directly or indirectly through subsidiaries, more than 50% of the voting equity of an enterprise; or
- owns, directly or indirectly through subsidiaries, less than 50% of the voting equity of an enterprise, but has the ability to:
  - govern the financial and operating polices of the enterprise under a statute or an agreement;
  - appoint or remove the majority of the members of the board of directors, or the equivalent governing body; or
  - cast the majority of votes at meetings of the board of directors or equivalent governing body.

Subsidiaries that meet the definition of control are not consolidated by the Group if control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Such subsidiaries are accounted for as investments (refer to 2 (j)).

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportionate share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is reduced to zero. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Unrealised gains and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Accounting for acquisitions

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised as goodwill.

Goodwill relating to subsidiaries is disclosed as an asset and goodwill relating to associates is included within the carrying value of the investment in associates.

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement in the period during which the circumstances are identified and is not subsequently reversed.

On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the consolidate income statement immediately.

(b) Measurement and presentation currency

The measurement currency of the consolidated annual financial statements, which reflects the economic substance of the underlying events and transactions of the Group's operations, is the Russian Rouble ("RUR").

The presentation currency of the Group is the United States of America Dollar ("USD" or "US Dollar"). Using USD as a presentation currency is a common practice for global gold mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated annual financial statements of the Group.

The translation from RUR (measurement currency) into USD (presentation currency) is made in accordance with the requirements of SIC 30 "Reporting Currency – Translation from Measurement Currency to Presentation Currency", using exchange rates as quoted by the Central Bank of the Russian Federation, as follows:

- all assets and liabilities, both monetary and non-monetary, and all items included in shareholder's equity, other than net profit for the reporting period, are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are included in shareholder's equity.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated annual financial statements does not imply that Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

(c) Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to RUR at the exchange rate at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in the income statement.

(d) Property, plant and equipment

Basis of carrying value of property, plant and equipment

Property, plant and equipment were valued by independent, professionally qualified valuers. The effective date of the valuation for the Company's property, plant and equipment was 31 December 2002. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. However, a significant part of property, plant and equipment, which is of a specialised nature, was valued at depreciated replacement cost. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

The property, plant and equipment of subsidiaries was fair valued at the respective dates of acquisition.

Mining assets

Mining assets are recorded at cost less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and exploration licenses and the present value of future decommissioning costs.

Mineral rights, mineral resources and ore reserves

Mineral rights, mineral resources and ore reserves are recorded as assets when acquired as part of a business combination and are then amortised on a straight-line basis when physically mined, using the life of mine method based on estimated proven and probable ore reserves.

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits.

Mine development costs

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditure incurred in:

- acquiring mineral rights and exploration licenses;
- developing new mining operations;
- defining further mineralisation in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings and the present value of future decommissioning cost.

Mine development costs are amortised on a straight-line basis using the life of mine method, based on estimated proven and probable ore reserves, over a period of 7 to 20 years.

Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine method, based on estimated proven and probable ore reserves, varying from 5 to 20 years.

Amortisation

Amortisation on mining assets is charged from the date when a new mine reaches commercial production quantities and is included in the cost of production.

The Group regularly assesses the remaining life of its mines for the purpose of amortisation calculations, and considers, amongst other things, the following:

- the volume of remaining recoverable ore reserves or the remaining mining lease period; and
- potential changes in technology, demand and product substitution.

Because of the uncertainty of these estimates the Group uses a straight-line basis of amortisation.

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

• Buildings, plant and equipment	2% to 10%
• Motor vehicles	9% to 25%
• Office equipment	10% to 20%

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the lesser of:

- their estimated useful lives, or
- the term of the lease.

Finance lease payments are allocated using the effective interest rate method, between:

- the lease finance cost, which is included in interest paid; and
- the capital repayment, which reduces the related lease obligation to the lessor.

(e) Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated.

(f) Impairment

An impairment review of assets is carried out when impairment indicators exist in relation to a cash generating unit, by comparing the carrying amount of the assets to their respective recoverable amount. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

The recoverable amount of mining and processing assets is the higher of fair value less cost to sell and value in use, unless the fair value less cost to sell is not possible to determine or if either of these amounts exceeds the assets carrying amount. The recoverable amount of mining assets whose fair value less cost to sell cannot be determined reliably, is estimated on the basis of the present values of net future cash flows.

Changes in the present value of these future cash flows occur mostly from:

- fluctuating long-term gold prices;
- revised estimates of the grade or extent of the ore reserve; and
- changes in future expected operating costs.

The recoverable amount of the Group's investments is their fair value. For investments carried at fair value decline in fair value is recognised in profit or loss if there is objective evidence that investments are impaired.

The recoverable amount of other assets is higher of fair value less cost to sell and value in use, i.e. the amount, which the Group expects to recover from the future use of an asset, including its residual value on disposal.

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

In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

Impairment losses are only reversed to the extent that the assets carrying amount does not exceed the original carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

(g) Research and exploration expenditure

Research and exploration (including geophysical, topographical, geological and similar types of expenditure) is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, at the time a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

(h) Deferred expenditures

Certain Group's production facilities are located in regions with specific weather conditions. Consequently, surface (alluvial) mining operations are subject to seasonality and gold at these locations is only mined during several months of the year. Costs incurred out of season are deferred to the next season. Such expenditures include stripping and excavation costs, costs of repair and maintenance of gold mining equipment and general production costs.

(i) Inventories

Refined gold

Gold is measured at the lower of net production cost on the weighted average basis, or net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand.

Production costs include on-mine and concentrating costs, smelting, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

By-products, i.e. silver and other minor metals, are measured at net realisable value, through a mark-to-market valuation.

Work-in-process

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less a provision for obsolete items.

(j) Financial instruments

Financial instruments recognised on the Group's balance sheet mainly include investments, advances to suppliers and other receivables, cash and cash equivalents, trade and other payables and borrowings. Financial instruments are initially measured at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Investments

Investments, other than investments in subsidiaries and associates, are initially measured at cost on a trade date basis, which is the fair value of the consideration given including transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- held-for-trading; and
- available-for-sale.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost less any allowance for impairment. Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held-for-trading investments. Held-for-trading investments are included in current assets.

All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale. Available-for-sale investments are included in current assets if management intends to realise them within twelve months of the balance sheet date.

Available-for-sale and held-for-trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that the Group may incur on their sale or other disposal. Gains or losses on measurement of fair value of investments are recognised in the income statement for the period. Where a quoted market price does not exist, these instruments are measured at management's estimate of fair value.

Advances to suppliers and other receivables

Advances to suppliers and other receivables originated by the Group are measured at gross invoice value less provision for doubtful debts where considered appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are stated at their nominal value.

Borrowings

Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(k) Borrowing costs

Borrowing costs relating to major qualifying capital projects under construction are capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated borrowing costs are expensed in the income statement as and when incurred.

Foreign exchange differences from foreign currency borrowings used to fund major qualifying capital projects are expensed as incurred, except for cases where such foreign exchange differences result from severe currency devaluation against which no hedge is possible, or to the extent that the differences represent borrowing costs.

Borrowing costs relating to operating activities are expensed in the income statement as and when incurred.

(l) Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

(m) Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period are recognised as an expense in that reporting period.

The Group contributes to the Pension fund of the Russian Federation, Medical and Social Insurance funds on behalf of all its employees. These contributions are recognised in the income statement as incurred.

(n) Taxation

Income tax on the profit or loss for the year comprises current and deferred taxation.

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

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

(o) Revenue recognition

Revenue consists of the sales of refined gold and is recognised when the risks and rewards of ownership are transferred to the buyer. Gold sales revenue represents the net invoiced value for gold supplied to customers. Revenues from the sale of by-products are netted-off against production costs.

(p) Operating lease payments

Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms. Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases.

(q) Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

(r) Segmental information

The Group predominantly operates in a single business segment, being mining and refining of gold. The Group's production facilities are all based in the Russian Federation. Therefore, business activities are subject to the same risks and returns, and are addressed in the financial statements as one reportable segment.

(s) Decommissioning costs

Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the discount on decommissioning obligation is included in the income statement.

Decommissioning obligations are periodically reviewed in the light of current laws and regulations, and adjustments made as necessary.

(t) Ongoing rehabilitation

Expenditure on ongoing rehabilitation costs is accounted for when incurred.

in thousands of US dollars

	2004	2003

3. COST OF SALES

	2004	2003
Cash operating costs	193,258	87,769
On-mine and concentrating costs (refer to note 4)	129,346	34,799
Smelting costs (refer to note 5)	35,195	33,138
Refining costs	2,601	1,735
Tax on mining	26,116	18,097
Amortisation and depreciation of operating assets (refer to note 6)	40,903	23,194
Provision for land rehabilitation	2,532	-
Increase in metal inventories	(1,749)	(3,611)
Total	**234,944**	**107,352**

4. ON-MINE AND CONCENTRATING COSTS

	2004	2003
Consumables and spares	59,576	15,876
Labour	53,693	17,644
Utilities	11,828	636
Sundry on-mine and concentrating costs	4,249	643
Total (refer to note 3)	**129,346**	**34,799**

5. SMELTING COSTS

	2004	2003
Consumables and spares	23,640	17,218
Labour	10,155	12,913
Utilities	691	2,049
Sundry smelting costs	709	958
Total (refer to note 3)	**35,195**	**33,138**

6. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2004	2003
Mining and concentrating	20,715	12,535
Smelting	20,188	10,659
Total (refer to note 3)	**40,903**	**23,194**

in thousands of US dollars

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003
Salaries	22,795	9,294
Research and development	8,092	1,374
Depreciation	4,793	-
Taxes other than mining and income taxes	3,307	3,398
Professional services	1,452	123
Rent expense	1,398	153
Transportation expenses	746	240
Repair and maintenance	677	1,033
Commission paid	449	-
Other	1,116	1,647
Total	**44,825**	**17,262**

Research and development expenses in 2004 mainly related to geological survey performed by the Group primarily in Natalka field located in Magadan region.

8. OTHER NET OPERATING INCOME/(EXPENSES)

	2004	2003
Change in provision for tax fines and penalties	14,815	(13,911)
Net operating profit from non-mining activities	2,817	-
Gain from change in terms of finance leases	1,101	-
Loss on disposal of property, plant and equipment and assets under construction	(3,164)	(437)
Change in provision for doubtful debts	(2,535)	(43)
Other	(327)	(703)
Total	**12,707**	**(15,094)**

9. FINANCE COSTS

	2004	2003
Interest expense on borrowings	10,146	-
Unwinding of discount on decommissioning obligations (refer to note 28)	427	379
Total	**10,573**	**379**

10. NET INCOME FROM INVESTMENTS

	2004	2003
Interest income on promissory notes	16,803	6,848
Loss from associates (refer to note 16)	(50)	-
Other	(209)	6
Total	**16,544**	**6,854**

in thousands of US dollars

11. OTHER NON-OPERATING EXPENSES

	2004	2003
Maintenance of social infrastructure	2,120	323
Donations	945	557
Other	1,140	787
Total	**4,205**	**1,667**

12. TAXATION

	2004	2003
Current taxation	52,099	49,603
Deferred taxation (refer to note 26)	7,198	(5,075)
Total	**59,297**	**44,528**

The tax rate applied to taxable income in the Russian Federation is 24%.

A reconciliation of theoretical income tax at 24% to the amount of actual income tax expense recorded in the income statement is as follows:

	2004	2003
Profit before tax	**61,815**	**164,118**
Theoretical income tax at 24%	14,835	39,388
Tax effect of goodwill impairment	27,417	-
Tax effect of non-deductible expenses and other permanent differences	9,185	5,140
Taxable losses of subsidiaries not carried forward	7,860	-
Total income tax expense	**59,297**	**44,528**

13. BASIC AND FULLY DILUTED EARNINGS PER SHARE

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

	2004	2003
Net profit for the year of	8,059	119,590
Weighted average number of ordinary shares for the purposes of basic earnings per share	137	123
Possible dilution effect of convertible preference shares (refer to note 22)	120	120
Weighted average number of ordinary shares for the purposes of fully diluted earnings per share	257	243
Earnings per share		
- Basic	59	972
- Fully diluted	31	492

in thousands of US dollars

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Mineral rights	Other	Total
Cost/valuation					
Balance at 31 December 2002	**112,238**	**90,445**	**-**	**392**	**203,075**
Additions	-	17,024	-	181	**17,205**
Transfers from capital construction-in-progress (refer to note 15)	3,666	-	-	-	**3,666**
Disposals	-	(353)	-	(14)	**(367)**
Effect of translation to presentation currency	9,031	7,853	-	38	**16,922**
Balance at 31 December 2003	**124,935**	**114,969**	**-**	**597**	**240,501**
Additions	1,049	25,793	-	2,459	**29,300**
Acquired on acquisition of subsidiaries (refer to note 33)	33,756	78,831	146,349	1,045	**259,981**
Transfers from capital construction-in-progress (refer to note 15)	23,918	-	-	-	**23,918**
Disposals	(92)	(2,291)	-	(114)	**(2,497)**
Effect of translation to presentation currency	9,561	10,164	3,758	156	**23,639**
Balance at 31 December 2004	**193,127**	**227,466**	**150,107**	**4,143**	**574,843**
Accumulated amortisation and depreciation					
Balance at 31 December 2002	**-**	**-**	**-**	**-**	**-**
Amortisation and depreciation charge for the year	(12,030)	(11,078)	-	(86)	**(23,194)**
Eliminated on disposal	-	20	-	2	**22**
Effect of translation to presentation currency	(504)	(463)	-	(3)	**(970)**
Balance at 31 December 2003	**(12,534)**	**(11,521)**	**-**	**(87)**	**(24,142)**
Amortisation and depreciation charge for the year	(17,236)	(24,898)	(3,200)	(362)	**(45,696)**
Eliminated on disposal	3	310	-	34	**347**
Effect of translation to presentation currency	(1,434)	(1,652)	(123)	(17)	**(3,226)**
Balance at 31 December 2004	**(31,201)**	**(37,761)**	**(3,323)**	**(432)**	**(72,717)**
Net book value					
31 December 2003	**112,401**	**103,449**	**-**	**510**	**216,360**
31 December 2004	**161,926**	**189,704**	**146,784**	**3,711**	**502,125**

At 31 December 2004 property, plant and equipment with a carrying value of 4,214 thousand USD (2003: nil) were pledged to secure long and short-term borrowings granted to the Group (refer to notes 24 and 29).

in thousands of US dollars

Leased assets

The Group leases production equipment under a number of finance lease agreements. At the end of the lease term the Group takes automatic ownership of the assets. At 31 December 2004 leased production equipment with a carrying value of USD 6,875 thousand (2003: nil) secure financial lease obligations (refer to note 25).

15. CAPITAL CONSTRUCTION-IN-PROGRESS

	2004	2003
Balance at beginning of the year	**31,011**	**8,300**
Additions	38,184	24,925
Acquired on acquisition of subsidiaries (refer to note 33)	19,389	-
Transfers to property, plant and equipment (refer to note 15)	(23,918)	(3,666)
Disposals	(1,342)	(92)
Effect of translation to presentation currency	2,955	1,544
Balance at end of the year	**66,279**	**31,011**

16. INVESTMENTS IN ASSOCIATES

	2004	2003
Balance at beginning of the year	**-**	**-**
Acquired during the year	9,149	-
Share of post acquisition losses (refer to note 10)	(50)	-
Effect of translation to presentation currency	258	-
Balance at end of the year	**9,357**	**-**

Details of the Group's associates at 31 December 2004 are as follows:

Name of associate	Principal activity	Date acquired	Share-holding		
CJSC "Pervenets"	Gold mining	6 April 2004	26.00%	9,018	-
LLC "Kvartsevye tekhnologii"	Quartz mining	6 April 2004	38.30%	339	-
				9,357	**-**

All Group's associates are registered in the Russian Federation.

in thousands of US dollars

17. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2004	2003
Non-current		
Equity securities available-for-sale	1,462	20
Long-term accounts receivable	1,111	-
Loans advanced	360	-
Promissory notes receivable	505	-
Other	38	-
Total non-current	**3,476**	**20**
Current		
Promissory notes receivable	393,738	114,080
Other	104	-
Total current	**393,842**	**114,080**

To arrive at fair market value of long-term accounts receivable, they have been discounted using effective market interest rate.

Short-term promissory notes are purchased from a related party and bear interest of 10.4% per annum.

18. INVENTORIES

	2004	2003
Refined gold at net production cost	2,445	1,474
Work-in-process at production cost	11,070	6,018
Total metal inventories	**13,515**	**7,492**
Stores and materials at cost	57,104	19,249
Less: Provision for obsolescence	(573)	(193)
Total	**70,046**	**26,548**

19. ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

	2004	2003
Advances to suppliers	7,514	1,631
Other receivables from non-mining activities	12,252	1,444
	19,766	3,075
Less: Provision for doubtful debts	(7,451)	(565)
Total	**12,315**	**2,510**

in thousands of US dollars

20. OTHER CURRENT ASSETS

	2004	2003
Value added tax recoverable	40,476	13,518
Deferred expenditures	14,507	342
Income tax prepaid	1,183	-
Other taxes prepaid	2,058	798
Total	**58,224**	**14,658**

Deferred expenditures mostly comprised of stripping and excavation costs, costs of repair and maintenance of gold mining equipment and general production costs.

21. CASH AND CASH EQUIVALENTS

	2004	2003
Current bank accounts	8,943	3,549
Letters of credit	3,308	-
Cash in hand	117	60
Other cash and cash equivalents	647	17
Total	**13,015**	**3,626**

22. SHARE CAPITAL

	2004	2003
Number of ordinary shares at par value of RUR 400		
Authorised	1,123	1,123
Issued and fully paid	173	123

In 2004 the Company issued 50 additional ordinary shares for a total consideration of USD 498,818 thousand.

	2004	2003
Number of preference shares at par value of RUR 100		
Authorised, issued and fully paid	120	120

Preference shares are freely convertible into ordinary shares.

23. MINORITY INTEREST

	2004	2003
Balance at beginning of the year	**-**	**-**
Minority interest in subsidiaries acquired during the year (refer to note 33)	48,416	-
Minority interest in net loss of subsidiaries	(5,541)	-
Effect of translation to presentation currency	1,052	-
Balance at end of the year	**43,927**	**-**

in thousands of US dollars

24. LONG-TERM BORROWINGS

	2004	2003
Loan from Gazprombank	3,586	-
A USD-denominated loan at 6% per annum. Repayments commenced in 2002, with the final instalment due on 30 September 2011. The loan is secured by property, plant and equipment with a carrying value of USD 791 thousand (refer to note 14)		
Other long-term borrowings	352	-
Total	**3,938**	**-**
Less: Current portion repayable within one year and shown under current liabilities	(400)	-
Net long-term borrowings	**3,538**	**-**

The long-term borrowings are repayable as follows:

	2004	2003
Due in one year	400	-
Due in the second year	200	-
Due thereafter	3,338	-
	3,938	**-**

25. LONG-TERM OBLIGATIONS UNDER FINANCE LEASES

	2004	2003
Total obligations under finance leases	4,828	-
Less: Current portion repayable within one year and shown under current liabilities	(1,045)	-
Net long-term obligations under finance leases	**3,783**	**-**

The weighted average interest rate implied in calculating the present values of finance leases is 10%.

in thousands of US dollars

Future minimum lease payments after 31 December 2004 are as follows:

	Gross value, inclusive of finance charges	**Present value**
Due in one year	1,383	1,045
Due in the second year	1,470	1,104
Due thereafter	2,974	2,679
Total	**5,827**	**4,828**
Less: Amount representing interest	(999)	-
Present value of minimum lease payments	**4,828**	**4,828**
Finance leases are secured by leased production equipment (refer to note 14)	6,875	-

26. DEFERRED TAX LIABILITIES

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

	2004	**2003**
Net liability at beginning of the year	**31,813**	**34,382**
Recognised in income statement for the year (refer to note 12)	7,198	(5,075)
Change in deferred tax liabilities due to acquisition of subsidiaries (refer to note 33)	44,046	-
Effect of translation to presentation currency	3,390	2,506
Net liability at end of the year	**86,447**	**31,813**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2004	**2003**
Property, plant and equipment	87,647	34,939
Accrued operating expenses	470	(758)
Provision for doubtful debts	(1,473)	(639)
Inventory valuation	(197)	(1,729)
Total	**86,447**	**31,813**

in thousands of US dollars

27. OTHER LONG-TERM PAYABLES

	2004	2003
Long-term taxes payable	819	-
Other payables	916	-
Total	**1,735**	**-**

Long-term taxes payable represent a restructured liability to the State budget accumulated by subsidiaries of the Group over several years and mainly comprise of value added and unified social taxes.

All long-term taxes and other payables are interest free and repayable in 2006-2007. To arrive at fair market value, they have been discounted using effective market interest rate.

28. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	2004	2003
Balance at beginning of the year	**6,978**	**6,101**
Unwinding of discount on decommissioning obligations (refer to note 9)	427	379
Effect of translation to presentation currency	446	498
Balance at end of the year	**7,851**	**6,978**

Provision for land rehabilitation

	2004	2003
Balance at beginning of the year	**-**	**-**
Charge to income statement	2,532	-
Effect of translation to presentation currency	97	-
Balance at end of the year	**2,629**	**-**

During 2004 the Group performed an estimate of land rehabilitation costs. The provision, discounted to net present value, relates exclusively to mining operations.

	2004	2003
Total environmental obligations	**10,480**	**6,978**

in thousands of US dollars

29. SHORT-TERM BORROWINGS

	2004	2003
RUR-denominated short-term borrowings	30,252	-
USD-denominated short-term borrowings	4,460	-
Current portion of long-term borrowings	400	-
Total	**35,112**	**-**

RUR denominated short-term borrowings include USD 24,254 thousand of promissory notes issued to a related party and bearing interest of 10.4 - 11.2% per annum.

The interest rates on borrowings vary as follows:

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

Short-term borrowings are secured by (refer to note 14):

	2004	2003
Property, plant and equipment	3,423	-

30. TRADE AND OTHER PAYABLES

	2004	2003
Trade accounts payable	10,000	719
Wages and salaries	7,888	1,723
Payables for production equipment	4,452	2,940
Accrual for annual leave	3,108	1,328
Interest payable	1,744	-
Other creditors	8,671	32
Total	**35,863**	**6,742**

31. TAXES PAYABLE

	2004	2003
Value added tax payable	4,058	-
Social taxes	3,043	439
Income tax	2,157	7,017
Property tax	566	556
Provision for fines and penalties	-	14,493
Other taxes	4,690	1,404
Total	**14,514**	**23,909**

in thousands of US dollars

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

	2004	2003
Profit before taxation	**61,815**	**164,118**
Adjustments for:		
Impairment of goodwill on acquisition	114,639	-
Amortisation and depreciation	45,696	23,194
Interest accrued	10,146	-
Loss on disposal of property, plant and equipment and assets under construction	3,164	437
Change in provision for doubtful debts	2,535	43
Provision for land rehabilitation	2,532	-
Unwinding of discount on decommissioning obligations	427	379
Change in provision for obsolete inventory	355	185
Loss from associates	50	-
Change in provision for tax fines and penalties	(14,815)	13,911
Accrued income on promissory notes	(9,552)	(6,848)
Gain from change in terms of finance leases	(1,101)	-
Operating profit before working capital changes	**215,891**	**195,419**
(Increase) in inventories	(12,774)	(11,198)
Decrease in advances paid and other receivables	6,835	1,339
(Increase) in other current assets, excluding income tax prepaid	(11,496)	(4,905)
(Decrease)/increase in trade and other payables	(1,799)	4,558
(Decrease)/increase in taxes payable, excluding income tax	(7,623)	937
Cash flows from operations	**189,034**	**186,150**

in thousands of US dollars

33. ACQUISITION OF SUBSIDIARIES

	2004	2003
Net assets acquired		
Property, plant and equipment (refer to notes 14)	259,981	-
Capital construction-in-progress (refer to note 15)	19,389	-
Inventories – refined metals	3,843	-
Inventories – other	24,328	-
Trade and other receivables	12,493	-
Cash and cash equivalents	2,369	-
Other current assets	49,705	-
Loans and borrowings	(67,679)	-
Trade and other payables	(53,635)	-
Deferred taxation (refer to note 26)	(44,046)	-
Net assets at date of acquisition	**206,748**	**-**
Less: Minority interest (refer to note 23)	(48,416)	-
Groups' share of net assets acquired	**158,332**	**-**
Add: Goodwill on acquisition that was fully impaired (refer to comment below)	114,639	-
Total consideration	**272,971**	**-**
Satisfied by cash	(272,971)	-
Net cash outflow arising on acquisition:		
Cash consideration	(272,971)	-
Cash and cash equivalents acquired	2,369	-
Net cash outflow on acquisition of subsidiaries	**(270,602)**	**-**

Impairment of goodwill

The Group reviewed the carrying value of goodwill arising on the acquisition of OJSC "Lenzoloto" and determined that it should be written-off in full in the current financial year.

OJSC "Lenzoloto"

On 6 April 2004, the Group acquired 50.5% of the issued share capital of OJSC "Lenzoloto" for a cash consideration of USD 179,307 thousand. During July 2004 the Group increased its investment in OJSC "Lenzoloto" to 56.96% for a cash consideration of USD 11,711 thousand, bringing the Group's total investment in OJSC "Lenzoloto" to USD 191,018 thousand.

OJSC "Lenzoloto" contributed USD 104,097 thousand of revenue and USD 1,179 thousand loss before taxation from the date of acquisition to 31 December 2004.

OJSC "Matrosov Mine"

On 6 April 2004, the Group acquired 38.0% of the issued share capital of OJSC "Matrosov mine" for a cash consideration of USD 35,618 thousand. During May and July 2004 the Group increased its investment in OJSC "Matrosov Mine" to 57.1% for a cash consideration of USD 18,059 thousand, bringing the Group's total investment in OJSC "Matrosov Mine" to USD 53,677 thousand.

OJSC "Matrosov Mine" contributed USD 3,947 thousand of revenue and USD 14,684 thousand loss before taxation from the date of acquisition to 31 December 2004.

CJSC "Tonoda"

On 14 December 2004, LLC "Lenskaya Zolotorudnaya Company", a subsidiary of the Group acquired 100.0% of the issued share capital of CJSC "Tonoda" for a cash consideration of USD 28,276 thousand. CJSC "Tonoda" holds a licence to mine Chertovo Koryto deposit located in Irkutsk Region of the Russian Federation.

CJSC "Tonoda" did not trade from the date of acquisition to 31 December 2004, and, therefore, contributed USD nil thousand of revenue and USD nil thousand loss before taxation from the date of acquisition to 31 December 2004.

in thousands of US dollars

34. RELATED PARTIES

Related parties are considered to include the ultimate holding company, affiliates and entities under common ownership and control with the Group. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Material transactions with related parties not dealt with elsewhere in the consolidated annual financial statements were as follows:

	Sale of goods	Purchase of services	Interest income	Promissory notes receivable	Trade receivables	Cash deposits	Short-term borrowings	Trade payables
2004								
By the Company	333,705	8,928	15,290	393,738	273	1,223	-	-
By subsidiaries of the Group	63,716	785	-	-	1,824	1,675	28,082	3,836
Total	**397,421**	**9,713**	**15,290**	**393,738**	**2,097**	**2,898**	**28,082**	**3,836**
2003								
By the Company	239,811	-	6,848	102,645	-	2,996	-	-
By subsidiaries of the Group	-	-	-	-	-	-	-	-
Total	**239,811**	**-**	**6,848**	**102,645**	**-**	**2,996**	**-**	**-**

in thousands of US dollars

35. COMMITMENTS

Capital commitments

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2005:

Expansion of property, plant and equipment	101,545
Maintenance of property, plant and equipment	29,767
Total budgeted capital expenditure for 2005	**131,312**

2005 budgeted capital expenditure allocated between:

Contracted	34,064
Not contracted	97,248
Total budgeted capital expenditure for 2005	**131,312**

Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. These contributions are recorded in the year in which they are incurred.

The Group's commitments will be funded from its own cash resources and borrowings.

36. CONTINGENCIES

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Presently the Group has developed a comprehensive property risk insurance program which will commence in the second half of 2004 that provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. This comprehensive property insurance program, will reduce the risk of adverse effect of damage or loss of certain assets upon the Group's activities and its financial position.

Litigation

The Group has been and continues to be subject from time to time to claims and legal proceedings relating to its business activities. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The Government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the Russian Federation. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land and that could potentially to impact flora and fauna, and give rise to other environmental concerns.

The Group's management believes that it is in compliance with all current existing environmental laws and regulations in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations, restore and rehabilitate the environment. During 2003 and 2004 the Group conducted an internal estimate of environmental obligations for its operations. These estimates were based on management's understanding of the current legal requirements in the Russian Federation and the terms of license agreements. Management believes that Group's environmental obligations in the Russian Federation mainly include:

- rehabilitation of land and other types of ongoing rehabilitation; and
- decommissioning of mining assets and bringing mine sites into a condition that ensures the safety of population, protection of environment, buildings and facilities.

The extent and future expected costs related to environmental obligations are inherently difficult to estimate. They depend on the scale of operations, timing and further development of Russian legislation. The Group estimates its environmental obligations using the current level of mines' expansion, existing technology, current prices and projected inflation levels.

Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy depends on the efficacy of the Government economic policies and the continued the development of legal and political systems.

37. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, liquidity, interest rate and credit risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Commodity price risk

Commodity price risk is the risk that the Group’s current or future earnings will be adversely impacted by changes in the market prices of gold.

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

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

The majority of the Group’s revenues are denominated in USD, whereas the majority of the Group’s expenditures are denominated in RUR, accordingly, operating profits may be adversely impacted by appreciation of the RUR against the USD.

The Group does not enter into foreign currency derivative transactions to offset its currency risk.

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group.

Although the Group sells a significant portion of its gold production to a related party and has the only one other customer, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market in the Russian Federation. Payment terms with the Group’s customers are such that credit risk is minimal.

in thousands of US dollars

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities when they fall due. The Group's liquidity position is carefully monitored and managed. The Group makes use of a detailed budgeting and cash forecasting process to ensure it has adequate cash available to meet its payment obligations.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Investments in associates (refer to note 16)	9,357	9,357	-	-
Investments in securities and other financial assets (refer to note 17)	397,318	397,318	114,100	114,100
Advances to suppliers and other receivables (refer to note 19)	12,315	12,315	2,510	2,510
Other current assets (refer to note 20)	58,224	58,224	14,658	14,658
Cash and cash equivalents (refer to note 21)	13,015	13,015	3,626	3,626
Long-term borrowings (refer to note 24)	3,538	3,538	-	-
Obligations under finance leases (refer to note 25)	4,828	4,828	-	-
Other long-term payables (refer to note 27)	916	916	-	-
Short-term borrowings (refer to note 29)	35,112	35,112	-	-
Trade accounts and other payables (refer to note 30)	35,863	35,863	6,742	6,742
Taxes payable (refer to note 31)	14,514	14,514	23,909	23,909
Long-term taxes payable (refer to note 27)	819	819	-	-

The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management's valuation. The long-term accounts receivable have been discounted using the discount rate for similar transactions.

Advances to suppliers and other receivables, other current assets, cash and cash equivalents and trade and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on long- and short-term borrowings and capitalised finance leases are market related. Consequently the carrying values of these financial instruments approximate their fair values.

Long-term taxes payable have been discounted using the discount rate for similar transactions.

The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realised had these instruments been liquidated at the date of valuation.

39. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Acquisition of shares in Russian gold mining companies

On 9 February 2005 an additional 74% (2004: 26%, refer to note 16) of the issued ordinary shares of OJSC “Pervenets” was acquired by the Group for USD 25,816 thousand.

In April 2005 an additional 30.4% (2004: 57.1%, refer to note 40) of the issued ordinary shares of OJSC “Matrosov Mine” was acquired by the Group for USD 67,931 thousands.

In February 2005 the Group increased its ownership up to 100% in the following significant subsidiaries: CJSC “GRK Sukhoy Log”, CJSC “Vitimenergo”, LLC “Lengeo” and LLC “Vitimservis”. As of 31 December 2004 the ownership of the Group in these subsidiaries was 56.96% (refer to note 40).

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

On 15 April 2005 the Board of Directors of OJSC “MMC “Norilsk Nickel” approved a plan to spin-off the Norilsk Nickel Group’s gold mining assets into a new company by way of a single transaction. The disposal group consists of the gold mining assets of CJSC “Polus” and its subsidiaries, and 20% interest in Gold Fields Limited, including all liabilities directly associated with those assets. The transaction was announced on 18 April 2005, and is a subject to the final approval by the Extraordinary General Meeting of Shareholders in September 2005. If the spin-off is approved by the shareholders, the transaction is expected to be completed at the end of March 2006.

In accordance with the restructuring plan the shareholders of OJSC “MMC “Norilsk Nickel” will receive ordinary shares in the newly created company in proportion to their existing shareholding in OJSC “MMC “Norilsk Nickel”.

It is unlikely that significant changes to the restructuring plan will be made or that it will be withdrawn.

New licenses acquired

During the period from January till May 2005 the Group obtained new mining licenses for the following gold deposits: Mukodekskoe (Irkutsk region), Bamskoe (Amursk region), Degdekanskoe and Vostochnoe (Magadan region).

in thousands of US dollars

40. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Shares held		% held		Net asset position		Net loan account	
Subsidiaries in the Russian Federation	**Nature of business**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
CJSC "Lensib"	Mining	610	-	34.75	-	6,776	-	(5,028)	-
CJSC "Svetliy"	Mining	840	-	47.85	-	6,129	-	(1,158)	-
CJSC "Marakan"	Mining	840	-	47.85	-	5,889	-	(3,563)	-
CJSC "Nadezhdinskoe"	Mining	840	-	47.85	-	1,158	-	(10,106)	-
CJSC "Dalnaya Taiga"	Mining	820	-	46.71	-	1,676	-	(3,643)	-
CJSC "Sevzoto"	Mining	650	-	37.02	-	(813)	-	(8,507)	-
CJSC "Charazoto"	Mining	640	-	36.45	-	(375)	-	(5,488)	-
CJSC "Nedra Bodaybo"	Mining	1,071	-	29.05	-	(4,280)	-	(1,659)	-
CJSC "GRK Sukhoy Log"	Mining	100	-	56.96	-	3,108	-	(21,346)	-
OJSC "Matrosov Mine"	Mining	43,929	-	57.05	-	(7,071)	-	-	-
CJSC "Tonoda"	Mining	9,100	-	100	-	(1,910)	-	(7,022)	-
OJSC "Lenzoloto"	Market agent	847,535	-	56.96	-	59,651	-	30,941	-
LLC "Lenskaya Zolotorudnaya Company"	Market agent	-	-	100	-	36,071	-	35,479	-
CJSC "Vitimenergo"	Electricity production	355,669	-	56.96	-	18,766	-	918	-
LLC "Lengeo"	Geological research	-	-	56.96	-	965	-	(34)	-
LLC "Vitimservice"	Procurement services	-	-	56.96	-	3,944	-	1,068	-
LLC "Lenrem"	Repair services	-	-	56.96	-	2,465	-	472	-
LLC "LZDT"	Transportation	-	-	56.96	-	1,008	-	132	-