2009
Annual Report

POLYUS

Index

1. Short description of Polyus Group

In this annual report, the terms Polyus Group, OJSC Polyus Gold, Polyus Gold, Company, and Group all refer to Open Joint-Stock Company Polyus Gold, its subsidiaries and associates, whose performance results are consolidated by OJSC Polyus Gold in accordance with the International Financial Reporting Standards (IFRS).
OJSC Polyus Gold was incorporated in March 2006 as a result of the spin-off of the gold mining assets of OJSC "MMC Norilsk Nickel" (in this report, information regarding the Company's activity before March 2006 refers to CJSC Polyus, its subsidiaries and associates).

Polyus Group expanded activities beyond the Russian Federation in 2009. The Company's assets are currently located in 4 countries: the Russian Federation, Kazakhstan, Kyrgyzstan and Romania. The Company is the largest gold producer in the Russian Federation, one of the largest producers of the metal in Kazakhstan and among the largest gold mining companies in the world by production volume and resource base. In the Russian Federation, the Company is engaged in gold mining and exploration in 5 regions:

- Krasnoyarsk
- Irkutsk
- Republic of Sakha (Yakutia)
- Magadan
- Amur

Shares of OJSC Polyus Gold are traded on the two leading Russian stock exchanges: RTS and MICEX. American Depositary Receipts ("ADRs") for the Company's shares are traded on the Main Market of the London Stock Exchange ("LSE"), and on over-the-counter ("OTC") market in the USA. The Company's shares are included in the calculation of Russian stock indices of RTS, MICEX AK&M, and world stock indices of FTSE (12 indices, including FTSE Gold Mines), MSCI (3 indices) and Dow Jones (3 indices). At 31 December 2009, the Company's market capitalization was USD 10.1 billion.

Global Depositary Receipts ("GDRs") of KazakhGold Group Limited, a member of Polyus Group, are traded on the Main Market of the London Stock Exchange.

The Company's Mission – to develop nature's and human potential for the benefit of shareholders, employees and the community.

The Company Strategic Vision:

- ✔ International public company with shares quoted on the world's leading stock exchanges
- ✔ The leader in the Russian gold mining industry and a global top-5 gold mining company by market capitalization, volumes of reserves and production
- ✔ Modern company complying with high standards of corporate governance, an attractive investment target
- ✔ Responsible company caring about its employees, environment and local communities in the regions of its operations; among most admired employers in the regions of its presence
- ✔ Innovative company striving to continuously improve
- ✔ A reliable partner, always delivering on its promises

The Company has already achieved almost all of the targets set by its strategic vision, and is now focused on entering the top-5 of the global mining in the coming years, to fulfill the missing one: a global top-5 mining company.

Table 1. Key assets of OJSC Polyus Gold

Region/deposit	Status of the asset development as at 31 December 2009	Gold production in 2009, thousand ounces	Owner	Share of OJSC Polyus Gold in the license owner as at 31 December 2009, %
RUSSIAN FEDERATION				
Krasnoyarsk region				
Olimpiada	Production	839	CJSC Polyus	100
Blagodatnoye	Construction	–	CJSC Polyus	100
Titimukhta	Production		CJSC Polyus	100
Irkutsk region				
Group of alluvial deposits	Production	194	CJSC ZDK Lenzoloto	40.4-66.2[1]
Zapadnoye	Production		LLC LZRK	100
Verninskoye	Construction	–	LLC LZRK	100
Chertovo Koryto	Feasibility study preparation	–	LLC LZRK	100
Republic of Sakha (Yakutia)				
Kuranakh	Production	135	OJSC Aldanzoloto GRK	100
Nezhdaninskoye	Exploration/feasibility study preparation		OJSC SVMC	100
Magadan region				
Natalka	Feasibility study preparation	–	OJSC Matrosov Mine	100
Amur region				
Bamskoye	Exploration completed	–	LLC Amursk Exploration	100
REPUBLIC OF KAZAKHSTAN[2]				
Aksu	Production	7.3	JSC MMC Kazakhaltyn	50.1
Bestobe	Production	10.9	JSC MMC Kazakhaltyn	50.1
Zholymbet	Production	12.1	JSC MMC Kazakhaltyn	50.1

■ Production

In addition to the above assets, the Company has a large portfolio of projects at various stages of development in the Russian Federation, Kazakhstan, Kyrgyzstan and Romania.

[1] Licenses for alluvial deposits are held by various entities that are not under the direct ownership of OJSC Polyus Gold. The holdings constitute 40.4% to 66.2%. However, for the purpose of financial reporting (IFRS 27) and for reserve estimation, the Company consolidates all of the financial results of these entities and accounts for all of their reserves in the Group's reserves.

[2] The production results of the Company's assets in Kazakhstan are given for the period from August to December 2009.

Locations of the key assets of Polyus Gold

2. Key features of 2009

Mergers & acquisitions

- Successfully completed the acquisition of 50.1% of shares of KazakhGold Group Ltd. Gained access to resource-rich areas of Kazakhstan and Central Asia. Polyus Gold expanded outside the Russian Federation, and became an international company.

Production and finance

- Production target of 1.3 million ounces of gold met
- The average selling price of USD 968.7 per ounce of gold, compared to USD 867.3 in 2008
- The continued increase in gold price was fully reflected in gold revenues, thanks to unhedged sales
- Gold sales increased to USD 1,199 million, or by 13%
- Profit for the year increased to USD 323.2 million, from USD 60.8 million in 2008
- EBITDA increased to USD 549 million, or by 26%
- Gross profit margin and EBITDA margins reached historically high levels of 51% and 45%, respectively
- Total cash costs per ounce of sold metal (TCC) amounted to USD 391, as compared to USD 392 in 2008
- Operating margin grew to USD 578 per ounce, or by 22%
- Capital expenditure in 2009 was equal to USD 496, as compared to USD 630 in the previous year

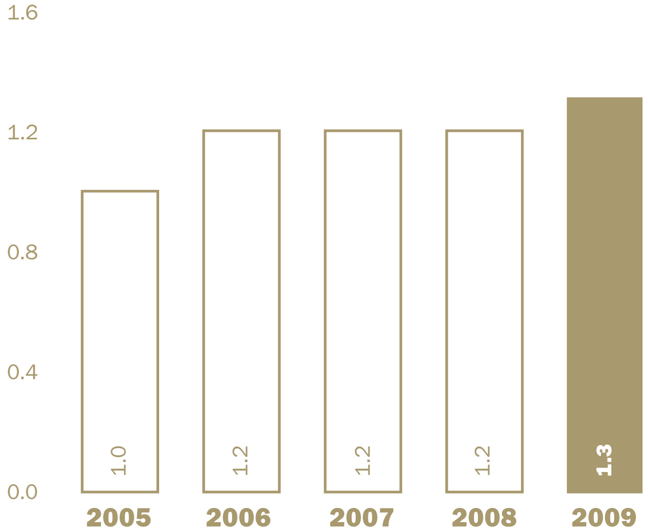
Production development and new projects

- In April 2009, the Titimukhta project was successfully completed; the capacity of modernized Mill No. 1 (Olimpiada Mine), which processes Titimukhta ores, was increased from 1.5 to 2.2 million tonnes per year
- Nearing completion of construction of Blagodatnoye Mine: the plant with a processing capacity of 6 million tonnes per year is to be launched in the 2nd half of 2010
- Construction of Verninskoye Mine with an annual capacity of 2.2 million tonnes is on schedule
- The new strategy for development of the Natalka deposit was prepared; the project plan to develop Natalka deposit was submitted to the Federal Agency for Subsoil Use (Rosnedra) and GlavGosExpertiza of Russia

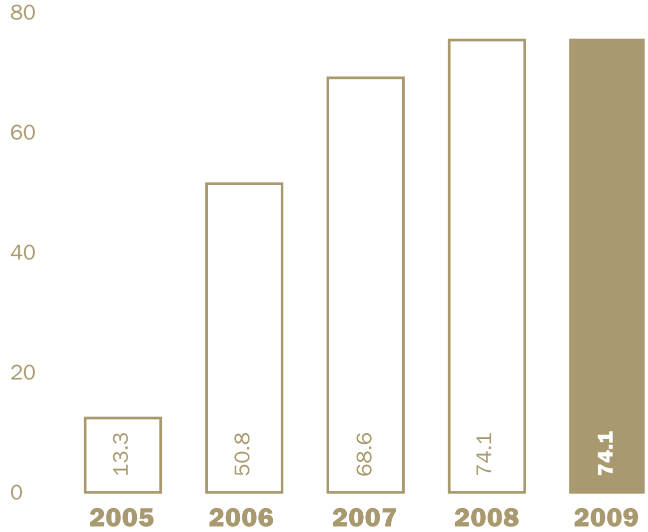
Exploration and reserves growth

- Total growth in the Group's reserves (Russian classification) in 2009 amounted to 10.5 million ounces of gold
- Exploratory drilling volume amounted to 164.2 thousand meters

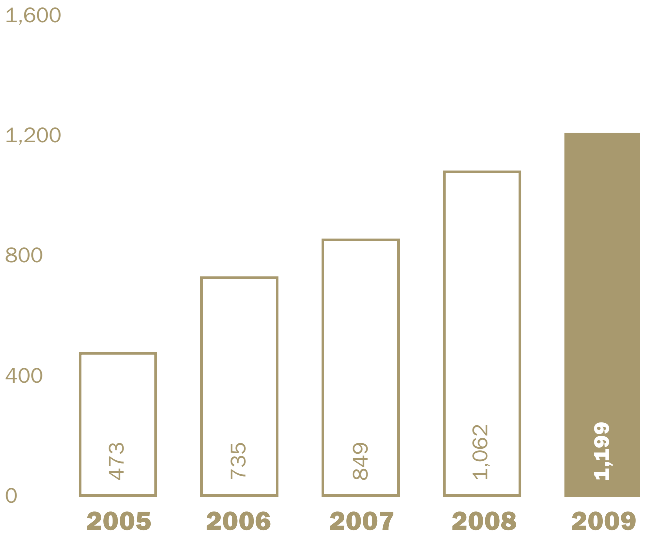
Gold production of the Group in 2005-2009, million ounces



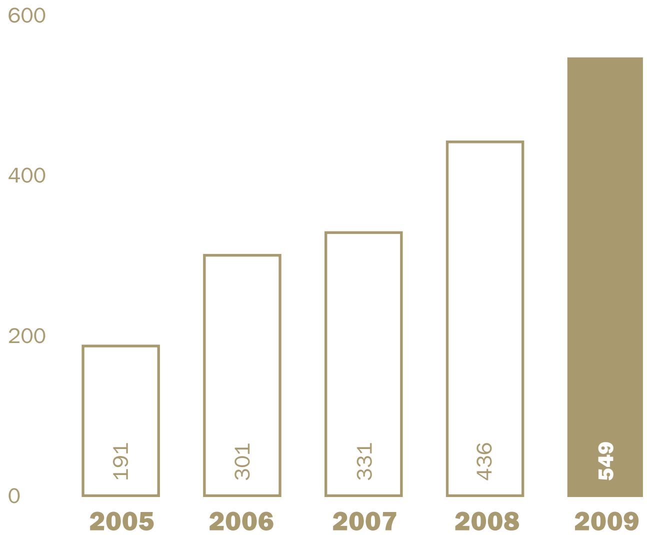
Proved and probable reserves (P&P, JORC) of the Group in 2005-2009, million ounces



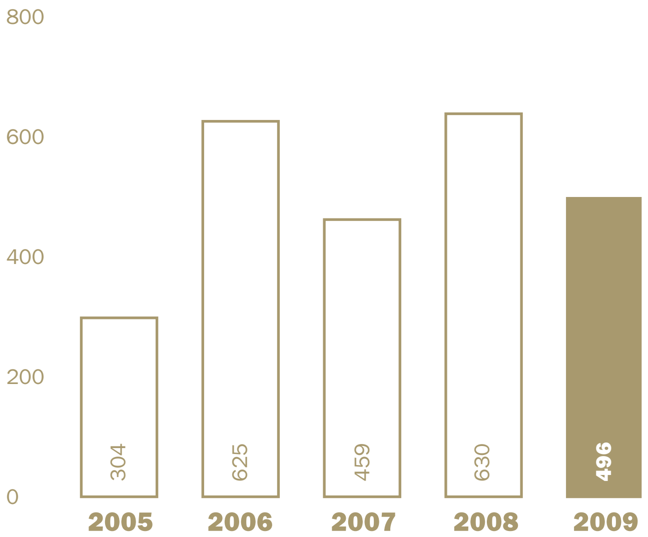
Gold sales of the Group in 2005-2009, USD million



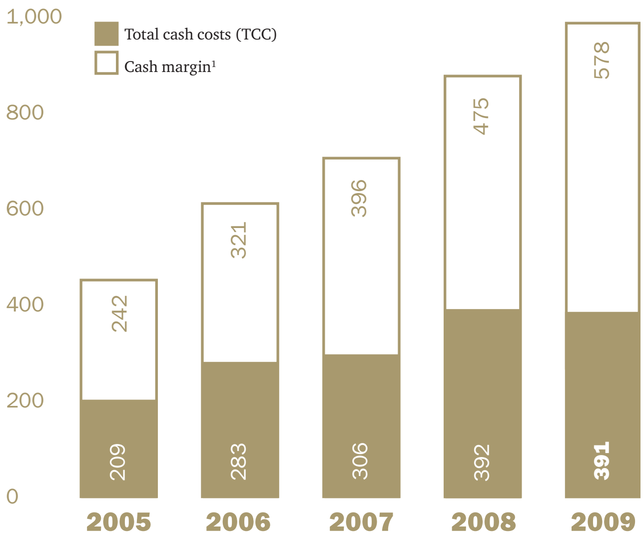
EBITDA of the Group in 2005-2009, USD million



Capital expenditure of the Group in 2005-2009, USD million



Total cash costs and cash margin of the Group in 2005-2009, USD/ounce



[1] The cash margin is the difference between the average selling price and total cash costs per troy ounce of gold.

3. Letter from the Chairman of the Board of Directors

Dear OJSC Polyus Gold shareholders,

In 2009, Polyus Gold made a significant step forward in implementing its strategy aimed at becoming one of the global top five gold mining companies: it has become international in terms of asset location. During the reporting year, we successfully acquired a controlling stake in KazakhGold Group, one of the largest gold producers in Kazakhstan with a significant potential for further growth.

In 2009, the Group achieved the set targets on most of its financial and operational indicators, despite a decrease in production at the the flagship production unit – Olimpiada Mine, resulting from the switch to a new type of ore. The large-scale capacity increase program, having been implemented by the Group in recent years, began delivering a return in the reporting year. The total volume of gold production amounted to 1.3 million ounces compared to 1.2 million ounces in 2008. The planned launch of the Blagodatnoye Mine in the second half of 2010 will represent another milestone in the growth in metal production.

In 2009 the Group's key financial indicators continued to improve: sales showed a 13% growth, earnings per share showed a sixfold increase, EBITDA grew by 26%, gross profit margin and EBITDA margin reached historical heights. The Group demonstrated good results on the cost control front, total cash costs having been decreased, compared to the previous year.

In 2009, the global gold market continued to be favorable for the Company's activities. Significant growth in investor's demand for the metal, shares of gold mining companies and derivatives, and gold funds including ETF (Exchange Trading Funds) continued in 2009. In particular, analysts indicated a more than twofold growth in the demand for the metal from ETFs. These factors have contributed to the ever-increasing attention and interest of the international investment community in Polyus Gold shares.

In the reporting year, the Group continued to deliver on its promises in terms of new projects development: the Titimukhta project was launched, the Blagodatnoye Mine is soon to be launched, the construction of the Verninskoye Mine is near completion, and project documentation for the Natalka Mine has been prepared. We are pleased to inform you that the implementation of a long-term program aimed at expanding production facilities, which includes constructing a number of new enterprises and upgrading the existing ones, is going in accordance with the schedule.

In 2009, Polyus continued the expansion of its mineral and raw material base. Total growth in reserves, according to the Russian classification, amounted to 10 million ounces of gold. In 2010, we plan to audit the reserves of a number of our deposits according to the JORC Code.

In the reporting year, Polyus Gold continued to develop its role as a socially responsible company, focusing on environmental and operational safety and supporting local communities in the regions of its activity, and guided by long-term benefits to all participants of the business. In 2010, the Company plans to issue the third report according to Global Reporting Initiative ("GRI") standards to reflect its achievements in implementing the concept of sustainable development.

Summing up Polyus Gold's performance in 2009, the Company took advantage of a favorable market situation to enhance its position in the global industry, resulting in the increase of its shareholder value. On behalf of the Board of Directors, I would like to express my gratitude to all Company shareholders for their support and trust, and all employees of OJSC Polyus Gold for their commitment, responsibility and professionalism.

Mikhail Prokhorov

4. Letter from the General Director

Dear shareholders,

Polyus Gold followed plans for 2009 that formed part of the strategic program, and demonstrated positive improvments in key financial and operational indicators. The Company produced 1,261 thousand ounces of gold in 2009, compared to 1,222 thousand ounces in the previous year. Our production growth is primarily related to the launch of the Titimukhta project and the purchase of assets in Kazakhstan.

Revenue from gold sales was USD 1,199 million, compared to USD 1,062 million in 2008. This growth is primarily the result of an increase in the weighted-average gold selling price from USD 867.3 in 2008 to USD 968.7 in 2009, as well as increased production and sales volumes. The Group's gross profit on gold sales amounted to USD 624 million, showing a 24% year-on-year growth. Gross profit margin amounted to record 51%. Profit for the year amounted to USD 323 million, compared to USD 60 million in 2008. EBITDA showed a 26% increase to USD 549 million. EBITDA margin continued to grow and amounted to 45%.

In the reporting period the Group was highly efficient in terms of its cost control initiatives. Cash operating costs decreased by 2.3% year-on-year to USD 574 million. This reduction was reflected on TCC, which decreased to USD 391 per ounce of sold gold.

The Company's production activity in 2009 was complicated by the continuing changeover at the Group's key enterprise (Olimpiada Mine) from the oxide ores to work with sulphide ores. Therefore, the production at Olimpiada declined in the year. We expect that the implementation of measures to improve the operational efficiency of the mines, and the experience in dealing with the sulphide ores at Olimpiada will lead to improved performance in the coming year.

A new project, Titimukhta, was launched in 2009 as part of the Company's program aimed at expanding the existing production facilities. The modernization of Mill No. 3 (located at Olimpiada Mine) was completed early in the year, and in April the first gold bullion was extracted from the Titimukhta deposit. Two problems were solved as a result of launching the project: the Company continues to use facilities that were released after the depletion of the Olimpiada deposit's oxidized ores and implemented production from a new deposit's ores with minimum capital expenditure.

Also in 2009, the Company entered the final stage of construction at the Blagodatnoye Mine in the Krasnoyarsk region. Toward the end of the year, all of the mine's facilities were more than 50% complete, and in early winter, a pilot launch of two technological lines was successfully completed. We are eagerly looking forward to bringing our new mine into operation in the second half of 2010. Blagodatnoye is going to become one of the largest mines in Russia in terms of processing volumes.

In 2009, we continued the construction of our mining operations at the Verninskoye deposit in the Irkutsk Region. In May 2009 a positive opinion from GlavGosExpertiza of Russia was received. All project work was on schedule and we expect to be operational next year.

A new strategy for the Natalka deposit development in the Magadan Region was prepared in 2009. The three-stage concept provides for the opening of mining complex in 2013 with a processing capacity of 10 million tonnes of ore per year with a gradual increase to 40 million tonnes. The project documentation and all of the necessary opinions from the Magadan Region state authorities were received in 2009. The project documentation was then submitted to the Federal Agency for Subsoil Use and GlavGosExpertiza of Russia.

In 2009, the Company continued its exploration program, and expansion of its mineral and raw material base. Nezhdaninskoye operating reserves were listed on the state balance, Bamskoye deposit reserves were approved, and reserves of deep formations of the Olimpiada deposit were evaluated. The total growth in balance reserves amounted to 10.5 million ounces of gold during the reporting period.

The 2009 year was marked by an important event in the history of Polyus Group; OJSC Polyus Gold has become an international company. In August, the Company successfully completed a transaction to acquire 50.1% of shares in KazakhGold Group Ltd., one of the leading gold producers in Kazakhstan. Modernization of the existing KazakhGold enterprises was started in the third quarter of 2009 and was aimed at the reconstruction and expansion of production facilities. Significant investments in the assets of the Kazakhstan business unit are expected to contribute to an increase in Polyus Group's production volumes in the coming years.

On behalf of the management of OJSC Polyus Gold, I would like to express our gratitude to all of the employees of the Company for their persistence and dedication and equally to the shareholders for supporting our efforts to enhance the Company's positions in the Russian and global gold mining industry.

Evgueni Ivanov

5. Development of new projects

The Company continued the implementation of the development strategy approved by the Board of Directors of OJSC Polyus Gold immediately after the Company's incorporation in 2006. The strategy has been developed for the period to 2015 and is aimed at significantly increasing the Company's production capacities and its mineral and raw material base. The construction of a number of new mining facilities, as well as the modernization and expansion of existing operations, was continued in 2009 as part of the strategy implementation. The implementation of the program provided the Group's first increase in total production volumes in 2009. In 2010, following the start-up of the Blagodatnoye Mine, the Company will enter an active growth stage.

Krasnoyarsk business unit

Blagodatnoye Mine construction

The Blagodatnoye Mine is expected to start up in the second half of 2010 and to achieve its full capacity of 6 million tonnes of ore per year in 2011. The expected average gold production is 12.8 tonnes per year (412 thousand ounces).

In 2009, construction works were underway at all project facilities. A positive expert opinion from GlavGosExpertiza and a construction permit from Rostekhnadzor were received in the year. Mining development, construction work at intra-site power networks of 6 kV, 0.4 kV, water intake structures, and an off-take with bridge crossings were completed. The design and budget documentation at the end of the year was about 98% complete. The total volume of investments in the project at the end of 2009 was about 59% of the total project budget. At the same time, with regard to the crushing complex, main building, and the Hydrometallurgical Department (GMO) building, the level of capital investments in construction and assembly work as at 31 December 2009 exceeded 65% of the planned expenditures. In 2009, investments in the Blagodatnoye project amounted to USD 152 million.

POWER PLANT CONSTRUCTION AT BLAGODATNOYE

CRUSHING OF FIRST ORE AT BLAGODATNOYE

At the end of 2009, the installation of the principal technological equipment (Mills Nos. 1 and 2 for the milling stage, flotation machines for sorption and processing tanks) was complete in the main building and the GMO building at the Blagodatnoye Mill. The installation of hardware and external structures of built-in premises is in progress.

In November, commissioning and testing works were performed of the 1st technological line of the Blagodatnoye Mill in the crusher house.

Two turbines were installed in the boiler house with a production capacity of 24 mW. Installation of the third turbine was completed in the first quarter of 2010. The boiler house was launched in March 2010.

As at the end of 2009, 70% of area planning and preparation work with regard to the tailing facilities were complete. This work included the development of water intake structures, levees, filtering dams and landfills for sorption tails, and pulp lines.

The delivery of mining transportation equipment continued in 2009. Two PC-3000 excavators (15 cubic meters) and 9 CAT 785 C mining trucks were delivered, which enabled a 200% increase in productivity. A total of 7.7 million cubic meters of rock was moved at the Blagodatnoye deposit in 2009.

Blagodatnoye deposit

The Blagodatnoye ore deposit is located in the North-Yenisei District of the Krasnoyarsk Region, 25 km from the Olimpiada Mine.

Ores in the deposit are represented by silicified, chloritic and sericitized quartz-micaceous schists with impregnated and vein impregnated sulphide mineralization. Ore minerals, the share in ores of which is 2-5%, are represented by pyrrhotine (1-3%), arsenopyrite (1-3%), pyrite and marcasite (0.5-5%), lollingite (0.3%), and include a negligible admixture of chalcopyrite, galenite and sphalerite.

The main forms of gold in ores are: free (70-80%), related to barren minerals (25-30%) and aggregates (5-10%). Fine gold primarily consists of granules of 70-750 μm (about 55%) and 10-70 μm (about 45%). The gold content of ore bodies is quite evenly distributed. The average grade of gold in ores of the deposit is 2.4 g/t.

Titimukhta deposit development

The re-equipping and modernizaton of gold extraction plant No. 1 of the Olimpiada Mine (Mill No. 1) for processing ores of the Titimukhta deposit were completed in early 2009. The plant has been engaged in processing Titimukhta deposit ores since April 2009. The Mill was also engaged in processing ores from the blending stockpile of the Olimpiada Mine (mixed type ore and Olenye deposit ores). Total ore processed at Mill No. 1 for the year was 2.1 million tonnes, including 600 thousand tonnes from the Titimukhta deposit.

Work with regard to the crushing complex, thickener and pulp pumping station were completed and vehicles were purchased in 2009. Work to create an automated system for the mining and transportation complex management (ASU GTK), based on the equipment and system of Wenco Systems, was completed in April 2009.

It is planned to complete the installation of the water removal system and deliver the remaining mining equipment (EKG-10) and other vehicles in 2010.

In 2009, the total costs under the Titimukhta project were USD 15 million.

Titimukhta deposit

The Titimukhta gold mining deposit is located in the North-Yenisei District of the Krasnoyarsk Region, 9 km north-west of the Olimpiada deposit.

The deposit is represented by quartz vein stockwork.

Ores are related to one technological type, free-milling ore, and are represented by two natural varieties, oxidized and sulphide (original), with different mechanical and physical properties. The volumetric weight of the dry oxide ore was accepted to be 2.25 t/m^3 and 2.75 t/m^3 for sulphide ore. Sulphide mineralization amounts to 2-3% and is represented by bismuth minerals, pyrites, pyrrhotine. Gold in ores is mainly found in its natural form (36%) and fused with bismuth minerals (48%). Ore includes bismuth and silver, although they do not form a concentration of commercial interest. The average grade of gold in the deposit's ore is 3.3 g/t.

Titimukhta deposit ore processing

After initial crushing, base ore is transported by truck to the ore plant for further two-stage crushing on two trains.

The first-stage semiautogenous grinding mills operate in an open cycle, while the second-stage ball mills utilize a closed-loop cycle along with hydraulic cyclones. The effluent coming from the hydraulic cyclones is thickened in the circular thickeners, after which the pulp is forwarded to the cyanidation columns in order to dilute the gold with a sodium cyanide solution.

After that, the pulp goes through the slurry divider and enters the desalination columns, where the pulp and sorbent agent flow countercurrently. As the result, ion-exchange resin sorbs ions of gold.

Fresh ionic-form resin is forwarded to the last columns and, as it gets saturated with gold, it is moved by airlifts to the head of the process. Afterwards, the saturated sorbent is further separated from the pulp and sands on unbalanced-throw screens and concentration tables.

The resin washed from the pulp and sands is sent to the regeneration cycle, and the pulp and sands from the unbalanced-throw screens and concentration tables are forwarded to the cyanidation column.

Sorption tails are removed from the last sorption columns and, after screening, they are sent to be decontaminated by calcium hypochlorite.

The saturated resin goes from the concentration tables to the buffer chambers and, after a sufficient amount has accumulated, it is forwarded in portions to be separated from the slurry with recycled water. The discharge from the columns returns to the sorption process.

ORE LOADING AT OLIMPIADA

The resin washed from the slurry is pumped to the acidizing recovery columns and then goes to the sulphourea sorption column for regeneration. The resin is then sent in portions to gold desorption columns, then to the acidizing column, where sulphourea is removed using sulphuric acid solutions. After that, the resin is rinsed with potable water to get rid of the acid and undergoes the necessary alkaline treatment. The ionic-form resin is then sent to the sorption process.

Gold-bearing solutions from the industrial reclaim tank go to press filters, after that the industrial reclaim is discharge by gravity through the supply tanks to the electrolytic tanks. Metals deposit on the cathodes as powder and drop off to the bottom of the cathode chambers. De-golded master batch goes through the gathering tanks to sulphurous solutions of sulphourea.

When it has accumulated, the metal is taken out of the electrolytic tanks. The cathode slurry is filtered through the nutsch filter, and then the dried sediment is weighed and undergoes kiln roasting and induction melting. The finished product in the form of ingots is delivered to the Central Gold Receiving Office.

Olimpiada Mine expansion

The Olimpiada Mine expansion project is intended to expand the mine's sulphide ore processing facilities. Mill No. 3 was launched in 2007 as part of the project. Moreover, work to expand the Vostochny open pit has been performed in recent years.

In 2009, the construction of a nitrogen station was completed, a Knelson concentrator was installed and a desorption unit was put into operation. The construction and assembly of fuel and lubricant storage areas and the automation of technological processes at Mill No. 3 are expected to be completed in 2010.

Total investments in the Olimpiada Mine expansion project in 2009 amounted to USD 37million.

Irkutsk business unit

Verninskoye Mine construction

The Verninskoye Mine project provides for the start-up of a mill in the second half of 2011 with a production capacity of 2.2 million tonnes per year and an average gold output of 183 thousand ounces per year.

In the second quarter of 2009, positive expert opinions were received from GlavGosExpertiza, as well as permission to construct the Verninskoye Mine's main facilities. Construction that had been suspended in 2008 was continued.

Installation of the framework, external structure of the main building, and 50 ton bridge cranes continued in September 2009. Approximately 95% of the metal elements of the hydro metallurgy building's structure and 40% of the walls and windows were installed by the end of 2009. A 50 ton crane was prepared for its final installation.

Camps for the teams (who work in shifts) currently include a canteen, 2 dormitories and a laundromat. Dormitory No. 3 is expected to be finished in summer 2010; all other work has been completed.

As construction of the Blagodatnoye Mine in the Krasnoyarsk Region winds up, the personnel engaged in that project will be transferred to the construction site of the Verninskoye Mine.

At the same time, it is planned that high quality work related to installing key technological equipment, metal structures, in-situ reinforced concrete constructions, electrical installation/plumbing and sanitary engineering will be performed by the Company's specialists, and all specialized types of work (power transmission lines – 110 kV, P/S 110/6 kV, fire alarm systems, etc.) will be performed by subcontractors.

Investment in the construction of the Verninskoye mine in 2009 was USD 17 million.

Verninskoye deposit

The Verninskoye deposit consists of several ore zones, the largest of which is ore zone No.1. The zone dips at 25-35° and has a combined length stretch of 1000 m, 400-900 m with the decline, and a thickness ranging from 50-70 m to 100-110 m. The front bottom part of the ore zone has the main ore body with a thickness of 30-70 m covering almost the whole zone. Ore concentrations confined to the zones of quartz-sulphide vein-impregnated mineralization, quartz-veined formations are quite rare.

Verninskoye deposit ores are represented by sericite-carbonate-quartz schists and sandstones including gold-bearing quartz-sulphide mineralization in the form of pockets, disseminated deposits and quartz-pyrites-arsenopyrite veins.

The main features of the ores are: continuity of composition, concentration of the ground mass of native gold in the form of disseminated deposits in quartz-pyrites-arsenopyrite formations, insignificant supergene ore modifications. As for mineral composition, feldspars,

CAPITAL MINING WORKS AT VERNINSKOYE DEPOSIT

MAIN BUILDING CONSTRUCTION AT VERNINSKOYE

quartz and micaceous minerals prevail. The total content of sulphides is the first per cent. Gold is in an unbound state and is paragenetically related to pyrite and arsenopyrite.

Magadan business unit

Natalka project

In 2009, work on organizing Natalka deposit production included preparation of project documentation, pilot plant technology improvement, further exploration work, and other prepatory works.

Preparation of project documentation

In March 2009, the Board of Directors of OJSC Polyus Gold approved a new project for the Natalka development with 3 stages of implementation. In April, a consortium of designers led by PiterGORproject started preparing the project documentation.

During the year, laboratory, semi-industrial and industrial research works and a comprehensive engineering survey were performed as part of the project's implementation.

Preparation of the project documentation was completed in November 2009. Certain opinions and approvals with regard to the project documentation were received from the Magadan Region state authorities.

In December, the project documentation was submitted to the Federal Agency for Subsoil Use of the RF Ministry of Ecology and Natural Resources.

Also in December, the project documentation and the results of the engineering survey were submitted to GlavGosExpertiza (The Federal State Enterprise Senior Department of State Expertise).

The results of the expertise on industrial safety conducted by CJSC GeoExpert were approved by the Federal Service for Environmental, Technological and Nuclear Control of the Ministry of Natural Resources of the Russian Federation.

In December 2009, an expert opinion on the results of the expertise on the sanitary and epidemiological issues of the project, conducted by the Magadan Region Federal State Enterprise Center of hygiene and epidemiology, was submitted to the Federal Service for the Protection of Consumers' Rights (Rospotrebnadzor).

Technology development at the pilot plant

In 2008, a pilot plant was launched at the Natalka deposit with the aim of analysing the technology of the future Natalka Mine. On 7 May 2009, the first gold bullion was smelted at the pilot plant. In the first two quarters of 2009, work was carried out at the plant to improve the parameters of ore grinding, testing was done at the filtration and thickening stages, and in-process testing of the intensive cyaniding process was underway. In the third quarter, testing was done to identify the relationship between recovery and the grade in the primary ore, and in the fourth quarter, testing of high-speed flotation and other work was carried out.

Investment in the project for the Natalka deposit development in 2009 amounted to USD 24 million.

Natalka deposit

Natalka gold deposit is located in the Western side of Nalalkinskaya syncline, which is a brachiform fold of a relatively simple composition with axes orientation on azimuth of 310-320°. The length of the syncline is approximately 5 km, the width – 2.5 km. The wings of the fold form angles of 30-50°.

Mineralized areas of the deposit has a spread of about 4.5-5 km. Its width reaches 1 km, commercial mineralization is concentrated, as a rule, in narrow ore legs with a width of above 100 meters. Identified vertical spread of the mineralization is 900-1,000 meters.

The deposits belongs to quartz low-sulfidation formation, and to arsenic pyrite type of such kind of formations.

The ore is presented with carbonaceous and quartz shale with quartz veins. Ore minerals are presented with arseno-pyrite, pyrite, magnetite, ilmenite, gold and other. Gold bearing minerals are, mainly, quartz and arseno-pyrite.

Gold is present primarily in a free form, as attachments and inclusions in arseno-pyrite and pyrite. Gold grades in pyrite and arseno-pyrite reach 70%. That is why when gravitation applied high gold recovery is possible into the sulfide gravitation gold bearing concentrate.

The ores have the following technological characteristics:

- Only gold exists in commercial quantities, silver amounting only to one fourth of the gold total content;
- The ores have homogeneous composition and equal distribution of grades;
- The Protodyakonov's solidity coefficient is equal to 8-10;
- The ore has a density of 2.6-2.7 t/m^3, apparent density is 1.6-1.7 t/m^3, humidity is equal to 0.6%. lode rock and dead rock have equal density, that is why it is practically impossible to separate dead rock basing on the specific weight.

AKSU MINE, OPEN PIT MINING

Kazakhstan business unit

KazakhGold Group deposits

In the third quarter of 2009, modernization began at the production units of KazakhGold Group, located in the Stepnogosk District of the Akmola Region of Kazakhstan: Aksu, Bestobe and Zholymbet. In the final 5 months of the year, investments into these assets, including investments in exploration work, amounted to USD 6.6 million.

During this period, an upgrade of underground mine equipment was underway at all mines, and repair work was in progress at the mills.

At Zholymbet, the construction of hypochlorite preparation and tailings neutralization workshops, as well as the plant's oxygen station, was completed. In addition, capital and maintenance repair work was carried out at the production workshops, administration buildings, and the industrial area of the mine.

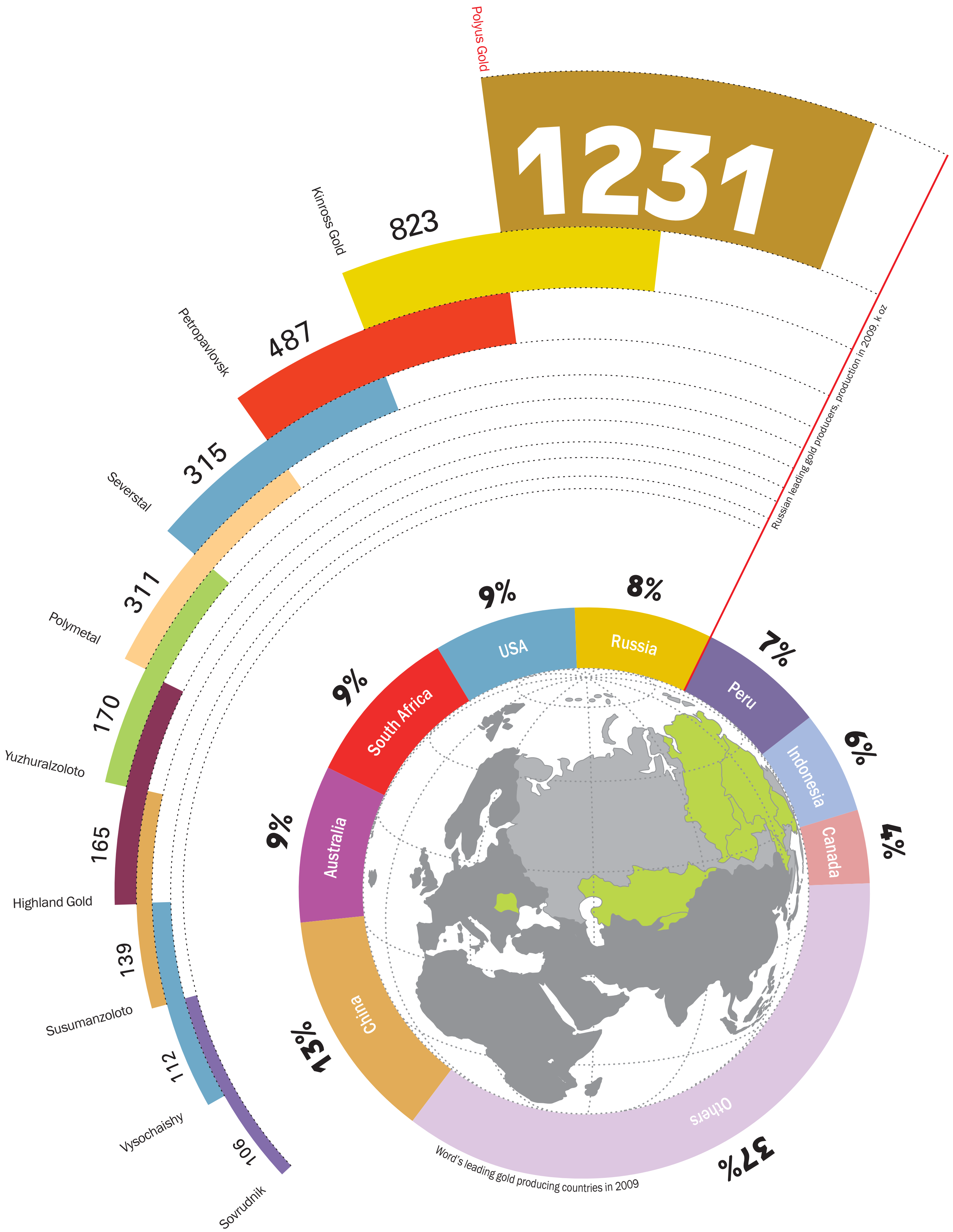
Production at the heap leaching complexes at Aksu and Bestobe resumed.

Capital repair of the Ventilyatsionnaya shaft at Bestobe was done, and the sludge line was reconstructed. A water filtration system was installed to ensure a stable supply of drinking water. Capital repair of the administration complex was also completed.

At Aksu, shafts No. 39-41 were modernized and operations resumed. Capital repair of the administration complex at shaft No. 40 was done. In addition, capital and maintenance repair work was carried out at a number of production and administration facilities.

In the period under review the Group remained the leader in the gold mining sector of Russia – a top-5 gold producing country. In 2009 Polyus' gold production on the territory of the Russian Federation amounted to 1,231 k oz (97.6% of the Group's total production).

The leading gold producer in Russia



6. Description of production assets and operating results for 2009

In 2009, the Group produced 1,261 thousand ounces[1] of gold compared to 1,222 thousand ounces in 2008, a 3.2% year-on-year growth. The growth in production is primarily a result of launching the Titimukhta project in the Krasnoyarsk Region, and the effects of acquiring a controlling stake in KazakhGold Group Limited, one of the leading gold producers in Kazakhstan, in the third quarter of 2009.

A number of negative factors significantly complicated the operation of the Group's production units in the reporting year. First, due to the depletion of high-grade oxide ores in 2008 and the transition to processing refractory sulphide ores, there was a decrease in the average gold grade of the ore processed. Second, there were substantial volumes of ore at stockpiles that had accumulated from 1996-2007 that needed to be processed to ensure stable chemical-mineralogical composition and physical-mechanical properties of the feed in the future. As a result, the feed supplied to the mills was of various technological types that required re-adjustment of the mills' operational schedules and additional time to stabilize the technological process. At Mill No. 1, for example, ores of three different types were processed (Olenye deposit ore, mixed-type ore from Zapadny and Vostochny pits at the beginning of the year, and the Titimukhta deposit ore during the rest of the year). At Mills No. 2 and No. 3, stockpiled, partly oxidized ores were processed at the beginning of the year, whereas those mills were switched over to newly mined ore in the second half of the year.

Other significant factors influencing the Group's operating results in 2009 were: implementation of the final stage of the Olimpiada Mine expansion project while maintaining running production; modernization of the Kuranakh Mine mill.

In 2009, the volume of rock moved at the Group's existing and new production units and projects amounted to 48.6 million cubic meters, compared to 50.8 million in 2008. In 2009, the Group mined 18.4 million tonnes of ore, compared to 6.6 million tonnes in 2008. The multiple growth of ore mining resulted from the transfer to sulfide ores at the Olimpiada Mine, and the start of mining at the Group's new projects: Titimukhta, Blagodatnoye and Verninskoye.

Ore processing in 2009 was 13.8 million tonnes, compared to 10.8 million in 2008. The increase in ore processing resulted from Mill No. 3 of the Olimpiada Mine reaching its designed capacity.

[1] Including 30 thousand ounces produced by KazakhGold Group in August – December 2009 in the form of slimes, flotation and gravity concentrate, and other semiproducts.

Table 2. Results of business operations of the Group in 2007-2009[2]

Item	2009	2008	2007
Total rock moved (thousand m³)			
Krasnoyarsk Region			
Olimpiada Mine	24,055	30,622	32,841
including stripping	*20,084*	*30,061*	*30,948*
Stripping ratio (m³/t)	1.89	19.84	6.9
Titimukhta deposit	5,003	2,849	–
including stripping	*4,296*	*2,755*	–
Stripping ratio (m³/t)	2.66	13.06	–
Blagodatnoye deposit	7,740	1,660	–
including stripping	*7,519*	*1,660*	–
Stripping ratio (m³/t)	12.64	–	–
Republic of Sakha (Yakutia)			
Kuranakh Mine	8,606	11,084	13,073
including stripping	*6,589*	*8,875*	*10,723*
Stripping ratio (m³/t)	1.83	2.28	2.6
Irkutsk Region			
Zapadnoye Mine	1,733	1,917	2,019
including stripping	*1,305*	*1,565*	*1,741*
Stripping ratio (m³/t)	1.13	1.65	2.3
Verninskoye Mine	1,340	2,627	843.4
including stripping	*1,198*	*2,627*	*843.4*
Stripping ratio (m³/t)	3.12		
Republic of Kazakhstan			
KazakhGold Group	153		
including stripping	*46*		
Total rock moved	48,630	50,759	47,994
Ore mining (thousand tonnes)			
Krasnoyarsk Region			
Olimpiada Mine, including:	10,603	1,515	4,473
Olimpiada deposit (oxidized)	–	–	928
Olimpiada deposit (sulphide)	10,603	1,254	2,434
Average grade (g/t) (oxidized)	–	–	14.2
Average grade in ore mined (g/t)	3.03	2.60	4.9
Olenye deposit	–	261	1,111

[2] KazakhGold Group data is reported for the period from August to December 2009.

Item	2009	2008	2007
Average grade in ore (g/t)	–	3.10	6.2
Titimukhta deposit			
Ore mining	1,618	211	–
Average grade in ore (g/t)	2.11	1.50	–
Blagodatnoye deposit			
Ore mining	595	–	–
Average grade in ore (g/t)	2.15	–	–
Republic of Sakha (Yakutia)			
Kuranakh Mine			
Ore mining	3,606	3,899	4,154
Average grade in ore (g/t)	1.39	1.42	1.4
Irkutsk Region			
Zapadnoye Mine			
Ore mining	1,155	950	750
Average grade in ore (g/t)	1.78	1.82	2.0
Verninskoye Mine			
Ore mining	384	–	–
Average grade in ore (g/t)	2.71	–	–
Republic of Kazakhstan			
KazakhGold Group			
Ore mining	432	–	–
Average grade in ore (g/t)	2.89	–	–
Total ore mining	18,393	6,575	9,377
Ore processing (thousand tonnes):			
Krasnoyarsk Region			
Olimpiada Mine, including:	8,877	6,623	6,231
Olimpiada deposit	8,561	5,215	6,225
Oxidized ore	–	414	973
Sulphide ore	7,398	4,801	5,252
Mixed type ore	1,163	–	–
Olenye deposit	316	1,408	6
Average grade in ore (g/t)			
Olimpiada deposit			
Oxidized ore	–	14.63	14.3
Sulphide ore	3.60	3.91	3.4
Mixed type ore	6.24	–	–
Olenye deposit	4.60	6.31	5.1
Recovery (%)			
Olimpiada deposit			

Item	2009	2008	2007
Oxidized ore	–	96.9	95.4
Sulphide ore	73.11	76.0	75.9
Mixed type ore	79.71	–	–
Olenye deposit	75.40	86.0	–
Titimukhta deposit			
Ore processing	602	–	–
Average grade in ore (g/t)	2.84	–	–
Recovery (%)	76.29	–	–
Republic of Sakha (Yakutia)			
Kuranakh Mine			
Ore processing	3,463	3,696	3,905
Average grade in ore (g/t)	1.40	1.44	1.4
Recovery (%)	84.20	84.6	85.6
Irkutsk Region			
Zapadnoye Mine			
Ore processing	505	495	518
Average grade in ore (g/t)	2.18	2.22	2.2
Recovery (%)	69.09	74.4	75
Republic of Kazakhstan			
KazakhGold Group			
Ore processing at mill	396		
Average grade (g/t)	4.53		
Recovery (%)	80		
Ore processing at heap leaching	158.6		
Average grade (g/t)	1.01		
Recovery (%)	38		
Total, ore processing	13,844	10,814	10,654
Sands washing (alluvials)			
Sands washed (million m^3)	9.00	9.69	9.1
Average grade (g/m^3)	0.66	0.59	0.6
Production of refined gold (thousand ounces)			
Olimpiada Mine	839	873	861
Titimukhta	39	–	–
Kuranakh Mine	135	144	142
Zapadnoye Mine	24	24	32
Alluvials	194	181	179
KazakhGold Group[3]	30	–	–
TOTAL, gold production	1,261	1,222	1,214

[3] KazakhGold Group production for August – December 2009 in the form of slime, floto- and gravity concentrate, and other semiproducts

MINE SITE ON NEZHDANINSKOYE DEPOSIT

Krasnoyarsk business unit: Olimpiada Mine

Description of production capacities

The Olimpiada Mine is located in the Severo-Yeniseisk District of the Krasnoyarsk Region, 500 kilometers north of Krasnoyarsk. Three mills are currently operating:

- Mill No. 1 was commissioned in 1996 and processed oxidized ores from the Olimpiada deposit until 2008. After the the depletion of oxidized ores in 2008 Mill No. 1 was remodeled to process ores coming from the Titimukhta deposit and the production capacity was raised from 1.5 to 2.2 million tonnes per year.

- Mill No. 2 was commissioned in 2001 and currently applies the technology of biological and hydrometallurgical processing (biological oxidation) to handle refractory sulphide ores with a design capacity of 3 million tonnes of ore per year.

- Mill No. 3 was commissioned in 2007. The mill also employs the biological oxidation process to handle refractory sulphide ores. The plant's design capacity is 5 million tonnes of ore per year.

The refining of gold produced at the Olimpiada Mine is performed by the Krasnoyarsk non-ferrous metals plant.

Power at the Olimpiada Mine is supplied by OJSC Krasnoyarskenergo and is generated by on-site facilities as well.

Characteristics of the deposit and the types of ores

The Olimpiada gold ore deposit includes two pits: Zapadny and Vostochny. Ore bodies No. 1, 2, and 3 are located at Zapadny pit.

The Vostochny pit contains ore body No. 4, which contains the bulk of the ore and gold reserves, consisting of separately measured oxidized and sulphide ore reserves. Extraction of oxidized ores in the Vostochny pit ended in 2007, and their processing stopped in 2008.

Sulphide ores represent metasomatic ore bodies with rare (3%-4%, and up to 10 % in the most enriched sections) impregnations of sulphide minerals, mainly arsenic pyrite, pyrite, antimonite, pyrrhotine. The average gold grade of sulphide ores is 3.5 g/t.

In 2009, the primary ore both from Vostochny and Zapadny pits of the Olimpiada Mine were processed. Ore is mined by benches 10 meters high with selective transporting of ore and stripping to external dumps.

Mining technology

The Olimpiada Mine operates as an open pit mine with surface stockpiling. Rock is removed from the pits by excavation and mining complexes. Benches are 10 meters in height. Benches not in operation are 30 meters high and at an extreme angle. The benches are at 75°-80° angles, while non-operational benches are at 60°-75° angles. The sites are from 30 meters to 80-100 meters in width.

Rock is excavated from the pits with preliminary ripping via a set of drilling and blasting operations, which is required by the hardness of the ore and rock.

Mined rock is loaded onto trucks (Caterpillar CAT 777D, 777F and Komatsu HD 785-5 with a carrying capacity of 90 tonnes; Terex M3300 AC with a carrying capacity of 136 tonnes; BelAZ-7540 and BelAZ-7548 with a carrying capacity of 30 and 40 tonnes, respectively) using excavators (EKG-10, EKG-5A, Komatsu PC1250-7, Liebherr R-994 with a bucket capacity of 10 m^3 and 5 m^3) with waste rock transported to external dumps and ore transported to the blending stockpile.

Mining is conducted with the use of SBSh 250, MNA 32, DML Ingersoll Rand, DML LP AtlasCopco, PV 275, ROC L8 rock drills.

Starting from December 2008 mix-pump trucks are used to charge the boreholes with explosives. Emulsive explosives (VET-300, VET-500 and VET-300) are used in the open pit Vostochny to break 80% of the total volume of rocks.

Sulphide ore processing

Gold present in sulphide ores is bound with sulphides and cannot be extracted by direct cyanidation. Unlike oxidized ores, sulphide ores require additional technological processing for extracting gold.

Sulphide ore processing is performed at two plants – Mill No. 2 and Mill No. 3. Ore delivered by dump trucks from the ore stockpile is fed through the grizzly screens to the prime crusher's hopper and then goes to grinding.

Ore milling is performed in two stages on one production line. The first stage is performed on semiautogenous grinding mills operating in an open cycle, and the second stage is performed in ball mills operating in a closed-loop cycle along with the hydraulic cyclones. The discharge from the hydraulic cyclones undergoes screening and is forwarded to flotation benefication in compressed gas machines.

The bacterial oxidation (biooxidation) process for extracting gold from refractory sulphide ores in the conditions of the Far North was performed for the first time in the world at the Olimpiada Mining and Concentration Plant. The flotation concentrate is forwarded to the concentrate biochemical oxidation units of Mill No. 2 and Mill No. 3, while the flotation tailings go via thickening process to sorbate desalinization or to the tailing pit.

After deacidification with flotation tailings and lime milk, the oxidized concentrate undergoes final oxidation. Further, the pulp goes to the pre-cyanidation tanks and is then forwarded to the desalinization columns.

The remainder of the process of extracting gold from sulphide ores is similar to that used at the Titimukhta deposit, except for the use of different sorbents (Mill No. 2 uses resin and Mill No. 3 uses absorbent carbon) and, accordingly, different sorbent desorption processes.

At Mill No. 3, the sorption pulp tailings undergo screening and filtering, resulting in the formation of a cake (which is transported to the landfill) and filtrate, which, together with sorption tailings from Mill No. 2, are sent to the tailing pounds after screening and decontamination.

Operations of the Olimpiada Mine in 2009

The volume of ore mined at the Olimpiada Mine in 2009 was 10.6 million tonnes, compared to 1.5 million in 2008.

A significant increase in ore mining goes in line with the mining and processing plan. Not all the ore mined is processed in the same period – it goes first to the stock piles, where it is blended to reach homogeneity in terms of grade and chemical composition, and only after that it is supplied to the mills. The balance of stockpiled ore at Olimpiada mine at 1 January 2010 was 12 million tonnes.

Ore processing at the Olimpiada Mine in 2009 was 8.9 million tonnes, compared to 6.6 million in 2008.

Mill No. 3 reached its designed capacity in 2009. Stockpiled, partly oxidized ores were processed at Mills No. 2 and 3 at the beginning of the year, whereas those mills switched to newly mined ore in the second half of the year.

At Mill No. 1, ores of three different types were processed in 2009 (Olenye deposit ore, mixed type ore from the Zapadny and Vostochny pits at the beginning of the year, and the Titimukhta deposit ore during the rest of the year).

According to the technological standards for processing oxidized and primary (sulphide) ores from the Olimpiada deposit, primary ores include those containing more than 20% sulphide sulphur. Ores containing less than 20% sulphide sulphur were classed as oxidized. Engineers at the Olimpiada mine also use the term "mixed type ores”. According to the technological standards, the ores are primary since the content of sulphide sulphur ranges from 20 to 80%. Once mined, the ores were considered to be primary, but were stored in a separate stockpile. In 2009, mixed type ores were processed at Mill No. 1 according to the carbon-in-leach method. In 2009, mixed type ore processing totaled 1,163 thousand tonnes.

2009 saw the completion of the processing of Olenye deposit ores (316 thousand tonnes) and the beginning of the processing of Titimikhta ores (602 thousand tonnes).

The production of refined gold at the Olimpiada Mine in 2009 was 26.1 tonnes, or 839 thousand ounces, compared to 27.1 tonnes (873 thousand ounces) in 2008. Production was reduced sulphide as a result of the transition to processing refractory sulfide ores, feed supplies of various technological types that require readjusting the mills' operational schedules and additional time for stabilizing the technological process, and the final stage of the Olimpiada Mine expansion project being implemented during production.

As compensation for the negative impact of the above factors, additional measures have been developed aimed at increasing the plants’ operational efficiency. In particular, the Olimpiada Mine organized additional reclaiming of ores and implemented certain measures provided by the program aimed at increasing the mill’s production for 2009-2010. As a result, performance was significantly increased in late 2009. Subsequently, as long as the two-year program is implemented, further improvements in the mill’s operational efficiency are expected.

Irkutsk hard rock business unit: Zapadnoye Mine

Description of production facilities

The Zapadnoye Mine is located in the Bodaibo District of the Irkutsk Region. The mine is in the process of developing the Zapadnoye gold ore deposit, which is a constituent part of the Sukhoi Log ore field and, on its eastern side, borders the largest gold ore field in Russia – Sukhoi Log.

Gold is currently produced at the mill that was commissioned in 2004 with a capacity of up to 0.8 million tonnes of ore per year.

The refinement of gold produced at the Zapadnoye Mine is performed by the Krasnoyarsk Non-Ferrous Metal Works.

Characteristics of the deposit and types of ore

The Zapadnoye gold deposit is represented by three saddle-shaped bodies of ore. Ore concentrations confined to zones of veined impregnation of quartz-sulphide mineralization. The ore bodies are found in a feathering formation in respect to each other and have a combined length of 2,700 m. Down toward the wings, the ore bodies pitch out significantly and stretch to a length of 150-350 m. The thickness of the ore bodies at the folder curve is 15-35 m and thin out at the wings to 3-8 m.

Ores in the deposit are represented by sericite and quartz siltstones, sandstones and carbon containing schist forming horizons of fine and coarse rhythmical interstratifications and hosting quartz-sulphide mineralization. Low sulphide (mainly pyrite) ores have a total content of 2–6% sulphides. Gold like in the fields of Sukhoi Log and Verninskoye is dominantly fine but 85% of it is greater than 0.07 mm.

Technology of mining operations

The Zapadnoye deposit is mined using the open pit method. The average rate of ore and host rock hardness determines the need to conduct drilling and blasting operations in preparing the rock for excavation.

STRIPPING WORKS AT ALLUVIAL DEPOSITS, IRKUTSK REGION

Mined rock is loaded on trucks by excavators, with waste rock transported to external dumps and ore to the mill's blending stockpile.

The pit configuration, mining technology and type of equipment used are determined by the patterns of ore's occurrence, the thinness of the ore bodies and the ore's relatively low gold grade.

Ore processing technology

More than 90% of the gold in the Zapadnoye deposit is in mineral form, and only a small portion of it is found in pyrite and pyrrhotine in very thin clots. The mill uses gravitation technology with subsequent cyanidation of the concentrate.

Operation of the Zapadnoye Mine in 2009

In 2009, the Zapadnoye Mine mined 1,155 thousand tonnes of ore with an average grade of 1.78 g per ton, compared to 950 thousand tonnes mined in 2008.

In 2009, the Zapadnoye Mine processed 505 thousand tonnes of ore, compared to 495 thousand tonnes in 2008.

The difference in ore mining and processing was due to the fact that ore with low content was stored at a dedicated depot yard to be processed in subsequent periods.

The Zapadnoye Mine performed well in 2009, producing 0.75 tonnes or 24 thousand ounces of refined gold.

Currently, the Zapadnoye Mine is the only Russian mining and metallurgical company with a commercialized industrial-scale production process of extracting gold from ores similar to those found in one of the largest deposits in Russia and in the world – Sukhoi Log.

Irkutsk alluvial gold business unit: Alluvial deposits

Description of production capacities

Polyus Gold is currently the largest gold producer from the alluvial deposits located in the Bodaibo District in the Irkutsk Region.

Alluvial deposits in the Bodaibo District have been developed since 1846, i.e. for more than 160 years. Almost all producing deposits used to be developed by hydraulic, pit-based, underground, selective or dredging techniques, i.e. they are technogenic.

The development of the above deposits involves the use of dredging, quarrying and underground techniques. The mining involves dredges and draglines with a bucket volume of 6-20 m^3, mining shovels with shovels of 5 m^3, various class bulldozers, open-pit dump trucks and sluice boxes.

Gold mining and washing technology

The Company's plants perform gold mining using quarrying and dredging techniques.

Strip mining is performed by walking and mine excavators, and bulldozers depending on a gold-bearing placer's characteristics.

For the development of deep-seated deposits, walking excavators with a 42.5 m digging depth capacity are used. They are also used during the preparation of dredge quarries when using the "excavator-dredger" combination. During the development of permafrost or frozen rocks, a drill and fire system is utilized, as well as ripping by heavy-duty bulldozers.

Production is performed by dredging (dredgers with 250, 380 and 400 liter buckets), bulldozing and excavating.

When utilizing open cast mining techniques, gold-washing is performed using different types of jiggers (PGSh-2-50, GVSh, TOK-200, PKO-100, PBO and others).

Gold recovery is performed by gravity separation without the use of chemical agents.

The water supply for mining work is managed by a closed-loop recirculation system. Industrial water is cleaned by settling and filtration without the use of chemical agents.

In order to increase the level of gold extraction, jigging condensation technology is being implemented, which will enable the extraction of fine gold grains in different morphological forms. In 2007-2008, dredger No. 134 was transferred from box trapping to the jigging method of condensation, and dredger PBO-100 No. 12 with jigging technology was put into operation. In 2009, the implementation, improvement and industrial operation of jigging methods of product condensation continued. The operations performed in 2009 confirmed the efficiency of using jigging techniques.

Operations of alluvial deposits in 2009

The total gold production from the alluvial deposits in 2009 amounted to 6 tonnes or 194 thousand ounces, compared to 5.6 tonnes or 181 thousand ounces in the previous year. In 2009, the average grade amounted to 0.66 g/m^3 including: dredging – 0.34 g/m^3, quarrying – 0.97 g/m^3.

The main factors affecting performance in 2009 included: acquisition of a new alluvial enterprise in 2008, putting advanced mining and transport equipment into operation, favorable weather conditions (early spring, warm and extended autumn).

A MINE TRUCK CARRYING ORE TO THE PLANT KURANAKH MINE

Yakutia business unit: Kuranakh Mine

Description of production capacities

The Kuranakh mine is located in the Aldan Region of the Republic of Sakha (Yakutia), several kilometers away from the Kuranakh settlement. The mine develops gold ore deposits associated with the Kuranakh ore field.

Currently, gold production is carried out at the gold concentrating plant (mill) commissioned in 1965 with an aggregate production capacity of 3.6 million tonnes per year. The modernization of the Kuranakh Mill is planned for completion in the second half of 2010 to raise the annual capacity to 4.5 million tonnes of ore per year.

The refinement of gold produced at the Kuranakh Mine is carried out at the Priokskiy Non-Ferrous Metals Plant (Ryazan Region).

Deposits and characteristics of ores

In the course of development, the Kuranakh ore field deposits have been significantly affected by mining operations. Mainly the central parts of the deposits with the most uniform ore bodies and the highest gold grade have been developed.

All the Kuranakh ore field deposits reveal common geological structures, morphologies and lithologies. The gold bodies have ribbon-like forms with pinch-and-swell structures. The ores are primarily oxidized of the quartz-sulphide type, brecciform, clayish with sandstone and carbonate rock. The gold is represented by microscopic (0.05-0.001 mm) and submicroscopic (below 1μm) particles. Gold is in an unbound state and is genetically related to sulphides, iron and quartz hydroxides.

Mining technologies

Mining at the Kuranakh ore field deposits employs open cut, drilling and blasting operations. A downward transport system of development is used by layer, with each layer being at most 10 m.

Bulldozers are used incidentally for mining or loosening ore. Ore mining with bulldozers is performed by trenching terraces a maximum of 5 m high. Blasting operations use the most common type of explosives, igdanite.

The aggregate annual mined rock mass production at the pits will be more than 10 million cubic meters after modernization, and the production of the ore will constitute about 4.5 million tonnes of the above total.

Ore processing technology at the Kuranakh Mine

Ores at all Kuranakh ore field deposits have good cyanidation at low consumption of sodium cyanide. The Kuranakh gold concentration plant uses the process of cyanic leaching with sorption concentration of gold on resin.

Production operations of the Kuranakh Mine in 2009

In 2009, the Kuranakh Mine mined 3,606 thousand tonnes with an average gold grade of 1.39 g/t, compared to 3,899 thousand tonnes in 2008.

In 2009, the Kuranakh Mine processed 3,463 thousand tonnes, compared to 3,696 thousand tonnes in 2008. Gold recovery remained almost at the same level, with 84.2% in 2009 and 84.6% in 2008.

The production of refined gold at the Kuranakh Mine in 2009 was 4.2 tonnes, or 135 thousand ounces, compared to 4.5 tonnes, or 144 thousand ounces, in 2008. This reduction in metal production at the Kuranakh Mine is primarily related to its modernization and a slight decrease in the average gold grade. The modernization program is expected to enhance the production rate in 2010.

Kazakhstan business unit: KazakhGold Group

In August of the reporting year, the Company successfully completed the transaction on the acquisition of 50.1% of shares in KazakhGold Group Ltd. The key assets of KazakhGold Group Limited located in the Akmola Region of Kazakhstan, i.e. Aksu, Bestobe and Zholymbet, and a number of deposits at various stages of development in the north and east of the country were included in the newly-founded Kazakhstan business unit of the Company.

Description of production capacities

The Aksu, Bestobe and Zholymbet deposits are mined using the open pit and underground mining methods. Underground mining is used primarily for high-grade ores with a gold grade of up to 10.0 g/t. Open pit mining is used for low-grade oxidized ores with a gold grade of up to 2.0 g/t.

The deposits have been mined for more than 60 years. Ore processing is performed by two gravity sorption mills in Aksu and Zholymbet with a design capacity of 500 thousand tonnes and 400 thousand tonnes respectively, and a gravity flotation mill in Bestobe with a design capacity of 300 thousand tonnes. Ores mined using the open pit method are processed by heap leaching. Deposits produce gravity concentrate, flotation concentrate, gold-bearing electrolysis slimes and high-grade salable (fluxing) ores with a gold grade of more than 50 g/t.

Aksu

The Aksu Mine is located 15km east of Stepnogorsk and mines two deposits – the Aksu deposit and the Quartzite Hills deposit. The ore types are veins and mineralized zones.

The deposits are mined using the underground and open pit methods. High grade ores mined underground are processed by a gravity sorption mill. Low grade ores mined using the open pit method are processed by heap leaching.

The Aksu mill operates in accordance with the following scheme. Ore mined underground is treated using a three stage crushing process in an open cycle, and it then goes through a two-stage wet grinding, including classification by spiral classifiers and control classification by hydrocyclones (particle size up to 85% –0.074 mm). The first stage product goes through jigging operations, and the concentrate is shipped to customers. The effluent coming from hydrocyclones is thickened and forwarded to the hydrometallurgical process where it goes through pre-cyanidation, gold sorption, desorption, and electrolysis before it becomes cathode gold.

Heap leaching technology includes ore stockpiling, application of cyanide solutions, sorption of productive solutions, desorption, and electrolysis prior to the receipt of cathode slime. The design capacity of the heap leaching complex is 500 thousand tonnes.

Bestobe

The Bestobe Mine is located 85 km east of Stepnogorsk. The mine was commissioned in 1932. The ore types there are veins and mineralized zones.

Ores are mined using the underground and open pit methods. High grade ores mined underground are processed by a gravity flotation mill. Low grade ores mined using the open pit method are processed by heap leaching.

The Bestobe mill operates in accordance with the following scheme. Ore is treated using a two-stage crushing process in an open cycle, and then it goes through grinding, including control classification by hydrocyclones (particle size up to 65% –0.074 mm). The first stage product goes through jigging operations, and the gravity concentrate is amalgamated to placer gold. The effluent coming from hydrocyclones is floated into sulphide gold-bearing concentrate, which is then thickened in thickeners, vacuum filters and dryer drums, and shipped to customers.

The heap leaching technologies used at Aksu and Bestobe are the same. Desorption and regeneration of coal is performed at the Aksu mill. The design capacity of the heap leaching complex is 500 thousand tonnes.

Zholymbet

The mine is located 95 km south of Stepnogorsk and 125 km north of Astana (the capital of the Republic of Kazakhstan).

The ore types there are veins and mineralized zones. Ores are mined using the underground and open pit methods. The ores produced are processed at the Zholymbet mill.

The Zholymbet mill operates in accordance with the following scheme. Ore is treated using a two-stage crushing process in an open cycle, and then a two-stage wet grinding, including classification by spiral classifiers and control classification by hydrocyclones (particle size up to 85% –0.074 mm). The first stage product goes through jigging operations, and the concentrate is shipped to customers. The effluent coming from hydrocyclones is thickened and forwarded to the hydrometallurgical process where it goes through pre-cyanidation, gold sorption, desorption, and electrolysis before it becomes cathode gold.

Production operations of Aksu, Bestobe and Zholymbet plants in August – December 2009

In August – December 2009, KazakhGold Group Limited produced 941 kg (30.3 thousand ounces) of gold in the form of slimes, flotation and gravity concentrate, and other semiproducts. Including 376 kg (12.1 thousand ounces) produced at the Zholymbet Mine, 338 kg (10.9 thousand ounces) and 227 kg (7.3 thousand ounces) produced at Bestobe and Aksu Mines, respectively.

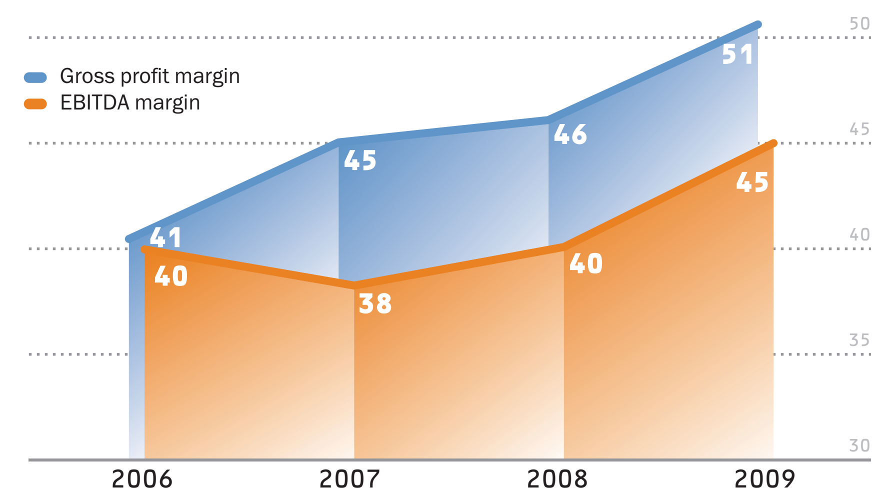
The key factor influencing the operating results of KazakhGold Group in 2009 was deteriorated condition of fixed assets as they have not been modernized in the last 20 years. Work on implementing new ore processing technologies have been haphazard. Repeated reorganizations of the company led to the loss of a significant part of the Company's infrastructure.

In September – December 2009, measures to stabilize production capacities and increase the Kazakhstan business unit's output of finished goods were implemented. The implementation of the above measures is expected to result in a substantial increase in gold production in 2010.

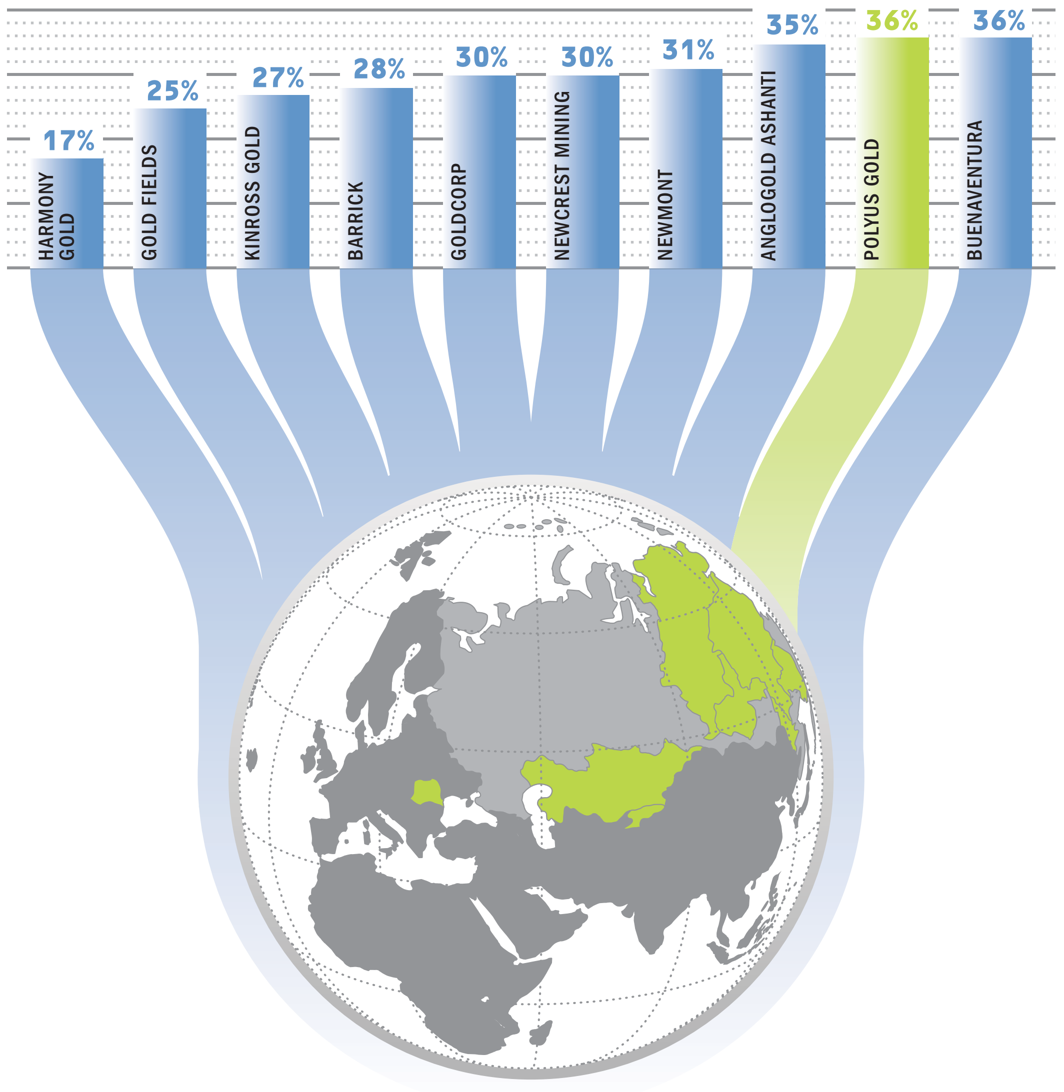
IN 2009, GROSS PROFIT MARGIN AND EBITDA MARGIN REACHED THEIR HISTORICAL HEIGHTS AND AMOUNTED TO 51% AND 45%, RESPECTIVELY.

THE GROUP BECAME ONE OF THE LEADERS IN THE GLOBAL GOLD MINING IN TERMS OF OPERATING MARGIN.

ENHANCED MARGINS



World's largest gold producers, operating margin



7. Results of geological exploration

In 2009, the Company continued the implementation of the 2006-2010 Exploration Program, which was approved by the Board of Directors of OJSC Polyus Gold immediately after the incorporation of the Company in 2006.
In 2009, the Group's exploration team worked at 29 hard-rock gold deposits and at 25 placer sites in five regions of the Russian Federation, namely in the Krasnoyarsk, Magadan, Irkutsk and Amur Regions and in the Republic of Sakha (Yakutia). Moreover, exploration work began in August in Kazakhstan at the Aksu, Bestobe, Zholymbet deposits, etc. (see Geological exploration in Kazakhstan).

Expenses on geological exploration work in the Russian Federation in 2009 totaled USD 32.5 million , compared to USD 138 million in 2008. These expenses were capitalized. The total drill works in 2009 amounted to 164.2 thousand meters, compared to 291.2 thousand meters in 2008. This reduction in drilling operations and investments was related to the completion of certain geological exploration work in 2009, feasibility studies of deposit development conditions and estimation of reserves without field work.

The completion of the exploration work in 2009 resulted in an increase in reserves under categories $B+C_1+C_2$ in the amount of 320.7 tonnes. Moreover, the reserves of the following deposits were listed on the state reserves balance:

- Nezhdaninskoye deposit – 151.5 tonnes
- Bamskoye deposit – 94.3 tonnes
- Olimpiada deposit – 69.8 tonnes
- Mukodek deposit – 3.4 tonnes
- Alluvial deposits – 1.7 tonnes

Moreover, due to the acquisition of KazakhGold Group's assets, the Group's reserves under categories $B+C_1+C_2$ increased by 125 tonnes.[1]

Krasnoyarsk region

In 2009, the Company carried out exploration activities across eight projects in the Krasnoyarsk Region: the Kvartsevaya Gora, Olimpiada (deep levels) and Poputninskoye deposits, and the Kuzeyevskaya, Panimbinskaya, Olimpiadinskaya, Zyryanovskaya, and Razdolinskaya ore fields.

Exploration work on the deep levels of the Olimpiada deposit

In 2009, exploration work was mainly performed in the Vostochny pit, ore body No. 4. As a result, the body was opened and explored to deeper levels of –450 m with no changes in parameters and limitations on depth.

[1] In Kazakhstan, Russian (or Soviet) system of reserves classification is applied.

According to Minutes of the Territorial Reserves Committee for the Krasnoyarsk Region No. 730-op dated 24 September 2009, reserves in the amount of 69.8 tonnes (2.2 million ounces) of gold were listed on the balance. The increase is due to the transfer of off-balance reserves under category C_2 to balance reserves.

Exploration efforts in 2009 confirmed that the grade remains at the same level as the primary ores that have been explored.

According to the data received, a preliminary block model of the deposit has been prepared. At the same time, the resource potential of ore body No. 4 at lower than +50 m is more than 500 tonnes (16 million ounces) of gold with an average grade of 3.6 g/t.

Kvartsevaya Gora deposit

The exploration of the deposit was completed in the reporting year. According to the results, a feasibility study of permanent exploration conditions and reserves calculation was prepared and has been submitted for state expert examination.

The total reserves under categories C_1+C_2 submitted for expert examination amounted to 14.4 tonnes (0.5 million ounces), including balance reserves in the amount of 13.1 tonnes (0.4 million ounces).

Olimpiadinskaya field

Within the limits of the licensed area, exploration work was performed under the following project: Completion of exploration and measurement work at the Olimpiadinskaya field in 2005-2009.

Field work was carried out at the Olimpiadinskaya (Verkhnechirimbinsky and Polcansky) and Kvartsevaya Gora (Tynachay) ore fields. The project work has been completed. Preparation of the report on the results of exploration and measurement work is underway in accordance with the license agreements.

The Uspensky area of the Blagodatnoye ore field, with predicted resources amounting to 60 tonnes (1.9 million ounces) under category P_3, was selected.

Kuzeevskaya area

Seven anomalous geochemical fields were identified at the Kuzeevskaya area in 2009 based on the results of analysis results that located previously known ore occurrences. In 2010, analysis of a well-known veined ore grade mineralization at the Fartovyi, Zolotoy and Malo-Vesnensky areas and anomalous field No. 1 is expected.

According to the results of the work performed, the resource potential of the Kuzeevskaya ore cluster amounts to 48 tonnes (1.5 million ounces) under categories $P_1+P_2+P_3$.

Panimbinskaya area

Exploration of the Panimbinskaya area was carried out at the Zolotoe and Mikhaylovskoye ore occurrences. According to reserves calculations, it is expected that the Panimbinskoye deposit reserves will amount to at least 64 tonnes (2 million ounces) of gold, including balance reserves within the limits of the open-cast pit of 45 tonnes (1.4 million ounces). An increase in the mineral and raw material base of the deposit is possible at the south-eastern flank of the deposit.

Temporary technological standards were prepared in accordance with technological studies. A recommended beneficiation scheme allows the production of Dore bead that is 86.4% gold. Additional studies were conducted with regard to the use of heap leaching techniques.

Zyryanovskaya area

At the Zyryanovskaya area, work including data processing, analytical works and preparation of reports was underway in 2009. The parameters of ore grade mineralization and estimated resources of the Zyryanovskaya area under categories $P_1+P_2+P_3$ amounted to 13.5 tonnes (0.4 million ounces).

EXCAVATING AT BLAGODATNOYE DEPOSIT

Razdolinskaya area
At the Razdolinskaya area, work such as data processing, including the calculation of predicted resources, preparation of technical and economic calculations, analysis of the technological properties of ores, mineralogical researches, geochemical and geophysical surveys was underway.

Poputninskoye deposit
Technological tests of ores were performed as part of the exploration work, and the hydrogeological and geotechnical conditions of mining at the deposit were estimated. As a result, the main data required for evaluating resources and preparing feasibility studies of temporary conditions were obtained.

Online measurement indicated that gold reserves amounted to 67.6 tonnes (2.1 million ounces) under categories C_1+C_2 with an average grade of 3.7 g/t.

A combined technological scheme is recommended for primary ore processing. Total gold recovery from start to finish is 89.9%.

Irkutsk Region (hard-rock)

In 2009, exploration work in the Irkutsk Region was carried out at the following units: the Verninslkoye, Pervenets and Zapadnoye deposits, Artemyevskoye ore field (the Zheltukhtinskaya, Verkhne-Kevaktinskaya and Illigirskaya areas), and the Kropotkinsky ore cluster (Medvezhy area).

Verninskoye, Pervenets deposits
2009 saw the completion of the preparation of a feasibility study of permanent exploration conditions and reserves calculation. The materials have been submitted to the State Reserves Commission of the Federal Agency for Subsoil Use. It is expected that, following the approval of the SRC, balance reserves will amount to 242 tonnes (7.8 million ounces) under categories C_1+C_2 with a cutoff grade of 0.75 g/t. The increase in reserves will amount to 194 tonnes (6.2 million ounces).

Zapadnoye deposit
2009 saw the completion of the preparation of a feasibility study of conditions and reserves calculation. The materials have been submitted to the State Reserves Commission. Balance reserves of gold in the amount of 16 tonnes (0.5 million ounces) under categories C_1+C_2 with an average grade of 2.59 g/t are to be approved. The expected increase in reserves due to a supplementary exploration is 9.8 tonnes (0.3. million ounces).

Kropotkinsky ore cluster
Prospecting work continued in the Medvezhy Zapadny area. Currently, the most important results were achieved in the western part of the area. Online measurement of resources under category P_1 amounted to 26 tonnes (0.8 million ounces).

Preparation, expert examination, and agreement of the project relating to geological exploration, as well as area grid-type geochemical and geophysical surveys (grid size: 100×20 m out of 6 km^2) were carried out in the Medvezhy Vostochny area.

Artemyevskoye ore field
Geological prospecting and exploration work continued on the most prospective sections of the Zheltuktinskaya and Verkhne-Kevaktinskaya areas.

The probable resources of categories P_1+P_2 in the Verkhne-Kevaktinskaya area amounted to 16 tonnes (0.5 million ounces) of gold.

The probable resources in the Zheltuktinskaya area amounted to 18 tonnes (0.6 million ounces) of gold under categories P_1+P_2.

Area grid-type geochemical and geophysical surveys were carried out in the Illigirskaya area, as well as drilling and mining. The probable resources of category P_2 amounted to 19 tonnes (0.6 million ounces) of gold. Geological prospecting and exploration work is underway.

Mukodekskoye ore field

In 2009, prospecting work was completed on the Mukodek deposit. A feasibility study of temporary conditions and balance reserves of 3.4 tonnes (0.1 million ounces) of gold under category C_2 was approved for underground mining.

Irkutsk Region (alluvial deposits)

In 2009, the Company continued geological exploration at placer deposits in the Irkutsk Region. Exploration activities were carried out at 25 areas while operational exploration was carried out in 22 areas.

In 2009, the operational growth of reserves under category C_1+C_2 due to measurement and exploration work amounted to 3.2 tonnes (0.1 million ounces), and the probable resources of category P_1 was 200 kg (6 thousand ounces).

According to the Territorial Reserves Committee's expert examination, 2.7 tonnes (0.1 million ounces) of gold were listed on the balance.

Republic of Sakha (Yakutia)

Geological exploration work in the Republic of Sakha (Yakutia) in 2009 was executed at the functioning Kuranakh Mine's Kuranakh group of deposits, as well as on two advanced projects at the Nezhdaninskoye and Piniginskoye deposits.

Kuranakh ore field

A new feasibility study with a reserves calculation for the Kuranakh ore field deposits was completed in 2009. The balance reserves of gold were revalued and increased by 7% up to 113.5 tonnes (3.5 million ounces) under categories C_1+C_2.

A feasibility study of permanent exploration conditions and a reserves calculation were prepared with regard to the technogenic deposits of the ore field. The balance reserves of gold amounted to 27.4 tonnes (0.9 million ounces) with an average grade of 0.71 g/t. Their approval by the State Reserves Commission is planned for 2010.

Nezhdaninskoye deposit

The State Reserves Commission approved permanent exploration conditions and a reserves calculation with regard to the project on additional exploration of the deposit. The reserves of gold under categories C_1+C_2 amounted to 628.6 tonnes (20.2 million ounces) for combined mining. The growth in gold reserves amounted to 151.5 tonnes (4.9 million ounces).

Piniginskoye deposit

In 2009, laboratory and technological research was conducted by the Federal State Unitary Enterprise Central Research Institute for the Exploration of Non-Ferrous and Precious Metals. According to the results of the above research, total gold recovery is 95%.

Amur Region

Work on two exploration projects was carried out in the Amur Region: auditing and prospecting was performed at the Bamskoye deposit in the Apsakanskaya hard-rock gold area.

Bamskoye deposit

Temporary exploration conditions and a reserves calculation under categories C_1+C_2 in the amount of 107.5 tonnes (3.5 million ounces) of gold were approved by the State Reserves Commission with regard to the Bamskoye deposit.

Apsakanskaya area

A prospective section of the Apsakanskaya area was selected to evaluate ore-grade gold by drilling and mining by categories C_2 and P_1. Production is expected to have the scale of a medium-size deposit (25-30 tonnes) (0.8-1 million ounces). Areas for subsequent measurement activities were selected.

Magadan Region

Geological exploration work was carried out on 5 projects in the Magadan Region.

Omchaksky prospective area

Measurement and exploration work at the Zolotaya Rechka site of the Omchaksky ore cluster continued. Measured resources under P_2 category amounted to 50 tonnes of gold (1.6 million ounces).

Degdekanskoye Ore Field

Hydro-geological and data processing work was performed at the Degdekanskoye deposit. Expected reserves of C_1+C_2 gold amounted to 120 tonnes (3.9 million ounces).

When testing the technological properties of ores, gold recovery reached 82.3% with regard to oxidized ores and 75.7% with regard to primary ores.

Tokichanskoye (Vostochnaya area)

Data processing work was performed along with insignificant analytical studies at the Tokichanskoye (Vostochnaya area) field.

Probable P_1 resources at the Tokichanskoye field amounted to 26 tonnes (0.8 million ounces) of gold.

Doroninskoye Ore Field

The results of the work performed at the Doroninskoye ore field did not identify any mineable gold grades.

Mineralization of polymetallic silver is expected to be identified. Probable P_1 resources amounted to: Ag – 9,600 tonnes, Sn – 120,000 tonnes.

Chai-Yuryinskaya prospective area

At the Chai-Yuryinskaya prospective area, the work of the reporting period complete the first stage of exploration works at the license block of Chai-Yuryinskaya prospective area for 2006-2009.

Probable P_2 resources amounted to 13.6 tonnes (0.4 million ounces) of gold.

Geological exploration in Kazakhstan

Since August 2009, the Company has been carrying out exploration works at the following deposits in the Republic of Kazakhstan: Bestobe, Zholymbet, Aksu, Akzhal, Yuzhnoye Karaul-Tube, Kvartsitovye Gorli, and Kasbulakh.

During the months since then, operational exploration has mainly been performed to provide for the current underground mining at the Bestobe, Aksu and Zholymbet deposits. Geological exploration work aimed at the evaluation of reserves for open mining was performed at the Aksu deposit (Karyerny and Kotenko sites) and at the Yuzhnoye Karaul-Tube deposit. Total volume of drilling in Kazakhstan business unit in September – December 2009 amounted to 8.1 thousand meters.

The evaluation of part of the existing reserves in accordance with the JORC was begun at the end of the reporting year.

VOSTOCHNY PIT OF OLIMPIADA MINE

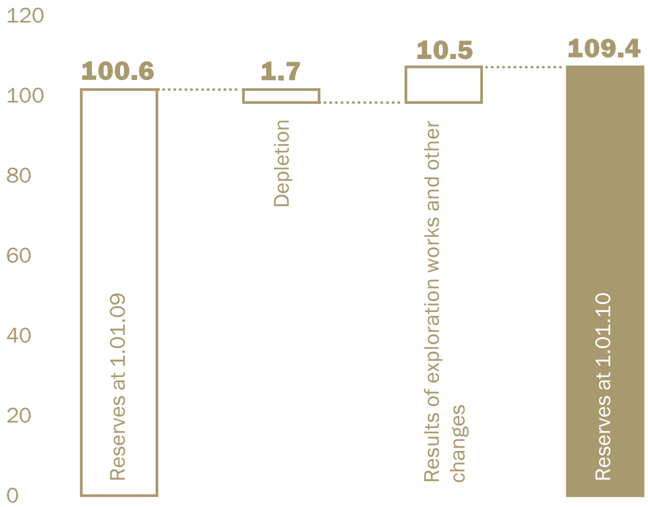
7.1. Mineral resources base as at 01.01.2010[1]

Table 3. Mineral resources base in accordance with the classification of the RF State Reserves Committee

Region/deposit (prospective area)	Balance reserves			
	$A+B+C_1$		$A+B+C_1+C_2$	
	kg	million ounces	kg	million ounces
Ore deposits				
Krasnoyarsk Region	578,799	18.61	763,882	24.56
Olimpiada	241,101	7.75	374,305	12.03
Titimukhta	63,741	2.05	80,819	2.60
Blagodatnoye	273,957	8.81	308,758	9.93
Magadan Region	1,263,345	40.62	1,450,381	46.63
Natalka	1,262,764	40.60	1,449,431	46.60
Vostochnaya area (Boets-Vodoley)	296	0.01	665	0.02
Degdekanskoye	285	0.01	285	0.01
Irkutsk Region	121,478	3.91	146,108	4.70
Zapadnoye	7,232	0.23	7,369	0.24
Verninskoye, Pervenets	38,027	1.22	48,132	1.55
Chertovo Koryto	76,219	2.45	87,198	2.80
Mukodekskoye	–	–	3,409	0.11
Republic of Sakha (Yakutia)	373,400	12.01	747,876	24.04
Kuranakh Group	94,483	3.04	104,145	3.35
Nezhdaninskoye	278,917	8.97	628,636	20.21
Piniginskoye	–	–	15,095	0.49
Amur Region (Bamskoye)	17,911	0.58	108,038	3.47
Bamskoye	17,911	0.58	108,038	3.47
Kazakhstan	42,153	1.36	125,404	4.03
Akzhal, Aksu, Bestobe, Zholymbet, Quartzite Hills, TMO	42,153	1.36	125,404	4.03
Total ore gold	2,397,086	77.07	3,341,689	107.44
Alluvial deposits				
Irkutsk Region	46,877	1.51	60,502	1.95
Total alluvial gold	46,877	1.51	60,502	1.95
Total ore and alluvial gold	2,443,963	78.58	3,402,191	109.38

[1] Reserves and resources of each deposit are given in full and include reserves and resources attributable to the share of minority shareholders of the companies in Polyus Gold Group.

Changes in the Company's mineral resources base in the reporting year. $B+C_1+C_2$ reserves, in millions of ounces



Mineral resources of the Company according to the JORC

The Company has been keeping a balance of mineral resources in accordance with the Russian and international classifications since its foundation. The Company's reserves are accounted for by the State balance of mineral resources of the Russian Federation. The Company has been auditing mineral and raw material resources in accordance with the JORC Code in order to provide the investing community with information on both reserves and resources.

The first audit of the ore reserves and mineral resources of OJSC Polyus Gold was executed by SRK Consulting in 2005. The audit included the analysis of a number of deposits in the Kasnoyarsk, Magadan and Irkutsk Regions. Since then, the Company has been assigning audits of corporate fields in accordance with the JORC standards on a regular basis upon completion of geological surveys and exploration work. Since 2006, the international audit of the Company's deposits has been performed by MICON International.

The Company performed an international audit of the Titimukhta, Chertovo Koryto and Blagodatnoye deposits in 2008. The total proved and probable reserves (P&P) amounted to 74.1 million ounces, and the total measured and indicated (M&I) mineral resources amounted to 80.4 million ounces.

An international audit of reserves was not performed in the reporting year.

Table 4. Mineral resources of the Company according to the JORC
Table 4.1. Measured, indicated and expected resources

Deposits	Measured			Indicated			Total measured and indicated gold (thousand ounces)
	Ore (million tonnes)	Content (g/t)	Gold (thousand ounces)	Ore (million tonnes)	Content (g/t)	Gold (thousand ounces)	
Operating facilities							
Olimpiada [1]	19.3	5.00	3,131	79.8	3.70	9,616	12,747
Kuranakh[1]	1.8	1.90	106	160.4	1.20	6,447	6,553
Zapadnoye[1]	0.3	1.80	17	5.6	3.00	542	559
Lenzoloto[1]	32.1[6]	0.22[7]	237[8]	169.8	0.42	2,091	2,328
Titimukhta[3]	9.7	3.10	950	17.6	3.10	1,750	2,700
Total operating facilities	63.2	2.18	4,441	433.2	1.47	20,446	24,887
Projects							
Blagodatnoye[5]	3.4	2.50	271	132.8	2.40	10,230	10,501
Natalka[2]	163.9	1.74	9,166	626.9	1.52	30,543	39,709
Verninskoye[1]	–	–	–	31.5	2.20	2,248	2,248
Olenye[1]	–	–	–	0.4	7.40	100	100
Chertovo Koryto[4]	4.1	1.85	247	46.4	1.84	2,742	2,989
Total projects	171.4	1.76	9,684	837.9	1.71	45,863	55,547
Total	234.6	1.87	14,125	1,271.1	1.62	66,309	80,434

Deposits	Inferred		
	Ore (million tonnes)	Grade (g/t)	Gold (thousand ounces)
Operating facilities			
Olimpiada[1]	37.2	3.10	3,666
Kuranakh[1]	7.3	1.50	346
Zapadnoye[1]	1.7	3.40	181
Lenzoloto[1]	29.2	0.62	520
Titimukhta[3]	3.6	2.40	270
Total operating facilities	79.0	1.96	4,983
Projects			
Blagodatnoye[5]	36.1	2.20	2,555
Natalka[2]	472.4	1.42	21,538
Verninskoye[1]	4.4	3.10	446
Olenye[1]	0.7	6.90	150
Chertovo Koryto[4]	2.1	1.64	109
Total projects	515.6	1.50	24,798
Total	594.7	1.56	29,781

[1] Audited in October 2006 by Micon International Co. Limited
[2] Audited in July 2007 by Micon International Co. Limited
[3] Audited in July 2008 by Micon International Co. Limited
[4] Audited in January 2008 by Micon International Co. Limited
[5] Audited in November 2008 by Micon International Co. Limited
[6] Thousand cubic meters (m^3)
[7] Grams per cubic meter (g/m^3)
[8] Conversion of sands was made based on the ratio of 2 metric tonnes per 1 cubic meter

Table 4.2. Proved and probable reserves

Deposits	Proved			Probable			Total proved and probable gold (thousand ounces)
	Ore (million tonnes)	Grade (g/t)	Gold (thousand ounces)	Ore (million tonnes)	Grade (g/t)	Gold (thousand ounces)	
Operating facilities							
Olimpiada[1]	19.0	4.90	3,005	87.0	3.60	10,041	13,046
Kuranakh[1]	–	–	–	31.9	1.60	1,646	1,646
Zapadnoye[1]	–	–	–	4.4	2.80	394	394
Lenzoloto[1]	12.5[6]	0.32[7]	128[8]	104.8	0.52	1,603	1,731
Titimukhta[3]	7.7	3.30	817	13.4	3.30	1,422	2,239
Total operating facilities	39.2	3.13	3,950	241.5	1.95	15,106	19,056
Projects							
Blagodatnoye[5]	3.1	2.30	226	132.1	2.27	9,633	9,859
Natalka[2]	242.3	1.30	10,291	883.1	1.10	30,550	40,841
Verninskoye[1]	–	–	–	17.1	3.00	1,657	1,657
Olenye[1]	–	–	–	0.5	6.40	99	99
Chertovo Koryto[4]	3.8	1.80	218	39.8	1.84	2,352	2,570
Total projects	249.2	1.34	10,735	1,072.6	1.28	44,291	55,026
Total	288.4	1.58	14,685	1,314.1	1.41	59,397	74,082

[1] Audited in October 2006 by Micon International Co. Limited
[2] Audited in July 2007 by Micon International Co. Limited
[3] Audited in July 2008 by Micon International Co. Limited
[4] Audited in January 2008 by Micon International Co. Limited
[5] Audited in November 2008 by Micon International Co. Limited
[6] Thousand cubic meters (m^3)
[7] Grams per cubic meter (g/m^3)
[8] Conversion of gold dust was made based on the ratio of 2 metric tonnes per 1 cubic meter

Table 4.3. Mineral reserves and resources of the Company according to the JORC Code

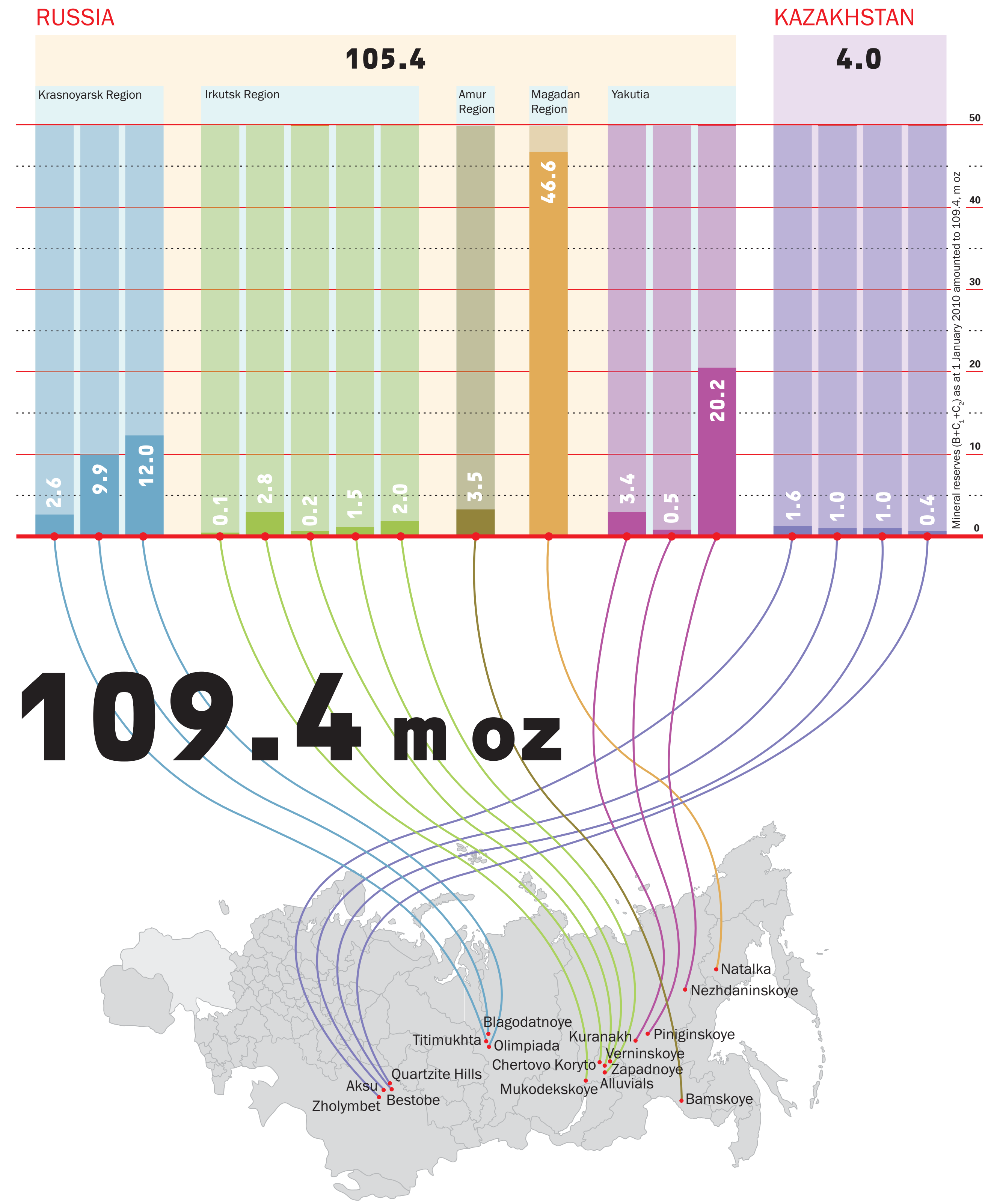
Classification	Category	Ore (million tonnes)	Grade (g/t)	Gold (thousand ounces)
Resources	Measured	234.6	1.87	14,125
	Indicated	1,271.1	1.62	66,309
	Total measured and indicated	1,505.7	1.66	80,434
	Expected	594.7	1.57	29,781
	Total measured, indicated and inferred	2,100.4	1.63	110,215
Reserves	Proved	288.4	1.58	14,685
	Probable	1,314.1	1.41	59,397
	Total proved and probable	1,602.5	1.44	74,082

In 2009 the Group ranked fourth globally in terms of its mineral reserves (P&P, JORC).

In the reporting period Polyus continued to enhance its reserves base. In accordance with the Russian classification, the reserves growth amounted to 10.5 m oz in 2009.

Mineral reserves ($B+C_1+C_2$) as at 1 January 2010 amounted to 109.4 m oz.

One of the largest mineral reserves bases in the world



8. Innovations

The Company has a large research base consisting of an R&D Center in Krasnoyarsk, a pilot plant at the Natalka deposit, and research laboratories at the Olimpiada and the Kuranakh Mines. In addition, the Company has its own Project Center in Krasnoyarsk. The Company works in cooperation with the leading research and engineering companies to design and implement new enabling technologies at the Company's existing production facilities, as well as units under construction. This strong research and project base enables the Company to retain its industry leadership in technology development and maintain competitive operating costs. It also provides for a significant increase in production capacity in the coming years.
Key areas of the Company's R&D activities include: solving business issues related to operating facilities and reducing costs; providing technical support to new projects; designing new technologies, and solving issues related to exploration.

Results of innovative activities in 2009

The increase in the volume of sulfide ore processing due to a constant decrease in the amount of gold in the ore at the Olimpiada Mine, as well as the modernization of Mill No. 1 to process Titimukhta deposit ores as a result of major repair work at the mills, resulted in a certain decrease in gold production in the reporting period. As a consequence, in 2009 the Company focused on implementing technologies that would increase the efficiency of bioleaching flotation concentrate (BIONORD innovation), cut gold production costs and facilitate the achievement of project objectives for ore processing at the new Mill No. 3 and the modernized Mill No. 1.

Main results from R&D activities performed at the Olimpiada Mine (Krasnoyarsk Region).

1. Implementation of gravity gold recovery from sand from the hydrocyclones at Mills No. 2 and No. 3

2. Implementation of gravity gold recovery from sorption leaching tailings

3. Assessment of the use of absorbent carbon Haycarb RPMC 1004 during the sorption process at Mill No. 3; preparation of proposal for sorbent replacement based on positive test results

4. Determination of the process-dependent parameters of the biooxidation of concentrate with a high pyrrhotine content (greater than 40%) that was obtained during the concentration of the primary sulfide ore of current production at the Olympiada deposit's Vostochny (Eastern) open pit

5. Testing work to use an oxygen-air mixture during bioleaching and sorption

6. Implementation of sorting lining at the mill of the second stage of ore grinding, as well as discharge grating with a 100 mm slit at the semiautogenous grinding mill (first stage of grinding)

7. Preparation of technical regulations for the design of reused water cleaning stations at the Mill's tailing dump

8. Preparation of recommendations for improving the efficiency of processing technology and stabilizing the work of the cathode deposit melting site

9. Preparation of recommendations on how to refine the commercial electrolyte obtained from the desorption of gold from carbon, which would allow a reduction in the cathode deposit's impurity concentration by 50-90%

10. Performance of mineralogical research on primary ores of deep formations at the Olimpiada deposit based on the data from geological and technological tests, which allowed the creation of a preliminary information base for geological metallurgy and ore quality management

11. Performance of laboratory research and industrial tests of biopulp centrifugation in order to dehydrate the pulp of the oxidized product; development of recommendations on the purchase of separators for industrial implementation at GMO-2 Mill No. 3

The modernization of the Kuranakh Mill processing scheme at the Kuranakh Mine in the Republic of Sakha (Yakutia) continued in the reporting year. In addition, work aimed at selecting a more efficient sorbent for the hydrometallurgical process is being carried out. Research is being carried out in conjunction with the manager's changing of the application properties of ion-exchange resin.

General testing of ore processing at the mill during the reporting period was performed at the Zapadnoye Mine in the Irkutsk Region.

The implementation of jigging technology and equipment for the enhancement of gold mining efficiency and competitive capacity at alluvial and anthropogenic deposits continued at the alluvial enterprises.

Industrial tests and research work aimed at the adjustment of process parameters and indicators related to primary ore processing at the Blagodatnoye deposit were carried out.

The physical-mechanical properties of rocks were analyzed, and the stability of sloping constructions at the Verninskoye deposit in the Irkutsk Region were calculated in the reporting year. The stability of dumps at the open pit of the deposit was also calculated.

A program was prepared and testing was performed with regard to a new technological ore processing scheme at the Natalka deposit in the Magadan Region. The pilot plant was used to test and confirm processing enterprise design criteria.

A survey entitled "Assessment of photometrical separation application for pre-concentration of ore prospectively produced at the Natalka deposit" was carried out in the reporting year. According to the survey, the ore at the Natalka deposit is high-contrast, and using the photometrical separation method before grinding increases the efficiency of its concentration. The value of radiometry methods application for pre-concentration of ore in lumps is illustrated.

At the Nezhdaninskoye deposit the Republic of Sakha (Yakutia), the technological standards for ore concentration in the deposit have been developed and the preparation of inputs for the design of an ore mill producing gravity and flotation concentrates has been justified.

The process of oxygen input into the head reactor of sorption cyanidation at the Aksu and Zholymbet Mills was implemented at the production units in Kazakhstan. This increases the pulp's oxygen uptake and the recovery rate during the sorption process by 5-7%.

Intellectual property

The Company seeks to timely register its copyrights on all its inventions by getting the appropriate patents and certificates, to ensure the solid technological platform for its operations in the long run.

In the reporting year, the Company's intellectual property consisted of 43 elements:

- 20 patents for various inventions;
- 18 patent for useful models;
- 2 certificates for software systems;
- 1 certificate for database;
- 2 certificates for trademarks.

In 2009 the Company continued to develop its proprietary bacterial oxidation technology BIONORD. The technology was developed by Polyus' scientists and has been successfully applied at Olimpiada mine for several years.

In the reporting year the Company extended its measure of copyright for BIONORD by getting patents for the following inventions:

- Express-analyses method for concentrations of arseno-pyrite, pyrrhotine, pyrite in sulfide ore concentrate;
- Bacterial oxidation method for gold-containing sulfide concentrates in gold extraction;
- Laboratory installation for research on hydrometallurgical processes with the participation of microorganisms.

A number of patents related to BIONORD are included into the List of crucial technologies of the Russian Federation, that are securing the country's interests in the areas of national safety, economic and social development.

In the reporting period the Company submitted 4 applications for patents on generic processes of the technology to extract stibium and arsenic from sulfur-acid solutions. The technical result of such processes is: stibium recovery up to 93-95%, including from solutions obtained after biooxidation of gold-containing concentrates.

In 2009 the Company also registered its rights in the area of improving the ore pretreatment on the basis of the developed constructions of three-component hydro-cyclone and unloading devises of tumbling mill. The above devises will help to increase efficiency of ore classification by adding a stage of classification of heavy useful component.

In the reporting period the Company also received appropriate titles of protection for technical solutions under the following direction:

Pyrometallurgy	– The method to process refractory gold-arsenic ores, and the furnace to realize the method. – The method to process gold-antimonous-arsenic sulfide concentrates.
Hydrometallurgy	– The method to regenerate cyanide from water solutions.
Ore pretreatment	– Liner plating of autogenous and semi-autogenous mills. – Two-chambered mill, the line of three-stage grinding of ore.
Power engineering	– Grate-fired furnace of steam boiler. Steam generation station of used oil utilization. – Power complex.

In 2009 the Company also received a state registration certificate for the mining equipment database. The database is designed for corporate automated long-term and operative record-keeping and analyses of design parameters and actual performance indicators of trucks, excavators, drills and other mining machines.

ALLUVIAL OPERATIONS, IRKUTSK REGION, DREDGE No. 133

9. Capital market activities

Share capital

As at 31 December 2009, the share capital of Polyus Gold consisted of 190,627,747 ordinary shares with a par value of RUB 1 each; among these, 10,776,161 ordinary shares (or 5.6951% of the share capital) were held by Jenington International Inc., which is a part of the Group.

The Company's Charter has no provision for any preference shares.

The Company's shares on the stock market

OJSC Polyus Gold's ordinary shares are included in Quotation List B of the leading Russian stock exchanges, where they are traded under the PLZL ticker:

- CJSC MICEX Stock Exchange
- OJSC RTS Exchange

As at 31 December 2009, the Company's market capitalization amounted to USD 10.1 billion.

A Level 1 American Depository Receipts ("ADR") program for the Company's shares was launched in July 2006. Under the ADR program, The Bank of New York acts as the Company's depository bank and ING Bank (Eurasia) acts as the custodian. Initially, one ADR provided the right for one ordinary share of OJSC Polyus Gold.

According to the permit issued to OJSC Polyus Gold by the Russian Federal Financial Markets Service, the number of OJSC Polyus Gold ordinary shares that can circulate outside the Russian Federation, and for which American Depository Receipts may be issued, is 66,719,711 shares, which is 34.99% of the total number of the Company's ordinary shares.

On 21 May 2008, the Board of Directors approved a change in the ratio for the conversion of the Company's ordinary shares into American Depositary Receipts (ADRs) from 1:1 to 1:2. Since 10 June 2008, one ordinary share of the Company is converted in 2 American Depository Receipts.

As at 31 December 2009, 133,439,422 American Depository Receipts had been issued, which is 34.99% of the Company's share capital. This means that OJSC Polyus Gold implemented the ADR program in full. As at the end of 2009, the total capitalization of OJSC Polyus Gold's ADR program amounted to USD 3.7 billion.

American Depository Receipts for the Company's shares are circulated as follows:

- On the Main market at the London Stock Exchange under the ticker symbol PLZL
- On the OTC Market in the USA under the ticker symbol OPYGY
- Off the listing at the Frankfurt Stock Exchange under the ticker symbol P6J2

Market quotations of the Company's securities are used to calculate both Russian and international stock indices, such as RTS, MICEX, MSCI and FTSE (see the Table 5).

Table 5. List of stock indices, including the Company's quotations

	Index
RTS	RTS Index
	RTS Standard Index
	RTS Metals & Mining Index
MICEX	MICEX Index
	MICEX Metals & Mining Index
	MICEX Large Cap Index
FTSE	FTSE Gold Mines Index
	FTSE Global Equity Index Series:
	FTSE Global All Cap Index
	FTSE Global All Cap Russia Index
	FTSE All-World Large Cap Index
	FTSE All-World Large Cap Russia Index
	FTSE Global All Cap Emerging Index
	FTSE Global All Cap Secondary Emerging Index
	FTSE All-World Index
	FTSE All-World Russia Index
	FTSE BRIC Index
	FTSE EMEA Index
MSCI	MSCI Emerging Markets (Standard Index)
	MSCI Emerging Markets Large Cap Index
	MSCI Russia Standard Index
Dow Jones	Dow Jones Global Total Stock Market
	Dow Jones Global Index
	Dow Jones Russia 10 Local Index
RDX	Russian Depositary Index
AK&M	Industrial Index
	AK&M Composite Index
	Metallurgy Index

Dividends

Recommendations on the amount of dividends provided by the Board of Directors of OJSC Polyus Gold are based on the OJSC Polyus Gold's Regulation on Dividend Policy, approved by the Board of Directors on 3 April 2007.

On 14 September 2009, the Extraordinary General Meeting of the Shareholders of OJSC Polyus Gold adopted the decision to distribute RUB 1,248,611,742.85 for dividend payment, to declare dividends based on the results of OJSC Polyus Gold's activities in the first half of 2009 in the amount of RUB 6.55 per ordinary share of OJSC Polyus Gold, and to establish that dividends should be paid by 13 November 2009, inclusive.

As at 31 December 2009, the Company had paid dividends in the amount of RUB 1,247,544,654.62.

Purchasing 50.1% shares in KazakhGold Group Limited

On 12 June 2009, OJSC Polyus Gold and KazakhGold Group Limited declared the terms and conditions of the recommended partial offer to purchase 50.1% of issued and issuable shares in KazakhGold Group Limited (including shares presented by GDR) by Jenington International Inc., an indirect subsidiary of OJSC Polyus Gold.

In accordance with the terms and conditions of the Partial offer, the shareholders of KazakhGold received 0.423 share of OJSC Polyus Gold for each share (GDR) of KazakhGold.

On 30 July 2009, after receiving a sufficient number of valid acceptances from KazakhGold shareholders, the Partial offer was declared to be unconditional in respect of the acceptance. Requests for the acceptance of the Partial offer were received in respect of 96.4% of the issued share capital of KazakhGold and were satisfied proportionally so that, as a result, OJSC Polyus Gold acquired 50.1% shares of KazakhGold Group Ltd. The total price of the acquisition amounted to USD 256 million.

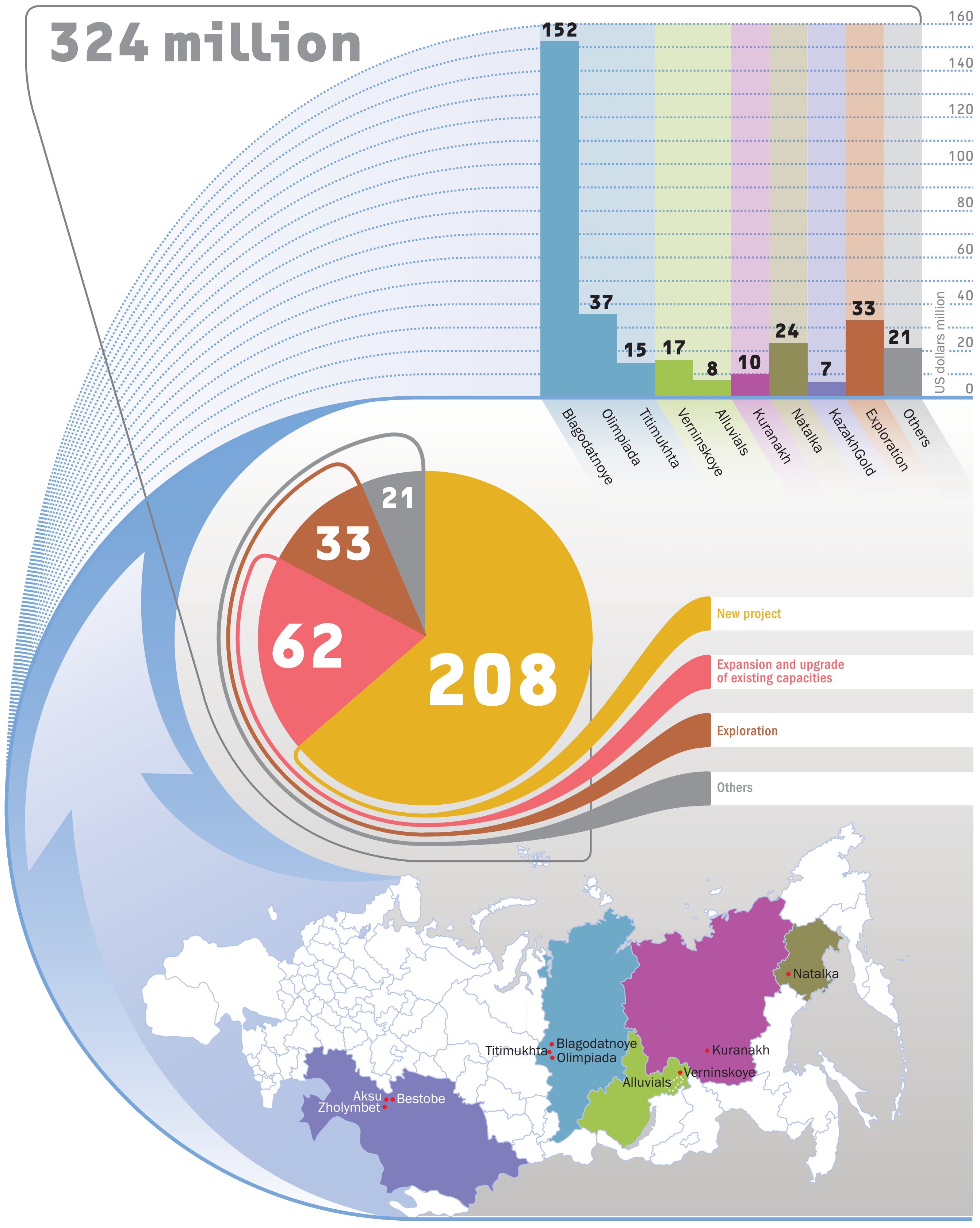
The terms and conditions of the transaction included, among others, the waiver of the right of KazakhGold preference bondholders to require complete or partial advance redemption of bonds if control over KazakhGold changes. On 2 February 2009, this decision was adopted by the General Meeting of KazakhGold bondholders. Bonds totaling USD 200 million will mature in 2013. After the completion of the Partial offer OJSC Polyus Gold becomes a limited liability guarantor under these bonds.

KazakhGold undertook to raise share capital in the amount of USD 100 million. Provided that certain conditions are met, Jenington undertakes to subscribe to at least 50.1% of issuable shares. The proceeds from raising share capital will be spent to partially cover the need for working capital, including the financing of investments as well as the payment of amounts due to preference bondholders.

Capital expenditure in 2009 amounted to USD 324 million.[1] That figure included USD 208 million spent on new projects. Out of that, USD 152 million was spent on Blagodatnoye mine, which is to be launched in the second half of 2010.

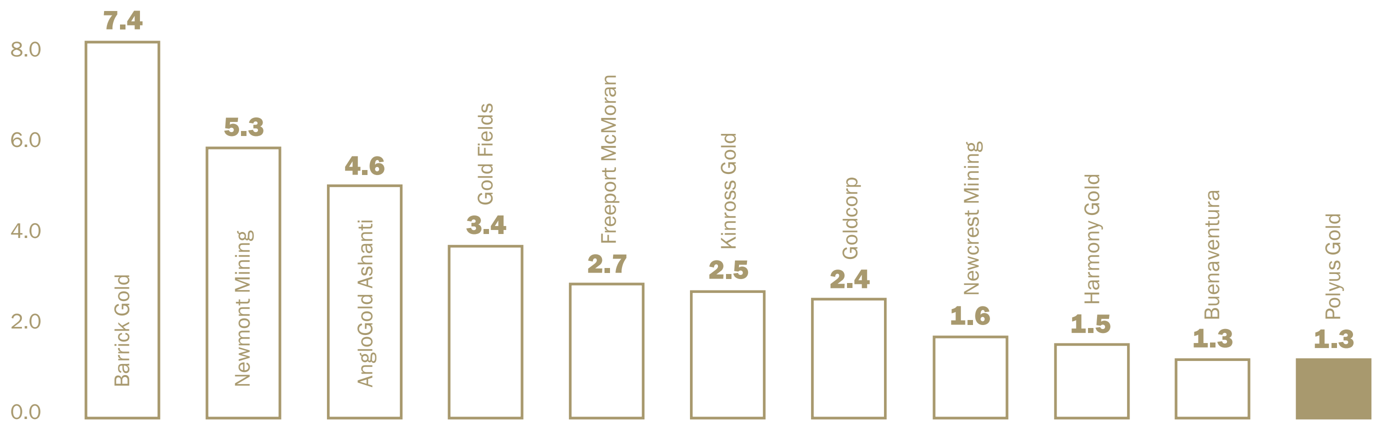
[1] Capital expenditures based on payments made in the period amounted to USD 496 million and may be calculated basing on the cash flow statement. Capital expenditure based on actual equipment supplied and construction works done amounted to USD 324 million and may be calculated basing on note 13 to the consolidated financial statements.

Capital expenditure in 2009



10. The position of OJSC Polyus Gold in the Russian and international gold mining industry

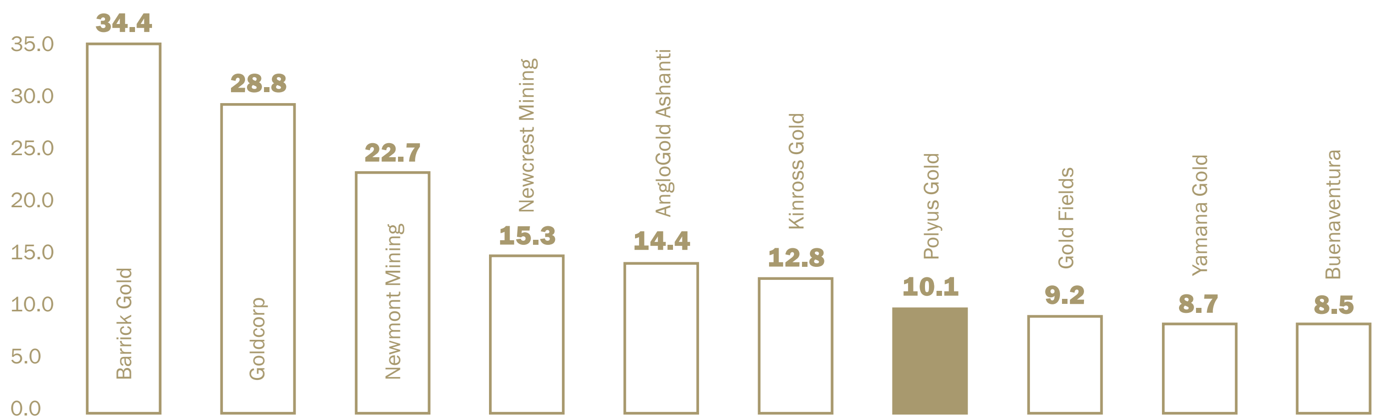
The world's largest gold producers, volume of production in 2009, million ounces



Source: Company websites

In terms of the volume of metal it produced in 2009, Polyus Gold ceded tenth place to Buenaventura, thus securing a ranking of eleventh worldwide. In 2009, the Company began to increase production volume, as envisaged by its strategy, which was intended to strengthen the position of Polyus Gold among the world's leading metal manufacturers, and to position it in the top five producers by 2015.

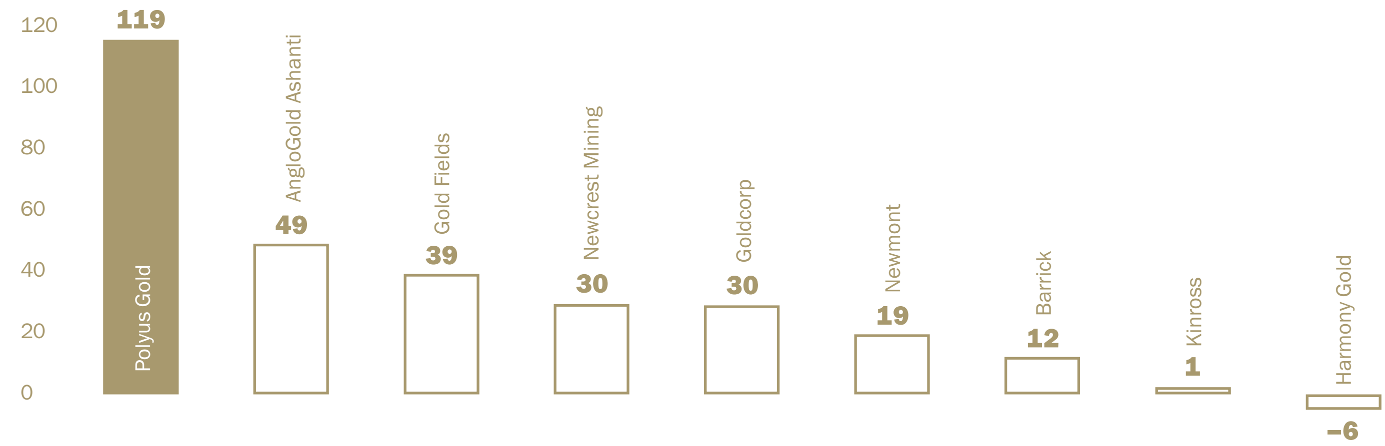
The world's largest gold mining companies, based on market capitalization (as at 31 December 2009), USD million



Source: Bloomberg.

As at 31 December 2009, Polyus Gold was ranked seventh among the world's leading gold-mining companies, in terms of its market capitalization, whereas, as at 31 December 2008, the Company was only tenth. As at 31 December 2009, the Company's capitalization amounted to USD 10.1 billion, as compared with USD 4.9 billion as at 31 December 2008.

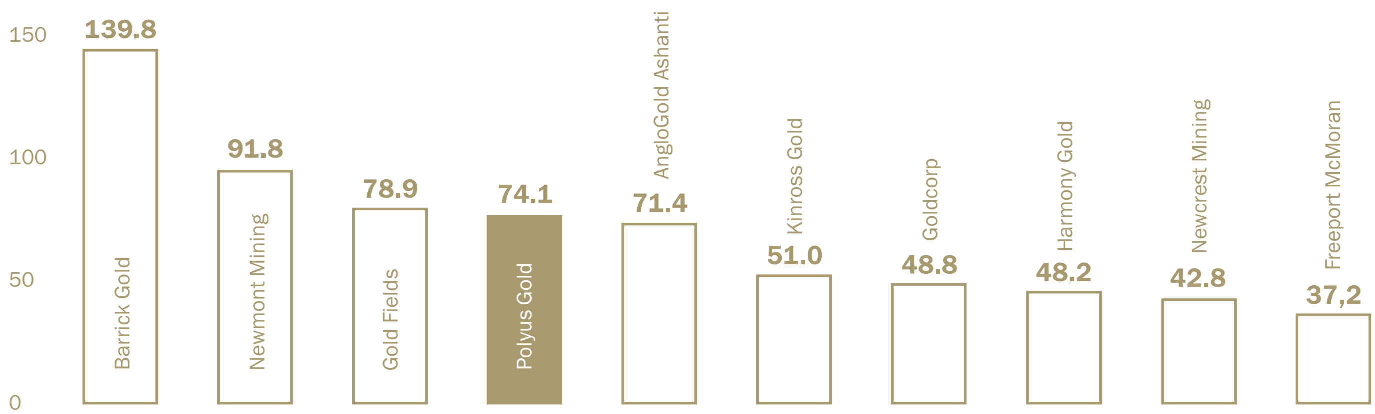
The world's largest gold mining companies, share performance in 2009, %



Sources: Company websites

In the reporting period the Company began the indisputable leader among its global peers in terms of share performance, having shown a 119% increase during the year. The growth was also well ahead of bold bullion.

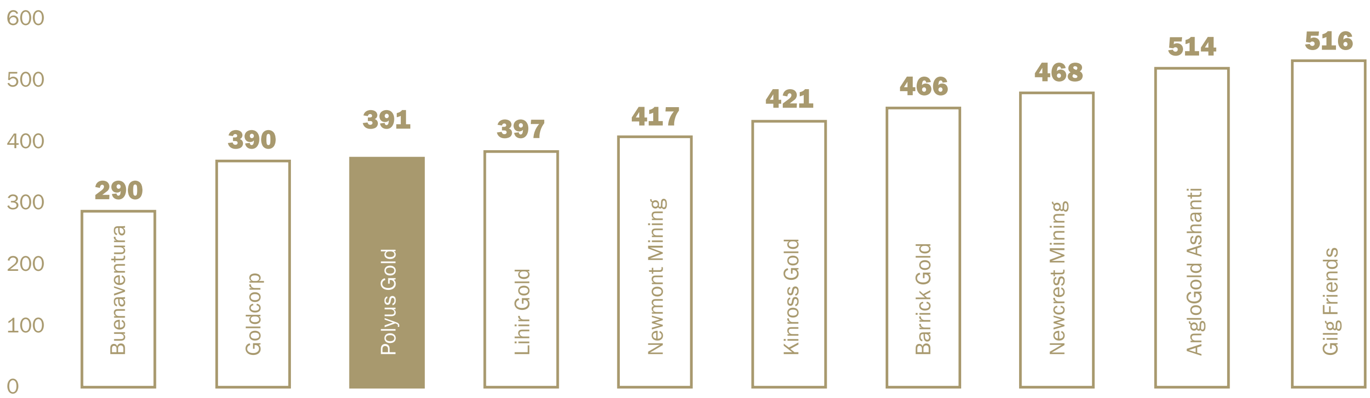
The world's leading companies, based on P&P reserves (JORC P&P) in 2009, million ounces



Sources: Company websites

According to the results for 2009, Polyus Gold was ranked fourth in terms of the volume of its proven and probable reserves. For more detailed information on the development of the Company's mineral resources base, see Section 7, "Results of geological exploration".

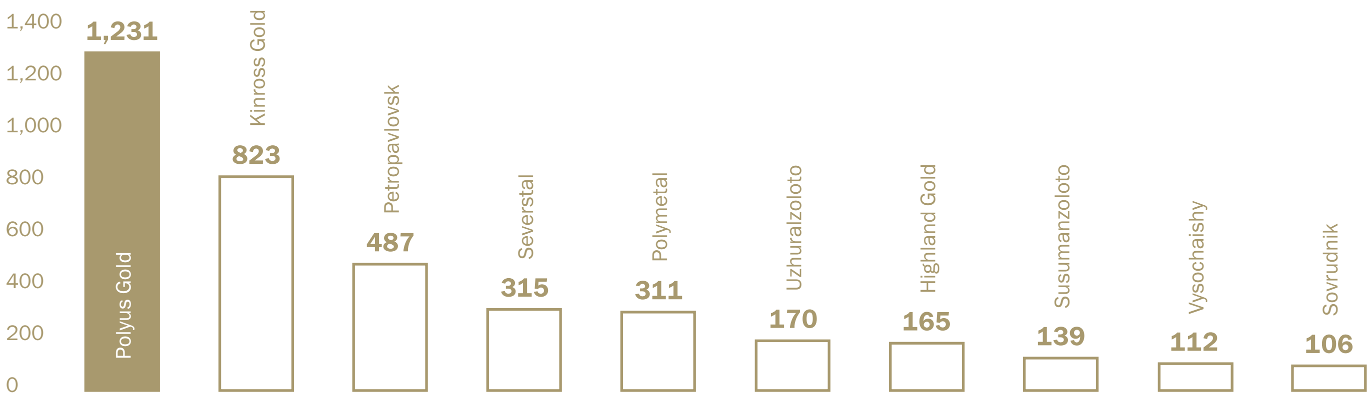
The world's leading gold producers, total cash costs in 2009, USD/ounce



Source: Company websites.

In 2009, the total cash costs incurred by Polyus Gold in the course of producing one troy ounce amounted to USD 391, a relatively low level of expenses, which enabled the Company to remain one of the lowest cost producers globally.

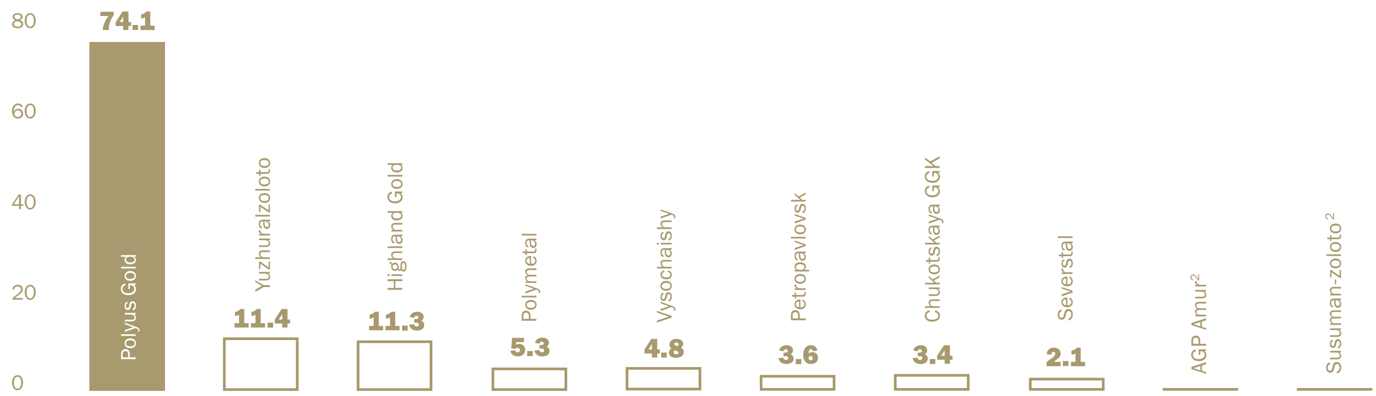
Russia's leading gold producers, volume of production in 2009, thousand ounces



Sources: Company websites, Report of the Union of Gold Miners (2009)

In 2009, the Company remained the undisputed leader among Russian gold producers, in terms of the volume of metal produced.

Russia's leading gold producers, proved and probable reserves in 2009, million ounces[1]



Source: Company websites

[1] Proved and probable (P&P) reserves in accordance with the international system of classification (JORC), or $B+C_1+C_2$ reserves, in accordance with the Russian system of classification
[2] No data available

Polyus Gold also has the largest mineral resources base among Russian gold mining companies.

AKSU MINE, KAZAKHSTAN, OPEN PIT MINING

II. Gold market in 2009

THE HISTORY OF GOLD REACHES BACK MORE THAN 1000 YEARS. PEOPLE HAVE USED GOLD FOR CENTURIES TO STORE WEALTH, AS A FORM OF CURRENCY AND TO PRODUCE JEWELRY. NOWADAYS, JEWELRY REMAINS THE MOST IMPORTANT MARKET FOR GOLD; GOLD IS ALSO USED IN ELECTRICAL ENGINEERING AND MEDICAL APPLICATIONS; HOWEVER, IN 2009, GOLD SUDDENLY BECAME POPULAR AS AN INVESTMENT. TWO YEARS AGO, INVESTMENT DEMAND FOR GOLD MADE UP LESS THAN 5% OF TOTAL DEMAND, IN 2008, THIS INCREASED TO 6% AND, IN 2009, INVESTOR DEMAND FOR GOLD REACHED AN ALL-TIME HIGH OF 33% OF TOTAL DEMAND.

Tendencies in the world gold market in 2009

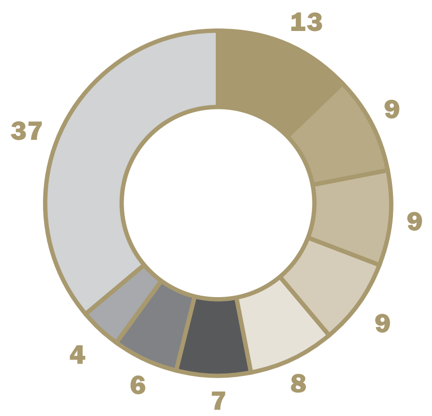
Supply

In 2009, total global gold supply amounted to 4,287 tonnes, representing a 8% increase on 2008, mainly due to an increase in gold mining output, along with a corresponding increase in the volume of gold scrap processing.

According to provisional statistics produced by Gold Fields Mineral Services Limited of London (GFMS), global gold mining output in 2009 amounted to 2,572 tonnes, a 7% increase on 2008 figures. This represented the highest rate for the last 6 years. Indonesia, Russia and the People's Republic of China were the leaders in gold mining for 2009. Indonesia made a considerable contribution to the increase in global gold production, with a 66% increase on the previous year's production

The world's leading gold producing countries in 2009, %

China	13
Australia	9
South Africa	9
USA	9
Russia	8
Peru	7
Indonesia	6
Canada	4
The rest	37



Note: Totals may not add up due to rounding error.

figures, mainly due to operations at the country's two largest mines: Grasberg and Batu Hijau.

China remained the world's largest gold producer for the third year running. The volume of gold production in China increased by 11% over the last year and amounted to 324 tonnes.

Among the top 10 leading gold producers, only the USA and South Africa experienced a reduction in the volume of gold production.

In 2009, Russia remained one of the world's top five gold mining nations. Russian gold mining increased by 9% – from 189 tonnes in 2008, up to 205 tonnes in 2009. The increase in precious metal production was mainly provided by the Chukotskiy Region, Kamchatka Area and Amur Region.

Another important source of the world's gold supply is scrap. As a consequence of the global financial crisis and record highs in gold prices, the supply of gold from scrap increased by 27% and reached a high of 1,674 tonnes. The main suppliers of scrap gold were India and European countries.

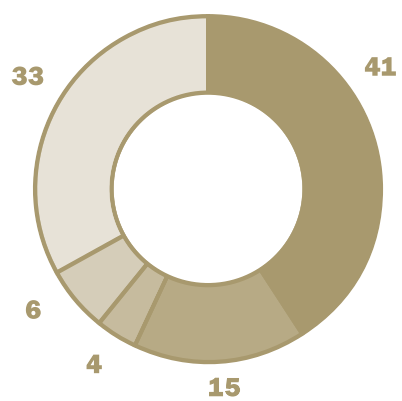
At the same time, gold sales from official reserves dropped off dramatically in 2009, amounting to only 41 tonnes, which represented a 82% decrease on the previous year. Changes in the sale dynamic of gold by the formal sector mainly arose as a result of a decrease in sales by the signatories to the Central Bank Gold Agreement. This agreement is intended to stabilize the world's gold prices and mitigate the risk of excess supply by limiting bullion sales by European central banks. The last version of this Agreement, which covers a five-year period, was signed on 27 September 2009 by the European Central Bank and the central banks of 18 other European nations. Gold sales by signatories to this agreement amounted to 157 tonnes, although the annual "ceiling" for gold sales was 500 tonnes. Countries that did not sign the agreement mainly purchased gold to supplement their national gold reserves.

Demand

Jewelry is still by far the most important market for gold. In 2009, demand for gold by jewelry manufacturers reached a record minimum for the last 21 years of 1,759 tonnes. According to GFMS specialists, this was due to high gold prices (especially those denominated in depreciated national currencies), as well as the difficult business environment. The largest decline in metal consumption by manufacturers of jewelry was observed in India, Turkey, Italy and the USA.

Global gold consumption in 2009, %

Jewelry	41
Other industries	15
Gold hoarding	4
De-hedging	6
Implied investments	33



Note: Totals may not add up due to rounding error.

Demand for gold from other industry sectors reduced by 5% to 658 tonnes.

In addition, in response to increasing prices, repurchases by producers of gold that they had previously hedged to mitigate the effects of declining prices contributed significantly to total demand. According to GFMS, de-hedging accounted for 254 tonnes in 2009, 28% lower than in 2008.

Investment demand

The investment demand for gold includes the demand for gold bullion, implied net investments and coins. In 2009, the investment demand for gold was unprecedentedly high, and was almost double 2008 figures, reaching 1,901 tonnes, thus exceeding the demand from the jewelry industry. According to GFMS, the volume of implied net investments increased by more that 4 times and amounted to 1,429 tonnes. This was due to concerns among investors over increased rates of inflation, the risk that counterparties would fail to fulfill their obligations, the low level of actual interest rates, US dollar fluctuations, and the rally in the gold market in the second half of 2009. Meanwhile, data on gold purchases from a number of central banks also whipped up interest in gold as an investment. The implied net investments comprised a variety of financial instruments: warrants and gold certificates, exchange-traded funds (ETF), metal accounts, gold futures and other derivatives. Exchange-traded funds (ETF) have become more and more popular among investors, and their attractiveness can be explained by high liquidity, along with the availability and provision of physical stockpiles of gold. The 19 ETFs monitored by GFMS increased by 1.5 times on 2008 figures, and amounted to 1,839 tonnes in 2009.

There was also an all-time high in the demand for gold coins (229 tonnes in 2009, compared with 187 tonnes in 2008).

However, the year saw a 52% decrease in demand for gold bullion, which accounted for 187 tonnes. This decrease is primarily related to Southeast Asian countries and India, who are traditional buyers of gold bullion.

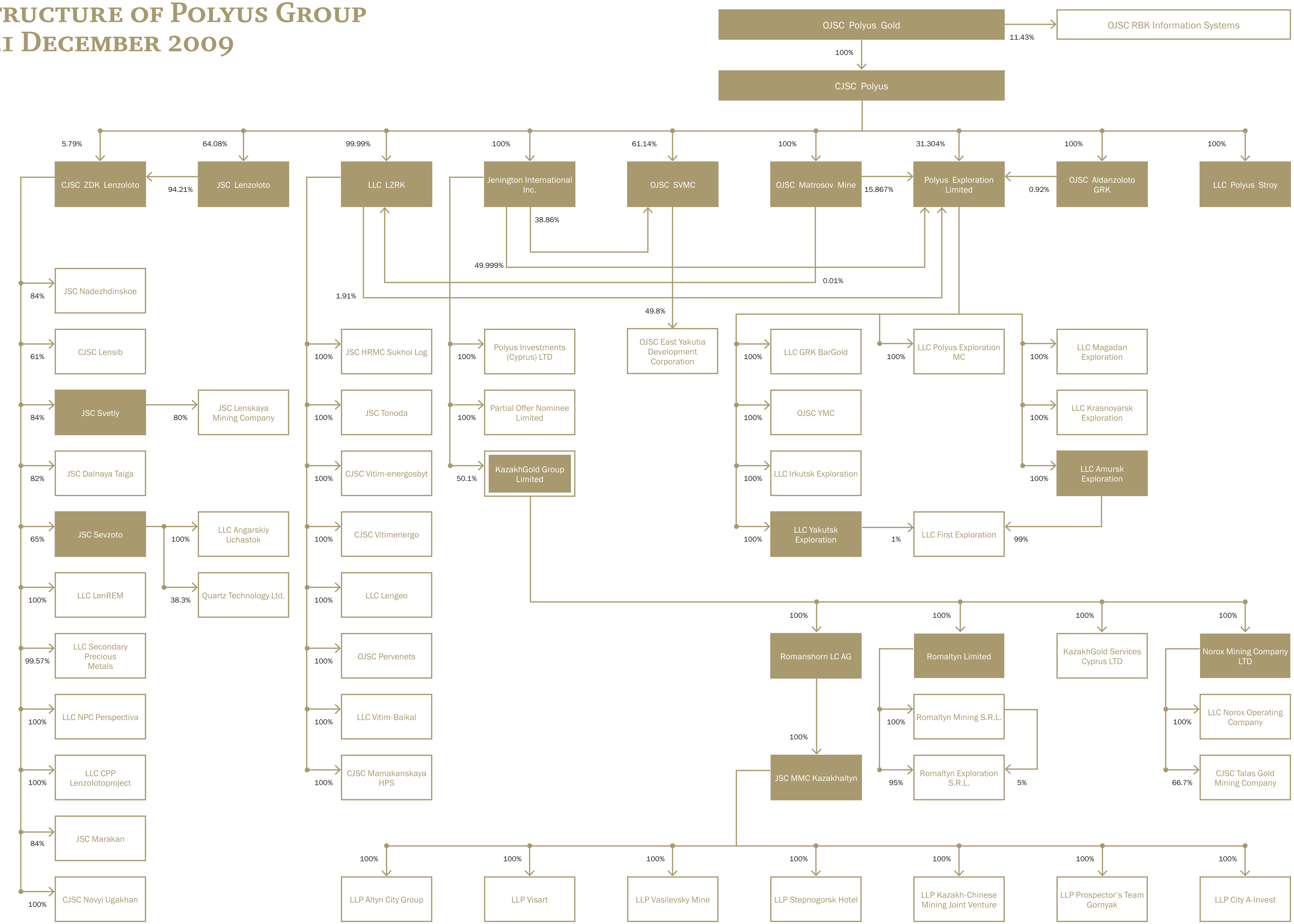
Gold prices

In addition to the fundamental supply and demand dynamics of the global gold market, global gold prices are affected by a number of other factors, including the geopolitical and economic environment, speculative trading, the USD exchange rate, rates of inflation and the levels of interest rates.

2009 saw record high levels of gold prices. The average evening price fixed for gold on the London Stock Exchange was USD 972.35 per ounce, some 12% higher than the previous record set in 2008.

2009 started with a rally in gold prices, triggered by the growing investment demand due to concerns among investors over the possible decline in stock prices and the risk that counterparties would fail to fulfill their obligations. However, the record price from the previous year was not surpassed. Later, in the second quarter of 2009, gold prices continued to grow due to the weakness of the US dollar, an increase in oil prices and growing concerns among investors about inflation rates. When the first signs of global economic recovery emerged, this weakened investors' interest in gold, along with slack demand for the metal from jewelry manufacturers, contributing to a price adjustment by mid-2009. The next increase in prices began in September, when the evening price fixed for gold reached USD 1,000 per ounce. This continued until December and gold prices peaked on 3 December 2009 at USD 1,212.5 per ounce (fixed evening price), surpassing the 2008 maximum. The overheated market and subsequent strengthening of the US dollar contributed to the price adjustment. The latest London fixed price for gold was USD 1,087.5 per ounce.

The Structure of Polyus Group as at 31 December 2009



Changes in the corporate structure in 2009

In January 2009, Jenington International Inc. acquired 14,826,000 additional shares of Polyus Exploration Limited, and in February 2009, it acquired a further 812,500 shares.

In April 2009, OJSC SVMC disposed of 251 shares it held in OJSC East Yakutia Development Corporation. As a result of this transaction, the share of OJSC SVMC in the latter's share capital reduced from 74.9% to 49.8%.

April also saw LLC Polyus Stroy increase its share capital to RUB 1,010,000. However, the 100% share of CJSC Polyus in the share capital of LLC Polyus Stroy remained unchanged.

In May 2009, Partial Offer Nominee Limited was established as part of Polyus Group, 100% of the shares of which are held by Jenington International Inc.

In June 2009, ordinary registered shares of OJSC Matrosov Mine, with a nominal value of RUB 1 per share, were converted into ordinary registered shares with a nominal value of RUB 2 per share, and class A preference registered shares in OJSC Matrosov Mine with a nominal value of RUB 1 per share, and into convertible preference registered shares in OJSC Matrosov Mine with a nominal value of RUB 2 per share. As a result, the share capital of OJSC Matrosov Mine increased to RUB 1,183,302, and the company was no longer liable to disclose information in the form of quarterly reports and corporate action notices in accordance with Resolution of FCSM of Russia No. 06-117/ PZ-N, of 10 October 2006.

In June 2009, Jenington International Inc. acquired 2,397,500 additional shares in Polyus Exploration Limited. As a result of these transactions (including the transactions that took place in January and February) the ownership interest percentages in Polyus Exploration Limited changed. As at the end of year, Jenington International Inc. had a share of 49.999%, CJSC Polyus, a share of 31.304%, OJSC Matrosov Mine, a share of 15.867%, OJSC Aldanzoloto GRK, a share of 0.910%, and LLC LZRK, a share of 1.910%.

In April, the share capital of LLC Amursk Exploration was increased to RUB 592,824,000. However, the 100% share of Polyus Exploration Limited in the share capital of LLC Amursk Exploration remained unchanged. LLC LZRK acquired 37,280 additionally issued shares in OJSC Pervenets. LLC LZRK's total number of shares in OJSC Pervenets amounted to 37,380; however, the 100% share of LLC LZRK in the share capital of OJSC Pervenets remained unchanged. The placement of additional shares resulted in an increase in OJSC Pervenets's share capital to RUB 37,380,000.

In June 2009, the share capital of LLC Polyus Stroy was increased to RUB 46,010,000. However, the 100% share of CJSC Polyus in the share capital of LLC Polyus Stroy remained unchanged.

In July 2009, the share capital of LLC Krasnoyarsk Exploration was increased to RUB 406,375,976. However, the 100% share of Polyus Exploration Limited in the share capital of LLC Krasnoyarsk Exploration remained unchanged.

In August 2009 the convertible preference registered book-entry shares (class A) of OJSC Matrosov Mine were converted into additional ordinary shares. Thereupon, the share capital of OJSC Matrosov Mine was divided into 591,651 ordinary shares; the share capital of OJSC Matrosov Mine does not include any preference shares.

In August, OJSC YMC issued 224,551 additional shares. As a result, its share capital increased from RUB 73,500,000 to RUB 95,955,100. However, the 100% share of Polyus Exploration Limited in the share capital of OJSC Ya YMC remained unchanged.

In September 2009, LLC Gromovsky, an affiliate of JSC Sevzoto, was liquidated.

In October 2008, OJSC Aldanzoloto GRK was reorganized through a merger with CJSC Kurakhanzoloto. As a result, the latter discontinued its operations. LLC CHOP Polyus Shield-M was set up in October. The main participant in LLC CHOP Polyus Shield-M is LLC CHOP Polyus Shield (99.9%).

In November 2009, OJSC Polyus Gold purchased 16 additional shares in CJSC Polyus and now holds a total number of 315 ordinary shares in the company. The total share of OJSC Polyus Gold in the share capital of CJSC Polyus remained unchanged (100%).

In December 2009, OJSC Polyus Gold sold 100% of the share capital of LLC CHOP Polyus Shield to LLC CHOP Polyus Shield-M.

Also in December, CJSC Polyus acquired an additional 41,071 shares in OJSC Matrosov Mine, bringing the total number of shares it holds to 632,722. CJSC Polyus's ownership interest in OJSC Matrosov mine remained unchanged (100%).

In December, LLC Rosbank Management Company purchased shares in OJSC RBC Information Systems for OJSC Polyus Gold under a trust agreement. On 23 December 2009, as a result of the termination of this trust agreement, 16,008,706 OJSC RBC Information Systems shares (11.43% of the share capital) were transferred to OJSC Polyus Gold's depositary account.

Also in December, LLC LZRK purchased 144 additional shares in JSC HRMC Sukhoi Log, bringing the total number of shares it holds in JSC HRMC Sukhoi Log to 540 items. The total share of LLC LZRK in the share capital of JSC HRMC Sukhoi Log remained unchanged (100%).

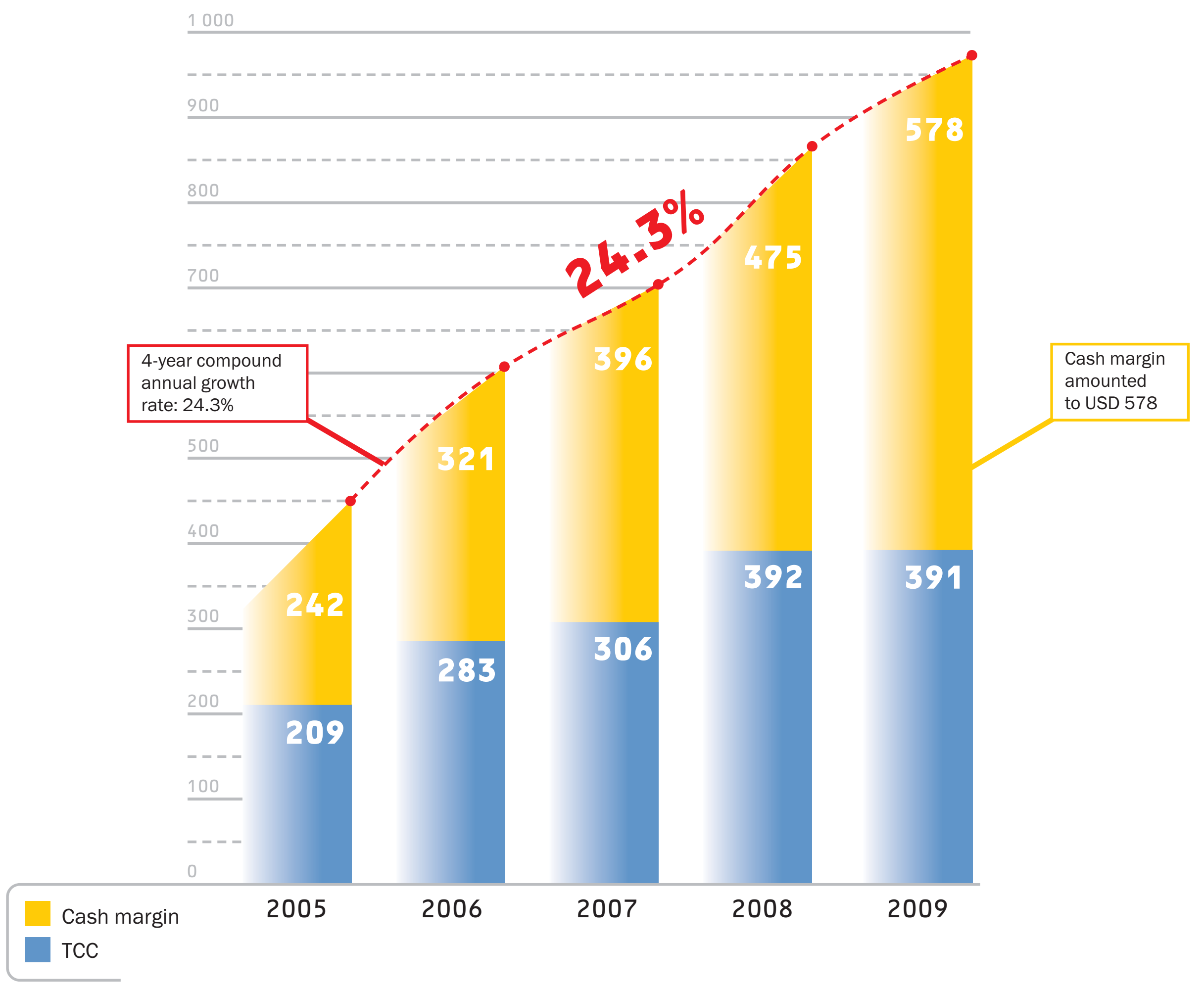
In addition, in December, OJSC Polyus Geologorazvedka, a subsidiary of OJSC Polyus Gold, and OJSC Soyuz, a subsidiary of CJSC ZDK Lenzoloto, were liquidated.

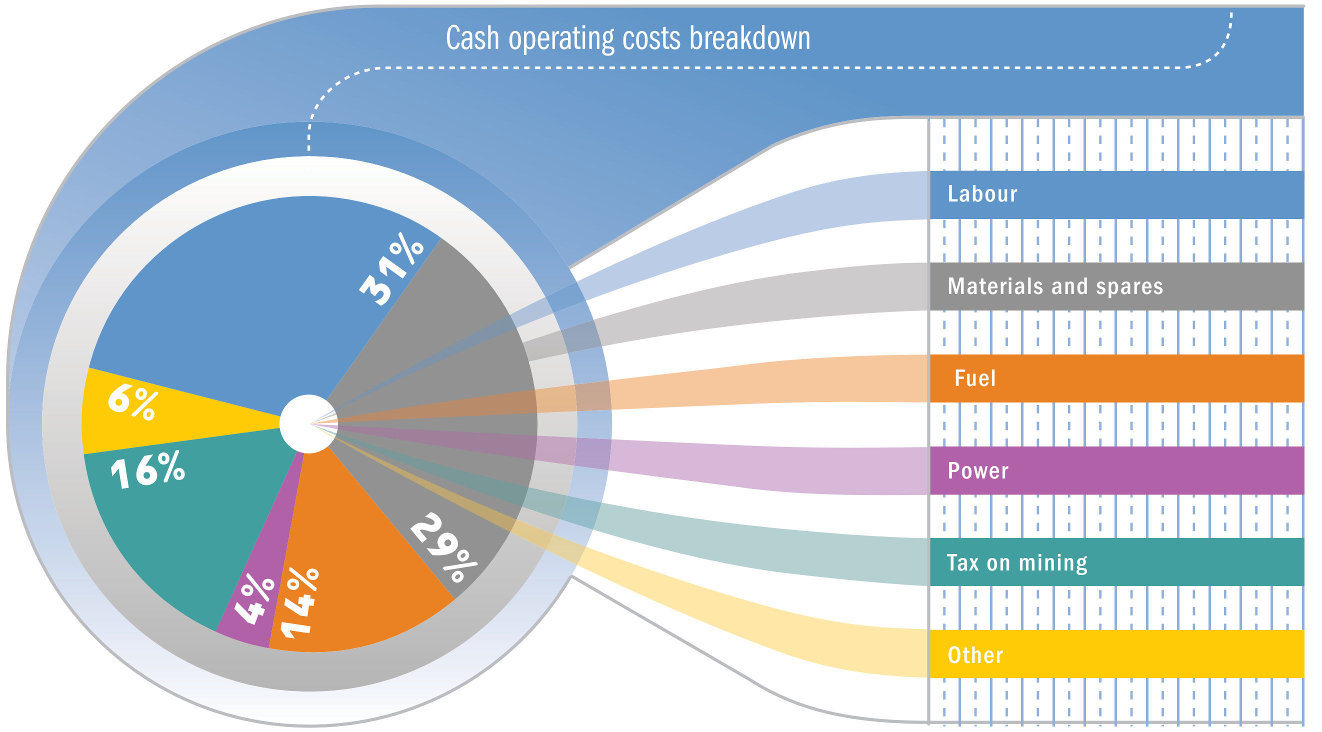
Acquisition of 50.1% of KazakhGold Group Ltd.
On 14 August 2009, Jenington International Inc. acquired 26,550,495 of the shares of KazakhGold Group Limited, amounting to 50.1% of the company's share capital. As a result of this transaction, the following assets became part of Polyus Group: the Kazakh assets Joint Stock Company Kazakhaltyn Mining and Smelting Group, LLP Kazakh-Chinese Mining Joint Venture, LLP Altyn City Group, LLP Vasilevsky Mine, LLP Visart, LLP Prospector's Team Gornyak, LLP City A-Invest; the Kyrgyz assets CJSC TGMK, LLC Norox Operating Company; the Romanian assets Romaltyn Exploration S.R.L., Romaltyn Mining S.R.L.; as well as Kazakhgold Services Cyprus Ltd (Cyprus), Romanshorn LC AG (USA), Norox Mining Company Ltd (Cayman Islands), and Romaltyn Limited (Isle of Man).

In October 2009, Joint Stock Company Kazakhaltyn Mining and Smelting Group acquired 51% of LLP Stepnogorsk Hotel, taking its total share in the share capital of LLP Stepnogorsk Hotel to 100%, following a previous acquisition.

In the reporting period cash margin continued to grow and reached USD 578 per ounce, demonstrating a 24.3% 4-year CAGR.

Cash margin growth





13. Corporate governance report

The Company is continuously working to improve its corporate governance standards, investment appeal and management efficiency, in accordance with recognized Russian and international standards. The Company strives to protect statutory shareholder rights by maintaining transparent processes, efficient executive governance and oversight, ensuring that information about the Company's operations is reliable and up-to-date.

Information disclosure

Given that the amount and quality of information disclosed is one of the most important elements of corporate governance, the Company regularly and fully discloses information on all of the most significant issues, including information about its financial position, performance and ownership structure, along with lists of the affiliated individual, securities-related data, and so on.

The disclosure principles adopted by the Company are specified in the Policy of Public Relations and Relations with Investors of OJSC Polyus Gold, effective since November 2006.

As regards statutory disclosures, OJSC Polyus Gold meets the requirements set out by the respective regulatory documents, including the Federal Law "On Joint Stock Companies", the recommendations of the Corporate Behavior Code, the requirements of the Federal Service for Financial Markets of the Russian Federation, the requirements of the British Financial Services Regulatory Authority, and the listing requirements of the Russian and foreign stock exchanges, including OJSC Stock Exchange Russian Trade System, CJSC MMVB Stock Exchange and London Stock Exchange.

The Company also regularly issues a social report, which is prepared in accordance with Global Reporting Initiative standards.

Board of Directors

The corporate governance system of OJSC Polyus Gold provides the Board of directors with appropriate mechanisms to oversee management of the Company. The primary goal of the Board of Directors is to stimulate the capitalization and profitability growth of the Company, while protecting the interests of both majority and minority shareholders.

The Board of Directors determines the development strategy of the Company, assesses possible risks, and designates, motivates and controls its management.

The Board of Directors of OJSC Polyus Gold operates in accordance with the Federal Law "On Joint Stock Companies", the Rules of the Company and the Regulations regarding the Board of Directors.

The Board of Directors is elected by the General Meeting of the shareholders, in accordance with the Federal Law "On Joint Stock Companies". The Board consists of nine members and its structure and composition fully corresponds with the tasks the Company faces.

Composition of the Board of Directors

The Annual General Meeting of the shareholders of OJSC Polyus Gold, held on 15 May 2009, elected the following people to the Board of Directors:

- Mikhail Dmitrievich Prokhorov, Chairman of the Board of Directors
- Pavel Sergeevich Grachev
- Evgueni Ivanovich Ivanov
- Lord Patrick James Gillford
- Alexander Ilyich Mossionzhik
- Andrey Mikhailovich Rodionov
- Zumrud Khandadashevna Rustamova
- Ekaterina Mikhailovna Salnikova
- Maxim Valeriyevich Finskiy

Four members of the Board were re-elected from 2008, and the General Meeting also elected five new members: P.S. Grachev, A.I. Mossionzhik, A.M. Rodionov, Z.Kh. Rustamova and M.V. Finskiy Accordingly, Robert Buchan, A.A. Klishas, Ye.V. Yarovikov, V.N. Braiko and V.V. Rudakov were not re-elected.

The meeting, held on 27 May 2009, re-elected Mikhail D. Prokhorov, the President of ONEXIM Group, as Chairman of the Board of Directors.

Election date and composition of the Board of Directors of OJSC Polyus Gold:

26 June 2008	15 May 2009
M.D. Prokhorov, Chairman	M.D. Prokhorov, Chairman
Robert Buchan	P.S. Grachev
V.N. Braiko	E.I. Ivanov
E.I. Ivanov	Lord Patrick D. Gillford
Lord Patrick D. Gillford	A.I. Mossionzhik
A.A. Klishas	A.M. Rodionov
V.V. Rudakov	Z.Kh. Rustamova
E.M. Salnikova	E.M. Salnikova
E.V. Yarovikov	M.V. Finskiy

Composition of the Board of Directors of OJSC Polyus Gold

Mikhail Dmitrievich Prokhorov

Chairman of the Board of Directors

Holding of shares in OJSC Polyus Gold:
9,531,387 ordinary registered shares of OJSC Polyus Gold, as of 31 December 2009 (4.999% of the total share capital)

Date of birth
3 May 1965

Education
Moscow Financial Institute (State Finance Academy), specializing in International Economic Relations; holder of a cum laude diploma

2001-2007
Director General of OJSC MMC Norilsk Nickel

2003-2007, and from June-December 2008
Member of the Board of Directors of OJSC MMC Norilsk Nickel

2005-2007
Chairman of the Board of Directors of OJSC FK Moskva

2006-2008
Chairman of the Board of Directors of OJSC UK Sportivnyie Proyekty (Sports Projects Management Company)

2006-present
Chairman of the Board of Directors of OJSC Polyus Gold.

2007-2008
Member of the Board of Directors of CJSC KM Invest

2007-present
President of LLC ONEXIM Group

2007-present
Member of the Supervisory Board of the State Corporation Russian Nanotechnology Corporation

2009-present
Member of the RF Presidential Committee for the Modernization and Technological Development Wof the Russian Economy

2009-present
Member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs

2009-present
Member of the Board of Directors of OJSC Sheremetyevo International Airport

Pavel Sergeevich Grachev

Does not own shares in OJSC Polyus Gold

Date of birth
21 January 1973

Education
University of Trieste (Italy), Law;
St. Petersburg State University, Law

2000-2006
Director of LLC Pavia & Ansaldo

2006-2008
Head of the Legal Department of LLC Nafta Moscow

2006-2008
Member of the Board of Directors of OJSC Polymetal

2008-present
Managing Director of the Moscow Representative Office of Nafta Moscow (Cyprus) Limited (the Republic of Cyprus)

2009-present
Member of the Board of Directors of OJSC Polyus Gold

Evgueni Ivanovich Ivanov
General Director

Does not own shares in OJSC Polyus Gold

Date of birth
29 September 1966

Education
Moscow Financial Institute (State Finance Academy), specializing in International Economic Relations

2000-2003
Chairman of the Board of OJSC AKB Rosbank

2003-2004, and 2005-2007
Member of the Board of Directors of OJSC AKB Rosbank

2004-June 2007, and February-October 2008
President of CJSC Polyus

2004-present
Member of the Board of Directors of CJSC Polyus

2005-September 2007, and June 2008-present
Member of the Board of Directors of OJSC Matrosov Mine

2005-present
Member of the Board of Directors of OJSC Lenzoloto

2005-August 2007
Member of the Board of Directors of OJSC Aldanzoloto GRK

2005-August 2007
Member of the Board of Directors of OJSC SVMC

2005-February 2008
Chairman of the Board of Directors of OJSC YaGK

2005-October 2008
Deputy Chairman of the Board of Directors of Rosbank (Switzerland) S.A.

2006-present
Chairman of the Board of Directors of CJSC ZDK Lenzoloto

May 2006-May 2007, and October 2007-present
General Director of OJSC Polyus Gold

March 2006-present
Member of the Board of Directors of OJSC Polyus Gold

2007-May 2009
General Director, Member of the Board of Directors of OJSC Polyus Geologorazvedka

December 2007-February 2008, and October 2008-present
Director General of CJSC Polyus

2008-present
Chairman of the Board of Directors of OJSC Eastern Yakutia Development Corporation

December 2008-present
Member of the Board of Directors of the LLC LZRK

August 2009-present
Chairman of the Board of Directors and Chief Executive Officer of KazakhGold Group Ltd.

In accordance with Clause 6.3.3.10 of the Articles of Association of OJSC Polyus Gold, the amount of compensation and bonuses paid out to the Director General is determined by the Board of Directors.

Lord Patrick James Gillford
Does not own shares in OJSC Polyus Gold

Date of birth
28 December 1960

Education
Eton College (UK); Royal Military Academy Sandhurst

2000-2004
Chairman of the Board of Directors of the Cleveland Bridge UK Ltd, without executive responsibilities

2005-present
Director and Member of the Advisory Council of the Ukrainian British City Club

2006-present
Member of the Board of Directors of OJSC Polyus Gold

2007-present
Chairman of the Board of the Eurasia Drilling Company

Alexander Ilyich Mossionzhik
Does not own the shares in OJSC Polyus Gold

Date of birth
14 November 1961

Education
Tula Polytechnical Institute of Engineering and Mathematics, Candidate of Science

2001-2006
General Director of LLC Nafta Moscow

2005-2008
Member of the Board of Directors of OJSC Polymetal

2006-present
Chairman of Board of Directors of LLC Nafta Moscow

2009-present
Member of the Board of Directors of PIK Group

2009-present
Member of the Board of Directors and Deputy Chairman of the Board of Directors of OJSC Polyus Gold

Andrey Mikhailovich Rodionov
Does not own shares in OJSC Polyus Gold

Date of birth
23 June 1968

Education
Yaroslavl Higher Military Finance School, specializing in Economics

2003-2005
Head of the Finance department of OJSC GNK Nafta Moscow

2006-2008
Head of the Financial department of LLC Nafta Moscow

2008-present
Managing Director of LLC Nafta Moscow

2009-present
Member of the Board of Directors of OJSC Polyus Gold

Zumrud Khandadashevna Rustamova
Does not own shares in OJSC Polyus Gold

Date of birth
21 September 1970

Education
Moscow Economics and Statistics Institute, specializing in Economics

2004-2006
General Director Deputy, Vice- President CJSC SUEK

2006-present
Deputy Chairperson and Member of the Board of OJSC Russian Bank for Development

2006-2008
Director of Corporate Development (joint appointment) of LLC Nafta Moscow

2006-2009
Head of the Moscow Representative Office and Deputy General Director of OJSC Polymetal

2006-present
Member of the Board of Directors of OJSC Magnitogorsk Iron and Steel Works

2008-2009
Managing Director (joint appointment) of the Moscow representative office of Nafta Moscow (Cyprus) Limited (the Republic of Cyprus)

2008-present
Member of the Board of Directors of OJSC Sheremetyevo International Airport

2009-present
General Director Deputy of OJSC Polymetal Management Company

2009-present
Member of the Board of Directors of OJSC Khanty-Mansiysk Bank

2009-present
Member of the Board of Directors of OJSC Polyus Gold

Ekaterina Mikhailovna Salnikova
Does not own shares in OJSC Polyus Gold

Date of birth
14 July 1957

Education
Moscow Management Institute, Diploma in Engineering/ Economics (specializing in Management Planning); RF Presidential Russian Academy of Public Administration, specializing in Law; Ph.D in economics

1999-2000, and 2004-2006
Member of the Board of Directors of OJSC AKB Rosbank

2000-2004
Member of the Board of Directors of CJSC Publishing House Profmedia

2000-2005, and 2006-2007
Member of the Board of Directors of Silovye Mashiny

2001-2003
Member of the Board of OJSC Interros Holding Company

2001-2003, and 2004-June 2008
Member of the Board of Directors of OJSC MMC Norilsk Nickel

2003-2007, and December 2008-present
Member of the Board of Directors of OJSC Open Investments

2004-2005
Member of the Board of Directors of CJSC Agro-Industrial Complex Agros

2006-present
Member of the Board of Directors of OJSC Polyus Gold

2007-present
Deputy Financial Director of LLC ONEXIM Group

2008-present
Member of the Board of Directors of LLC Soglasiye Insurance

2008-present
Member of the Board of Directors of OJSC TGK-4

2008-present
Member of the Board of Directors of OJSC JSCB International Financial Club

Maxim Valeriyevich Finskiy
Does not own shares in OJSC Polyus Gold

Date of birth
25 March 1966

Education
Moscow Financial Institute, Ph.D in law; Saint Petersburg University of the Ministry of Internal Affairs of Russia

2001-2008
Deputy General Director and Deputy Chairman of OJSC MMC Norilsk Nickel

2008-present
General Director of LLC Intergeo Management Company

2009-present
Member of the Board of Directors of OJSC Polyus Gold

Independent members of the Board of Directors

International practices suggest that independent directors are an important element of the system of corporate governance. The potential and advantages of independent directors are actively used to strengthen the trust of investors, increase business value and attract capital. Independent directors are an important indicator of the investment appeal of companies.

The Board of Directors of OJSC Polyus Gold has included independent directors since the company was founded. In determining the independence of members of the Board of Directors, the Company employs criteria that are based on the recommendations of the Corporate Behavior Code produced by the RF Service for Federal Financial Markets and specified by the Articles of Association of OJSC Polyus Gold.

The independent members of the Board of Directors of OJSC Polyus Gold serve to enhance the Board's efficiency and ensure that it can form a reasonable opinion of the issues at hand. The independent directors facilitate greater efficiency with regard to the performance of the Board of the Directors, which has a positive impact on the Company's overall performance.

The Board of Directors that was operative until 15 May 2009 (the date of the annual General Meeting of shareholders), selected Mr. V.N. Braiko and Mr. Robert Buchan as independent directors. The current Board of Directors, elected by the Annual General Meeting of shareholders on 15 May 2009, has selected Mr. V.N. Braiko and Lord Patrick Gillford.

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Remuneration of members of the Board of Directors

Between 26 June 2008 and 14 May 2009, V.N. Braiko, Robert Buchan and Lord Patrick Gillford, members of the previous Board, were paid RUB 4,940,000 each for their services as Board Members. Lord Patrick Gillford and Robert Buchan were each paid a compensation of RUB 2 million for the expenses they incurred while serving on the Board of OJSC Polyus Gold, including transportation, accommodation, meals, and translation services.

These compensation amounts were approved by the Annual General Meeting of the shareholders of OJSC Polyus Gold on 15 May 2009. The Annual General Meeting established the individual quarterly remuneration for Lord Patrick Gillford and Zumrud Rustamova, the independent members of the newly elected Board of Directors, at RUB 937,500, plus individual annual compensation of RUB 2 million (excluding VAT) to reimburse any expenses they incurred in the course of serving on the Board of OJSC Polyus Gold. Moreover, as independent directors, Lord Patrick Gillford, who was elected Chairman of the Board's Audit Committee, and Zumrud Rustamova, who was elected Chairman of the Board's Personnel and Remuneration Committee, are eligible for additional remuneration of RUB 468,750.

In 2009, the other members of the Board of Directors were paid no remuneration, as a result of holding this position.

Activities of the Board of Directors in 2009

In 2009, the Board of Directors of OJSC Polyus Gold held 11 meetings, seven of which were held face-to-face.

The meetings of the Board of the Directors considered both the performance results of OJSC Polyus Gold over previous periods, and strategically important issues with regard to the Company's development, including:

- Approval of the Company's business plan and budget for 2009
- Reviewing the results of the Company's operations
- Discussions on the "Nezhdaninskoye" investment project
- New conditions to be used in scenario analysis of the Company's investment projects
- Implementation of a project to develop the Natalka deposit
- Progress of the Verninskoye deposit project
- Modernization of the Kurakhan mill
- External technological audit of the Olimpiada mine
- Progress of the "Blagodatnoye" investment project
- The Company's international projects
- Approval of attractive deals

Committees of the Board of Directors of OJSC Polyus Gold

The Board of Directors of OJSC Polyus Gold contains the following three specialized committees, whose task it is to provide an in-depth preliminary analysis of the most important issues facing the Board:

- Audit Committee of the Board of the Directors of OJSC Polyus Gold
- Strategy Committee of the Board of the Directors of OJSC Polyus Gold
- Personnel and Remuneration Committee of the Board of the Directors of OJSC Polyus Gold

The Committees are regulated by the corresponding regulations, approved by the Board of the Directors.

Audit Committee of the Board of Directors

The main assignment of the Audit Committee is to assist the Board of Directors in overseeing the financial and economic performance of the Company by considering and preparing recommendations for the Board of Directors on these issues in advance. These issues include interactions with external auditors, revising financial reports and assessing the efficiency of the Company's internal controls.

The Committee ensures that the members of the Board of Directors participate in the control process, and also helps to keep them informed regarding the Company's performance.

In 2009, the Audit Committee held six meetings, three of which were held face-to-face and the other three, in absentia. The meetings considered the following issues: preparing recommendations for the Board of Directors regarding the completeness and accuracy of the data to be included in the financial statements and the Company's annual report, as well as considering the independent auditor's opinion issued by LLC RosExpertiza for 2008, and the candidature of an auditor for the financial statements for 2009. The meetings also involved a preliminary review of the consolidated financial statements of OJSC Polyus Gold for 2008, along with the unaudited financial statements for the first six months of 2009, in accordance with IFRS.

The Committee active until 15 May 2009

V.N. Braiko – Chairman of the Committee, Independent Director
E.M. Salnikova
E.V. Yarovikov

The Committee elected on 27 May 2009 (Minutes of the Meeting of the Board of Directors of the Company No. 06-09/SD)

Lord Patrick D. Gillford – Chairman of the Committee, Independent Director
A.M. Rodionov
E.M. Salnikova

Personnel and Remuneration Committee of the Board of Directors

The Personnel and Remuneration Committee is responsible for comprehensively studying issues related to the selection of personnel for employment in the Company's management bodies, for creating the main provisions of contracts with these individuals, and for preparing recommendations on personnel and remuneration for the Board of Directors.

In 2009, there were no meetings of the Personnel and Remuneration Committee.

The Committee active until 15 May 2009

Robert Buchan – Chairman of the Committee, Independent Director
Lord Patrick D. Gillford
V.V. Rudakov

The Committee elected on 27 May 2009 (Minutes of the Meeting of the Board of Directors of the Company No. 06-09/SD)

Z.Kh. Rustamova – Chairman of the Committee, Independent Director
P.S. Grachev
E.M. Salnikova

Strategy Committee of the Board of Directors

The Strategy Committee is responsible for considering, analyzing and developing recommendations for the Board of Directors with respect to making and implementing strategic decisions, related to the development of OJSC Polyus Gold.

The Committee active until 15 May 2009

M.D. Prokhorov – Chairman of the Committee
E.I. Ivanov
Robert Buchan – Independent Director

The Committee elected on 27 May 2009 (Minutes of the Meeting of the Board of Directors of the Company No. 06-09/SD)

M.D. Prokhorov – Chairman of the Committee
E.I. Ivanov
A.I. Mossionzhik

In 2009, The Strategy Committee held a single meeting to consider recommendations to be prepared for the Board of Directors regarding plans for the Company's strategic development.

Corporate Secretary

The main task of the Secretary of OJSC Polyus Gold is to ensure that the Company's management bodies comply with legal requirements and the Company's internal regulatory documents, in order to guarantee that its shareholders' rights are observed and their interests pursued.

Along with the items specified in the Articles of Association, the regulatory basis for the Secretary to execute his/her functions consists of the Regulations on the Secretary of OJSC Polyus Gold, approved by the Board of Directors in March 2006.

In 2009, the powers of the Secretary of OJSC Polyus Gold and the Secretary of the Board of Directors were vested in Anna Olegovna Solotova.

Management of OJSC Polyus Gold

The Group is managed by a management team headed by E.I. Ivanov, the General Director of Polyus Gold. The managers responsible for the Company's main service lines at the Moscow corporate center report to the General Director, along with the heads of the Group's business units. The management team of Polyus Gold includes the following managers:

Evgueni Ivanovich Ivanov
General Director of OJSC Polyus Gold

Mr. Ivanov's CV is presented in the "Board of Directors" section.

German Rudolfovich Pikhoya
Deputy General Director for Strategy and Corporate Development

Does not own shares in OJSC Polyus Gold

Date of birth
9 April 1970

Education
Ural State University, Degree in history; Bowdoin College (Brunswick, Maine, USA), Contemporary History; RF Presidential Russian Academy of Public Administration, Diploma in Economics

1994-1995
Head of the CJSC MOSEXPO project

1994-1998
Director General of OJSC Central Company of the Evrozoloto Financial and Industrial Group

1995-1997
General Director of CJSC Palamos

1998-2002
Deputy Head of the Representative Office and Business Development Manager at LLC Placer Dome International

2002-2004
Deputy General Director for Corporate Development of CJSC Polyus

2002-2007
Vice-President for Corporate Development of CJSC ZDK Polyus

2007-present
Deputy General Director for Strategy and Corporate Development of CJSC Polyus Gold

August 2009-present
Member of the Board of Directors of KazakhGold Group Ltd.

Oleg Valeryevich Ignatov
Deputy General Director for Economy and Finance

Does not own shares in OJSC Polyus Gold

Date of birth
2 November 1969

Education
Moscow Machine-Instrument Institute (STANKIN), Electrical Engineering; Russian Federation Government Finance Academy, specializing in Finance and Credit

1998-2003
Head of the Regional Relationship Development department, Deputy Head of Client Relationships, Vice-President and Senior Vice-President of OJSC AKB Rosbank

2002-present
Deputy General Director of Finance of OJSC ChelyabEnergo

2003-2005
First Deputy Mayor of Norilsk

2005-2008
Deputy Director for Economics and Finance of the Polar Region Branch of OJSC MMC Norilsk Nickel

2008-present
Deputy General Director for Economics and Finance of OJSC Polyus Gold

August 2009-present
Member of the Board of Directors of KazakhGold Group Ltd.

Boris Alekseevich Zakharov
Deputy General Director of Production

Does not own shares in OJSC Polyus Gold

Date of birth
18 November 1954

Education
Moscow Institute of Steel and Alloys, specializing in Mineral Dressing, Candidate of science

1977-1985, and 1992-1999
Norilsk Processing Plant: Mill Operator, Foreman, Senior Foreman of the crushing and flotation workshop at the main production site; Deputy Head, and later Head of the crushing and flotation workshop

1985-1992
Chief Engineer of the Erdenet Mine (Mongolian People's Republic)

1999-2003
Chief Engineer of the Production Association of Processing Plants of OJSC MMC Norilsk Nickel

2003-2008
Head of the Directorate for Planning and Coordination of Research and Engineering Development of OJSC MMC Norilsk Nickel

2008-present
Deputy General Director of Production of CJSC ZDK Polyus

VOSTOCHNY PIT OF OLIMPIADA MINE, HEAVY-LOAD TRUCKS

August 2009-present
Member of the Board of Directors of KazakhGold Group Ltd.

Nikolay Vladimirovich Morozov
Deputy General Director of Internal Control and Risk Management

Does not own shares in OJSC Polyus Gold

Date of birth
3 August 1967

Education
Moscow State Institute of International Affairs, cum laude Diploma in International Economic Affairs

1994-1997
Leading expert, Deputy Head of Department in the Credit Resource Directorate; Head of the Finance and Economic Analysis department

1997-1998
Deputy Head of the Planning and Operational Income and Expenses Control division of the Finance department of ONEXIM Bank

1998-2003
Member of the Board and Head of Internal Controls of OJSC AKB Rosbank

2003-2008
Head of the Control and Audit department and Director of the Internal Control department of OJSC MMC Norilsk Nickel

2008-present
Deputy General Director for Internal Control and Risk Management of OJSC Polyus Gold

Yury Nikolayevich Ryndin
Deputy General Director of Procurement

Does not own shares in OJSC Polyus Gold

Date of birth
6 December 1965

Education
Moscow State Engineering Construction Institute, Degree in Industrial and Civil Construction

1992-1993
Leading Expert, Deputy Head of the Social Service and Transport Department of the International Financial Company

1993-1998
Deputy Head of the Social Service department, Head of the General Service department of the Social Procurement Service, Head of the Procurement Division of the Administration department, Head of the Commercial Division of the Administration department of ONEXIM Bank

1998-2002
Head of the Commercial Division, Director of the Administration department of OJSC AKB Rosbank

2002-2008
Deputy General Director of Supply and Procurement of OJSC MMC Norilsk Nickel

2008-present
Deputy General Director of Procurement of OJSC Polyus Gold

Vladimir Kushukovich Sovmen
President of CJSC Polyus, Head of the Siberian Business Unit

Does not own shares in OJSC Polyus Gold

Date of birth
22 April 1957

Education
Khabarovsk Polytechnic Institute,
Degree in Industrial and Civil Construction;
Krasnoyarsk State University of Non-ferrous Metals and Gold, Degree in Open Cast Mining, Candidate of Science

1983-1995
Head of the Construction Site for Polyus Prospecting Team

1995-1996
Vice-president for the Krasnoyarsk AOZT AS Polyus

1996-2002
General Director, and First Vice-President of AOZT AS Polyus

2002-2004
General Director of CJSC Polyus

2002-2007
First Vice-President and Executive Director of CJSC ZDK Polyus

2008-present
President of CJSC ZDK Polyus, and Head of the Siberian Business Unit

Mikhail Pavlovich Kazimirov
General Director of OJSC Matrosov Mine

Holding of shares in OJSC Polyus Gold
50 ordinary registered shares of OJSC Polyus Gold, as of 31 December 2009 (0.00000026% of the total ordinary registered shares)

Date of birth
24 June 1951

Education
Moscow Mining Institute, specializing in Mining Construction Engineering, Doctor of Engineering

1975-1981
Matrosov Mine (the SeveroVostokZoloto Association): Mine Foreman, Section Head

1981-1985
Dukat Mine Building Directorate:
Chief Engineer,
Head of the Directorate

1985-1986
Dukat Mine: Chief Engineer, Head of the Mine

1986-1989
General Director of the Iultinsk Mine (Chukotka)

1990-1994
General Director of the Soviet-American Joint Venture Severovostokzoloto Alaska (Magadan)

1994-1995
General Director of LLP Razvitie Mestorozhdeniy (Deposit Development)

1995-2002
General Director of CJSC Razvitie Mestorozhdeniy Invest and Director for Mining Processing Technologies and Investments for Astron Minerals Incorporated (USA)

2002-2004
Deputy General Director of CJSC ZDK Polyus

2003-present
General Director of OJSC Matrosov Mine

Valery Fedorovich Konstantinov
General Director of OJSC Lenzoloto

Does not own shares in OJSC Polyus Gold

Date of birth
17 December 1954

Education
Irkutsk Polytechnic Institution, Mining Engineer

1977-1988
Marakan Goldmine of the Lenzoloto Production Association: Head of the Mining Preparatory Workshop, Chief Engineer, Mine Director

1988-1990
Chairman of the Executive Committee of the Bodaibo City Soviet of People's Deputies

1990-1998
Deputy General Director for Mining Production of the Lenzoloto Production Association; Mining Production Director of AOZT Lenzoloto

1998-2006
Executive Director, and Director of CJSC Marakan

2006-present
General Director of CJSC ZDK Lenzoloto

2007-present
General Director of OJSC Lenzoloto

Igor Yuryevich Sukhobaevskiy
General Director of OJSC Aldanzoloto GRK

Does not own shares in OJSC Polyus Gold

Date of birth
5 January 1972

Education
Norilsk Industrial Institute, Metallurgy and Economics, Ph.D. in Economics

1992-1999
A.P. Zavenyagin NGMK: Furnace Operator, Deputy Head of Production for the Smelting Shop

1999-2001
Deputy Head of the Smelting Shop of the Polar Region Branch of OJSC Norilsk Mining Company

2001-2007
Head of the Smelting Shop, Nickel Plant Chief Engineer (Polar Region Branch of MMC Norilsk Nickel)

2007-2008
Chief Engineer of the B.I. Kolesnikov Nadezhdinsky Metallurgical Plant (Polar Region Branch of MMC Norilsk Nickel)

2008-present
General Director of OJSC Aldanzoloto GRK

Alexey Leonidovich Teksler
General Director of OJSC MMC Kazakhaltyn

Does not own shares in OJSC Polyus Gold

Date of birth
19 January 1973

Education
Norilsk Industrial Institute, specializing in Economics and Business Administration in Metallurgy

1990-2000
Technician with the Economic Service, Deputy Head of the Tax Planning Department, and Head of the Tax Planning department of OJSC Norilsk Mining and the A.P. Zavenyagin Metallurgical Smelting Works

2000-2001
First Deputy Head of the Finance department, and Head of the Tax and Duties department of OJSC Norilsk Mining Company

2001-2007
Chief Accountant, Deputy Director of the Polar Region Branch of OJSC MMC Norilsk Nickel, Head of the Multi-industry Supplies Directorate

2001-2008
Director General of LLC Norilsky Obespechivayushchiy Kompleks (Norilsk Supply Group)

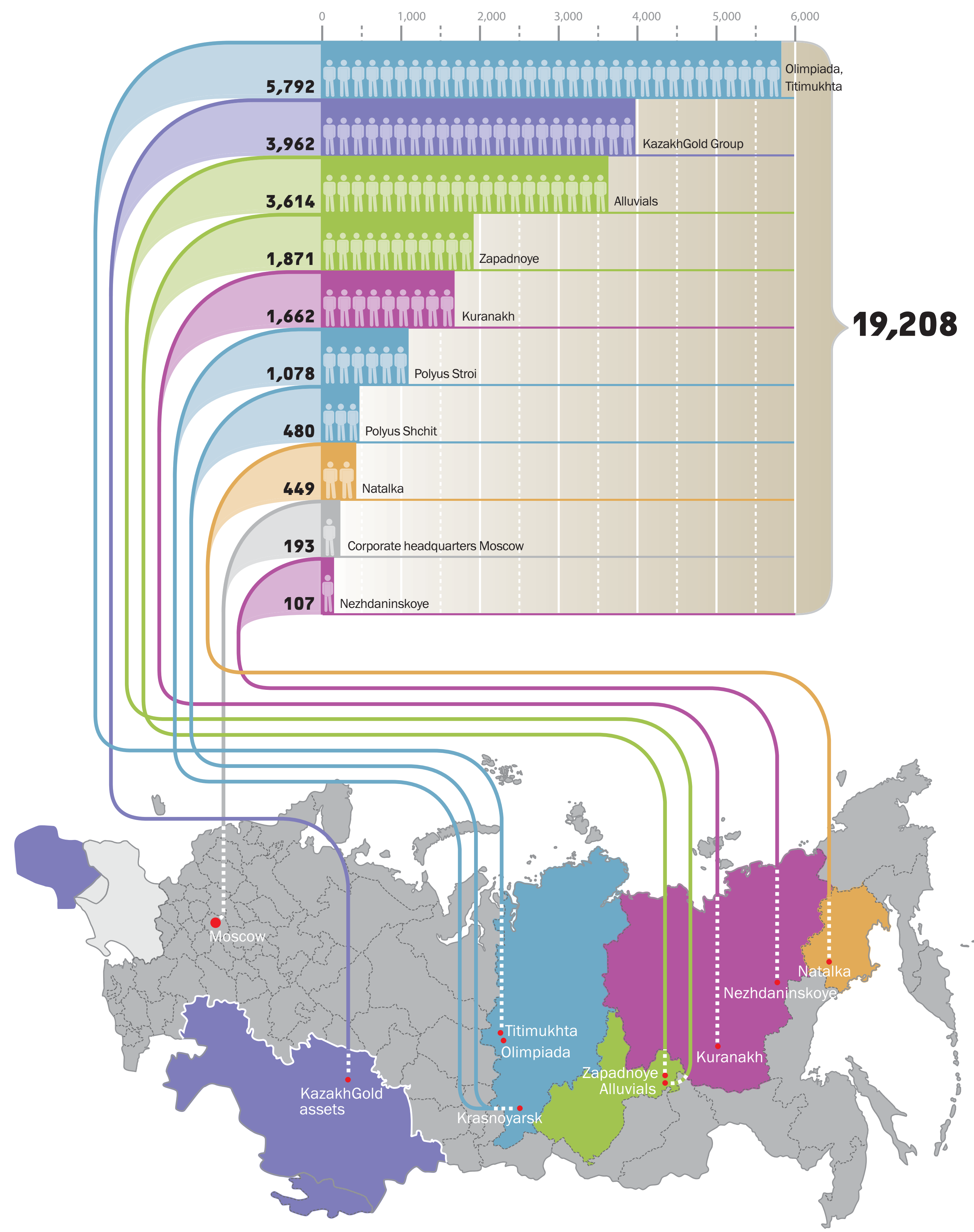
2008-2009
Head of the Norilsk Administration

August 2009-present
Director of Production of KazakhGold Group Ltd.

September 2009-present
Head of the Kazakhstan Business Unit, and General Director of JSC MMC Kazakhaltyn

2009 year-average number of Group's employees was 19,208 people, which is a 26.3% year-on-year increase. The growth primarily results from the launch of the Titimukhta project, development of Blagodatnoye, as well as acquisition of assets of KazakhGold Group.

Personnel, breakdown by mines/projects



14. Sustainable development

From the beginning, the Company's operations have been based on sustainable development principles that include three focus areas: the green agenda, the needs of local communities, and the Company's own people, including encouraging their professional growth and creating working conditions that are safe and fair. The Company has issued regular GRI reports (Global Reporting Initiative) and plans to issue its third GRI report soon, which will cover the period 2008-2009. Some of the key sustainability aspects, which are presented in detail in the GRI reports, have been summarized in this report.

Environmental protection and environmental production safety

Environmental protection activities have been one of the key tasks over this reporting year. In 2009, all units within the Group continued their efforts to reduce their environmental impact and ensure the prudent use of natural resources.

In accordance with Russian legislation, all of the Group's companies used a system to monitor the quality of atmospheric air and bodies of water located near their facilities. The Company implemented measures aimed at creating waste dumps that mitigate the negative impact of waste on the environment.

Apart from statutory regular environmental measures, some of the Group's companies continued with the implementation of an environment management system (SEM), in accordance with the principles of International Standard ISO 14001:2004. SEM implementation is currently continuing at the Olimpiada, Kuranakh, and Zapadnoye Mines.

A complex of measures, aimed at encouraging the reasonable use of water resources and their protection from pollution, was implemented throughout the Company's business units. Water intake for domestic and industrial water supplies is from surface water and underground sources. Water supplies and sewage systems at gold extraction plants are arranged according to the closed water turnover cycle. In 2009, there were no emergency discharges of polluted effluents into bodies of surface water.

Environmental production safety measures are the responsibility of environmentally trained professionals. In 2009, 18 of the Company's specialists underwent training (seminars and courses) in industrial environmental protection.

Industrial and labor safety

In 2009, the Group's efforts were aimed at providing safe working conditions and also ensuring employee compliance with statutory regulations and rules on industrial and labor safety. Each business unit within the Group's companies operates in compliance with locally developed Production control regulations with regard to compliance with the requirements of industrial safety when operating hazardous production units, as approved by the regional authorities representing the Federal Agency for Ecological, Technological and Atomic Supervision (RosTekhNadzor).

Incidents, accidents and emergencies at the Company

There were no emergency situations at any of the Group's units in the reporting period. However, the Kuranakh mill registered one incident, namely a fire in the reactivation section. No incidents occurred at other units of the Group.

During 2009, the Group units registered 49 accidents, including 5 fatal accidents.

The number of hazardous production facilities at the Group's business units

In 2009, the units of the Group operated 207 hazardous production facilities, an increase of 26 from 2008. The increase was due to the Konstantinovsky building stone quarry (the Verninskoye deposit), areas for the transportation of hazardous cargo by rail and special purpose vehicles, and portal crane platforms at the Zapadnoye mine and the Delbe quarry (the Kurakhan mine), which were commissioned and registered in the State Registry for Hazardous Facilities. The total number of hazardous facilities also increased by 21, due to KazakhGold Group companies being included into the Group.

Table 6.1. Accidents in the Group's business units in 2008 and 2009

Item No.	Business unit	Number of accidents		Number of casualties		Incl.			
						fatal cases		severe casualties	
		2008	2009	2008	2009	2008	2009	2008	2009
1	Krasnoyarsk business unit	9	12	10	12	0	1	5	3
2	Irkutsk ore business unit	15	10	15	10	1	0	2	0
3	Irkutsk alluvial business unit	12	21	12	21	1	1	2	1
4	Yakutia (Kuranakh) business unit	4	1	4	1	0	0	2	0
5	Magadan business unit	3	0	3	0	0	0	0	0
6	Yakutia (Nezhdaninskoye) business unit	0	0	0	0	0	0	0	0
7	Companies in the KazakhGold Group[1]	–	5	–	5	–	3	–	2
	Total	43	49	44	49	2	5	11	6

[1] KazakhGold Group data are reported for the period of August – December 2009.

MINE CAMP AT VERNINSKOYE

Table 6.2. The number and type of hazardous production facilities of the Group

Item No.	Business unit (company)	Number of hazardous production facilities								
		2008	2009	Incl.						
				Mineral mining and exploration sites	Explosive storage	Crane facilities	POL storages	Transportation facilities	Hazardous production facilities at mills	Other
1	Krasnoyarsk business unit	32	32	9	3	2	3	7	5	3
2	Irkutsk ore business unit (LZRK, LLC)	33	37	9	1	10	4	7	5	1
3	Irkutsk alluvial business unit (ZDK Lenzoloto, CJSC)	71	71	52	3	3	2	8		3
4	Yakutia business unit (Aldanzoloto GRK, OJSC)	25	26	6	1	6	1	2	6	4
5	Matrosov Mine, OJSC	11	11	1	1		2	2	3	2
6	SVMC, OJSC	9	9	1	1	1	1	2	2	1
7	Companies in the KazakhGold Group[2]	–	21	10	3				6	2
	Total	181	207	88	13	22	13	28	27	16

In 2009, each unit within the Group developed and implemented industrial and labor safety initiatives. In 2009, the total expenditure on industrial and labor safety was RUB 128.5 million, compared with RUB 106.1 million in 2008.

All of the Company's units perform regular medical checks of employees working in health hazard areas. Medical aid posts are established at all of the Group's business units, to carry out a medical inspection on employees before their shift begins, during working hours and at the end of their shift.

[2] KazakhGold Group data are reported for the period of August – December 2009.

Industrial and labor safety training

All units of the Company have introduced industrial and labor safety training programs. New hires undergo a safety induction and are appointed a mentor for the duration of their training. All units of the Company conduct regular appraisals of the management and professionals working in industrial and labor safety. During the reporting year, the Company completed appraisals of 1,174 managers, specialists and white collar workers, and 10,798 blue-collar workers.

Social responsibility and charity

The Company has social programs in place to support local people in the regions where it carries out its operations. The Company works with local authorities, assisting with the reconstruction of local infrastructure, and implementing sponsorship and charity programs.

In 2009, the total cost of such programs amounted to RUB 261.16 million.

In 2008, OJSC Polyus Gold entered into a social and economic cooperation agreement with the Irkutsk Region Administration to provide financial support over the period 2008-2010. This financial support totals RUB 61 million, which is to be spent on the reconstruction of the municipal infrastructure, as well as on sponsorship and charity programs. This agreement addresses the needs of the Bodaibo District of the Irkutsk Region, providing for repairs to be made to the municipal water intake, as well as for the renovation of kindergartens, schools and medical institutions. It also addresses the issues related to the delivery of goods to northern areas and provides for targeted charity and material assistance. In 2008-2009, the total cost of initiatives covered by this agreement came to RUB 54.8 million.

In the reporting period, the Company continued its efforts towards the Polyus Gold Grant Competition – CAF (the "Program"), which seeks to select and support the most promising social initiatives, programs and projects proposed by citizens and non-profit organizations, while encouraging participation from local people and attracting public interest for social initiatives.

As part of this program, non-profit organizations (including governmental, local and non-governmental organizations) may apply for a grant in the regions, in which the Company operates. Winners are awarded project grants.

Since its launch, the program has received 276 applications, including 49 applications in 2009. More than 20 projects have received funding under the Program.

Some of the projects funded by the Program

Muzey v chemodane (Museum in a trunk): This initiative was proposed by the Municipal Museum of the Northern-Yenisei district (the industrial settlement of Severo-Yeniseyskiy in the Krasnoyarsk Region. The initiative, which is aimed at children from remote settlements in the Northern-Yenisey district, is designed to provide children with a basic education about the culture of museums.

"Creative" Cine Laboratory for physically challenged teenagers: This project was established by a branch of the Nekrasov Library (Krasnoyarsk). The project provides social integration for 20 disabled children, who work in a film studio to produce short videos of their own and learn basic film shooting and editing skills.

Mom's School: This project was proposed by the Severo-Yeniseysk Kindergarten No. 3 in the industrial settlement of Severo-Yeniseyskiy (the Krasnoyarsk Region). The project seeks to improve the problems related to the lack of boarding capacity at preschool organizations in the district. More than 30 families from the remote settlements of Teya, Bryanka, Vangash and Novaya Kalami, who currently have to keep their young children

FREE-STYLE WRESTLING CONTEST, KRASNOYARSK. POLYUS WAS THE GOLDEN SPONSOR OF THE EVENT

at home, will be able to consult specialists on issues such as parenting, education, and the physical and psychological well-being of their children.

Pravovoy Praktikum (Legal Hands-on Training): This project was proposed by the A.M. Gorky municipal library (Krasnoyarsk). The project will provide socially insecure groups of people living in Krasnoyarsk with consultancy and practical assistance on social and legal issues. A legal assistance agency and a hotline will be organized and staffed with volunteer law seniors.

Grown-ups and Children: This project was proposed by a club in the settlement of Marakan (in the Irkutsk Region). The project aims to provide the settlement with a family club entitled “Ochag”, which will be a modern sports and leisure center, offering sports clubs and a variety of hobby groups, such as women’s aerobics, board games for adults and children, computer literacy, and so on.

Preventing breast cancer among the women of the Bodaibo district: The project was initiated by the Baikal Cancer Association (Irkutsk). The project is a medical education campaign, aimed at the early detection of cancer among women and teenage girls from Bodaibo, and the settlements of Mamakan, Balakhninsky, Artemovsky, Vasiliyevsky and Marakan. The project will also provide expertise from regional medical specialists and a wealth of educational materials on the issue.

Mountaineering Classes project: The project is an initiative by School No. 3 (Bodaibo, Irkutsk Region), which will provide the Irkutsk Region’s first mobile mountaineering wall, to be used at summer health camps for tourist gatherings, military exercises, and so on. The project will also see mountaineering classes being organized for kids and teenagers living in Bodaibo.

As winning applicants progress through their projects, they receive the necessary training and advice from regional coordinators.

Thus, 23 workshops were provided in 2009, with participation from 459 people, and 497 people received free advice on project activities. In 2009, the regional coordinators held 12 public events, including project fairs, best project presentations, prizes for competition participants, and so on.

MATROSOV MINE'S HOCKEY TEAM AT THE MAGADAN CHAMPIONSHIP

Important social initiatives realized as a part of the Program have been widely acclaimed. In 2009, the Program was a winner of the Efficient Project Management award, which is part of the PEOPLE INVESTOR competition, an initiative to assist in selecting and promoting best practices and innovations in the area of talent management, as well as building partner relationships and developing local communities to improve the transparency and efficiency of the operations of Russian businesses. This award has recognized the importance of the Group's social investments.

In 2009, the Company continued its focused assistance program designed to support orphanages, which is a joint project with the RF Chamber of Commerce and Industry's "Orphan Support Center" charity fund. 21 orphanages in the Krasnoyarsk Region, the Irkutsk Region, Yakutia and the Magadan Region received support from the program in 2009. The program provided children at orphanages with computer classrooms, sensory rooms, musical instruments and sports equipment. The total expense incurred was RUB 5.4 million. Sewing and carpentry equipment was supplied to provide occupational guidance to the children. In 2009, the Bodaibo Mining College in the Irkutsk region received support from a joint project, which was designed to provide orphanage alumni with training and education at vocational schools and technical colleges, located in the regions, in which the Group operates. The college received advanced computers, display stands and laboratory benches worth a total of RUB 1.252 million, which has helped to improve its learning environment.

The Company traditionally takes part in cultural and sports-related projects. In 2009, the Group sponsored the football club Dinamo Moscow, and also became a general sponsor of the Students' Basketball Association of Russia's basketball tournament. The Company also sponsored a military band parade in Red Square, organized by the Central Military Orchestra of the RF Ministry of Defense.

Talent management

The Company's people are one of its core assets, ensuring the success of its growth strategy. The Company has in place motivational and talent development systems at all levels, ranging from the operating mines to

OLIMPIADA MINE CAMP

the management. As a part of its substantial growth plans for the near future, the Company has been working with higher education institutions, vocational schools and students, to ensure that its business units will be adequately staffed with qualified specialists, even if it sees a significant increase in production capacity.

The personnel motivation system is developed as a balanced combination of material and psychological incentives.

The material incentives include KPIs, both team and individual, annual and monthly KPI reviews, and KPI bonuses. This year, the Company has successfully completed a project to implement KPI systems in the operational business units, and has also started a a KPI project for participants in investment activities.

Identifying and rewarding excellence in employees is the most important tool to boost motivation. In 2009, 12 employees received the Excelling Worker Award, while 12 other employees were conferred Excelling Specialist titles, and a further 6 received the honorary title of Excelling Manager. 12 employees were awarded with honor certificates. 20 employees received merit certificates established by the General Director of Polyus Gold.

With the operations of its units located in areas that are remote from education and cultural centers, the Company also organizes leisure activities for its people, including corporate parties, on-site performances, and creativity contests for employees and their families (photo and drawing competitions).

The Group's companies have all of the necessary leisure and sports facilities. For example, the Kuranakh mine in the Republic of Sakha (Yakutia) offers its employees training classes in swimming, basketball, futsal, aerobics and other sports. A well-organized recreation zone is available in a shift camp at the Olimpiada mine, offering employees a modern gym, as well as cycling, skiing and regular classes in futsal, volleyball, and basketball.

In 2009, the Group carried out a corporate-wide employee survey, designed to improve the existing motivation system. The survey covered all business units, apart from the Kazakh business unit established in 2009. Based on the survey results, the Company management developed recommendations to be used by managers to improve management efficiency and contact with employees, as well as to make a more active use of psychological incentives. The survey results have also been used in manager development plans.

In 2009, over 33% of the Company's employees took part in training programs. As a result, in 2009, around 17% of trainees improved their qualifications and were promoted. More than 50% of the professional training program was completed using the Company's own corporate training facilities.

Eight corporate seminars were held, which saw participation from 200 managers and specialists from all over the Group. The meetings were aimed at coordinating activities, formulating universal approaches to solving business tasks, and creating agreed competences for the group's CEO and specialists.

In 2009, the Group's management also organized 13 internal seminars, which have become an integral part of the Company's corporate culture. The seminars were designed to develop internal communications and improve efficiency with regard to decision-making on cross-functional issues.

In 2009, the Group continued to actively use remote training and education. A new hire orientation program, "Gold is Our Work", has been developed, based on a set of educational and instructional materials, and is now being implemented. Remote education packages, including "Personnel Motivation", "Is It Easy to be a Manager?", four courses in MS Office (Word, Excel, Outlook, PowerPoint), "Successful Negotiations", "The Basic Principles of Industrial Safety", and "Project Management (a basic course)", are available to all of the Group's employees.

In 2008, the Company launched a corporate program entitled "Learn the Price of Gold!", in order to encourage collaboration with higher ediucational institutions. This program is designed to promote long-term, mutually beneficial cooperation with universities, as well as to ensure that young specialists are adapted to the Company's industrial and social environment. In the course of implementing the program, the Company entered into general agreements with universities such as the Siberian Federal University, Irkutsk Technological University and North-East University (Magadan).

The program offers senior students salaried practical training in their particular fields and enables them to adapt to the corporate culture with a view to their future employment. Mutually beneficial cooperation with universities is one of the most important components of the program, as it includes the participation of university specialists in scientific research work and assistance from professors and teachers in implementing the Company's employee training programs, as well as the participation by leading specialists and enterprise heads in the universities' educational activities.

In 2009, 340 university students underwent practical training at the Group's enterprises in the Krasnoyarsk Region, the Irkutsk Region and Yakutia.
The compensation of trainees during this training period was between RUB 15,000 and 40,000. The transportation and accommodation costs incurred by the Group came to approximately RUB 2.5 million. 95 students have received regular positions since the program started.

The Magadan business unit expects to commission a new gold-mining plant (the Natalka mine) at some point in the next several years, and has been actively engaging schools and universities to ensure that the new mine will have adequate staffing. A multilateral occupational guidance program includes secondary school-leavers meeting with Company representatives, as well as university lectures, a local TV series about the progress of the Natalka project, and so on.

According to Mr. A. I. Shirokov, the principal of the North-East State University, this initiative has resulted in a higher number of applicants to the university's technical faculties.

The Company is equally focused on the development of managers at various levels. In 2009, a strategic session was held for the first time with participation from the heads of the Group's enterprises who are part of the Company's senior management reserve. The session brought together participants from all business units and was aimed at improving the strategic and tactical management skills of the senior reserve managers, including practical training in new management roles and integration with the Company's senior management.

2009 also saw the launch of a new corporate educational program for managers in the middle management reserve. The program is based on the educational and instructional materials developed by the International Institute of Management LINK and the Open University Business School (UK). The educational program provides its participants with knowledge and skills, in accordance with the NOS requirements (National Occupational Standards for management and leadership).

As of 31 December 2009, the actual head-count[1] in the Group was 19,208 people, an increase of 26.3% on 2008 figures. The increase is primarily due to the launch of the Titimukhta project, as well as the ongoing project to construct the Blagodatnoye mine, as well as the acquisition of KazakhGold Group assets.

The personnel structure[3] remained generally unchanged, as compared with the previous reporting periods. As at the end of 2009, the average production personnel head-count was 15,435 people (81.2% of total personnel). The share of blue-collar workers and managers in this total was 77.8% and 8%, respectively. The gender structure of employment is dominated by men (82.3% of the average head-count, as at the end of the year). The number of retirees employed across the Group comes to 9.9%, equaling 2008 figures, with female retirees making up 3.65% of total personnel. The average age across the Group is 40.5.

With the number of personnel engaged in investment projects decreasing by 6%, the number of employees working in the operations business units has increased from 83% to 89%.

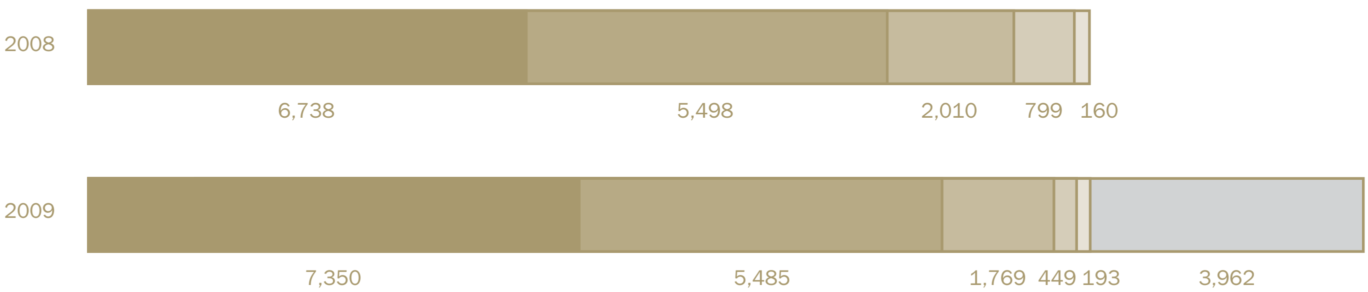
The Group generated an additional 460 jobs in 2009, including 308 jobs at JSC MMC Kazakhaltyn and 142 jobs at LLC CHOP Polyus Shield.

In order to achieve a leaner employment structure, the Group cut 382 jobs and, between December 2008 and the end of 2009, cut 659 jobs in total. The completed exploration resulted in substantial staff reductions at OJSC SVMC (the Nezhdaninskoye deposit) and OJSC Matrosov Mine (the Natalka depoist). Personnel cuts also affected CJSC Polyus (the Olimpiada mine) with 17, LLC LZRK (the Zapadnoye deposit) with 70, Lenzoloto (alluvial operations) with 14, and JSC MMC Kazakhaltyn with 53 redundancies, respectively.

[3] This figure reflects an average staffing level consisting of the average head-count, the number of external secondary job holders and external employees employed during the year under civil-law contracts.

Employment breakdown by region (average head-count)

- Krasnoyarsk Regionregion
- Irkutsk Region
- The Republic of Sakha (Yakutia)
- Magadan Region
- Corporate Center
- Kazakhstan



Employment breakdown between operational and investment business units (average head-count)

- Operational business units
- Investment business units
- Other business units
- Including the Kazakhstan business unit

15. Directors' Responsibility Statement

Mr Evgueni I. Ivanov, General Director of OJSC Polyus Gold confirms on behalf of the Board of Directors that:

(a) the consolidated financial statements for 2009, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, give a true and fair view of the assets, liabilities, financial position and profit or loss of OJSC Polyus Gold and its consolidated subsidiaries (hereinafter referred to as the "Group"); and

(b) the management report for the year 2009 includes a fair review of the development and performance of the business and the position of the Polyus Group, together with a description of the principal risks and uncertainties that it faces.

Neither OJSC Polyus Gold nor the directors accept any liability to any person in relation to the management report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

EVGUENI I. IVANOV

General Director
29 April 2010

16. Management report

(Management's discussion and analysis of financial condition and results of operations for 2009)

The following Management report (Management discussion and analysis of the Polyus Group's financial condition and results of operations) should be read in conjunction with the Polyus Group's consolidated financial statements and the related notes.

The Polyus Group is an international mining company, the largest gold producer in the Russian Federation and among the largest gold mining companies in the world, based on mineral resources and production volumes.

Polyus Gold Shares are traded on the leading Russian stock exchanges, MICEX and RTS. Polyus Gold's ADRs are listed on the main market of the London Stock Exchange and are traded on the over-the-counter markets in the United States and off the listing at the Frankfurt Stock Exchange. Polyus Gold Shares are included in the key Russian stock exchange indices of MICEX and RTS, and international stock exchange indices such as FTSE Gold Mines, FTSE Russia, MSCI Russia, MSCI Emerging Markets, Dow Jones Global and Dow Jones Russia. The Polyus Group produced 1.3 million troy ounces of gold in 2009.

The Partial Offer made by Jenington International Inc., an indirect wholly-owned subsidiary of Polyus Gold , to acquire a 50.15% stake in KazakhGold Group Limited ("KazakhGold Group") was completed at 30, July 2009[1]. KazakhGold Groups's results of operations are consolidated into Polyus Gold from August 2009 to December 2009. On 14 April 2010 KazakhGold Group announced, in response to press comments concerning a possible transaction involving KazakhGold Group and Polyus Gold, that it had applied for approval from the Government Commission on Monitoring Foreign Investment in the Russian Federation for the acquisition of control over Polyus Gold by KazakhGold Group. It noted that its consideration of a possible transaction remained at a preliminary stage, no decision had been made regarding any possible transaction, and any transaction would remain subject to a number of approvals and pre-conditions, including various corporate and government approvals. Consequently, there can be no certainty that any transaction will be forthcoming.

The following discussion and analysis represents management's opinion in relation to the Polyus Group's operating and financial results, including discussions of:

- key performance indicators;
- financial position as at 31 December 2009, 31 December 2008 and 31 December 2007;
- results of operations for the years ended 31 December 2009, 31 December 2008 and 31 December 2007;
- the Polyus Group's liquidity, solvency and capital sources;
- significant events affecting the Polyus Group's operating performance for these periods;
- description of principal risks; and
- description of the key features of internal control and risk management system in relation to the financial reporting process.

[1] On 30 July 2009, the Partial Offer had become unconditional as to acceptances and, on 14 August 2009 became unconditional in all respects.

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16.1. The Polyus Group's operating results

16.1.1 External market factors affecting the Polyus Group's financial results

The results of the Polyus Group are significantly affected by movements in the national currency exchange rates, and the price of commodities, such as gold, oil and steel.

The market price of gold is one of the most significant factors in determining the profitability of the Polyus Gold Group. During 2009, the global gold price experienced high volatility, reaching its lowest level of USD 810 per troy ounce (London p.m. fixing) in January and the highest of USD 1,212.5 per ounce in December. In 2009 the average gold p.m. fixing price in London was USD 972.4 per ounce, compared to USD 872 per ounce in the previous year. For the whole year, the global price of gold increased by 24% from USD 874.5 on January, 2 to USD 1087.5 per ounce on 30 December, the first and the last business days in 2009, respectively.

Currency exchange rates can have a material impact on the Polyus Group's results. Polyus Group's revenue from gold sales is denominated in USD, whereas most of the Polyus Group's operating expenses and capital expenditures are denominated in the national currencies of Russia and Kazakhstan. In late 2008, the RUB depreciated significantly. The depreciation continued in early 2009, reaching 36.43 RUB per USD. In 2009, the RUB traded in the wide range of RUB 28.67 per USD to RUB 36.43 per USD and closed the year at RUB 30.24 per USD. The average exchange rate for 2009 was 31.72 (2008: 24.86), which led to lower costs in USD for salaries and other operating costs. Since its acquisition of a controlling stake in KazakhGold Group, in August 2009 the Polyus Group has also been exposed to USD/KZT exchange rate movements. In February 2009, in response to deterioration of global macroeconomic conditions the National Bank of the Republic of Kazakhstan devaluated the KZT. The exchange rate band for the KZT changed, which lead to immediate increase in the KZT exchange rate from KZT 120 per USD to the level of KZT 150 per USD.

A significant portion of costs included in the Polyus Group's cost of sales are also directly or indirectly impacted by the prices of oil and steel. Changes in oil prices impact the prices of heating oil, diesel fuel, gasoline and lubricants for mining and construction equipment. Steel forms the basis for the price of all rolled metal products, pipes, machinery and vehicles. Global prices for oil and steel had been increasing through the second half of 2008, when, following the deterioration of global markets in the second half of 2008, prices for oil and steel declined substantially. Average rates for key external market factors are:

Average price/ rate	2009	2008	2007
Average London p.m. gold fixing price (USD per troy ounce)[1]	972.4	872.0	695.4
Oil (Brent brand) (USD per barrel)[2]	62.4	98.7	72.5
Steel (hot rolled) (USD per tonne)[3]	582	955	682
Average USD/RUB rate[4]	31.72	24.86	25.58
Period end USD/RUB rate	30.24	29.38	24.55
Average USD/KZT rate[5]	147.50	n/a	n/a
Period end USD/KZT rate	148.36	n/a	n/a

[1] Source: London Bullion Market Association.
[2] Source: Bloomberg.
[3] Source: Steel Business Briefing.
[4] Source: The Central Bank of Russia.
[5] Source: The National Bank of Kazakhstan.

Summary of performance results

The following table shows the summary of performance results of the Polyus Group's operations in 2009, 2008 and 2007 related to financial statements:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)[1]		
Gold sales	1,199,088	1,062,331	849,023	12.9	25.1
Other sales	26,136	24,987	18,096	4.6	38.1
Cost of gold sales	(575,122)	(558,118)	(449,216)	3.0	24.2
Cost of other sales	(25,541)	(25,061)	(25,866)	1.9	(3.1)
Gross profit, including	624,561	504,139	392,037	23.9	28.6
Gross profit on gold sales	623,966	504,213	399,807	23.8	26.1
Gross profit margin	51.0%	46.4%	45.2%	–	–
Selling, general and administrative expenses	(155,012)	(134,960)	(261,776)	14.9	(48.4)
Profit before income tax	432,020	122,471	177,107	252.8	(30.8)
Pre-tax margin	35.3%	11.3%	20.4%	–	–
Income tax expense	(108,837)	(62,110)	(85,299)	75.2	(27.2)
Profit for the year	323,183	60,361	91,808	435.4	(34.3)
Net profit/(loss) attributable to minority interest	1,579	8,854	5,999	(82.2)	47.6
Net profit attributable to shareholders of the parent company	321,604	51,507	85,809	524.4	(40.0)
Net profit margin	26.4%	5.6%	10.6%	–	–
Earnings per share – basic and diluted (USD)	1.80	0.29	0.49	520.7	(40.8)

[1] Refer to Note 5 of consolidated financial statements for the year ended 31 December 2007 included in the 2008 Annual Report.

The following table shows the summary of performance results of the Polyus Group's operations in 2009, 2008 and 2007 related to non-GAAP financial measures:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)[1]		
Operating profit[2]	435,239	347,164	113,715	24.5	205.3
Operating profit margin	35.50%	31.90%	13.10%	–	–
EBITDA[3]	548,624	436,470	331,154	25.7	31.8
EBITDA margin	44.8%	40.1%	38.2%	–	–

[1] Refer to Note 5 of consolidated financial statements for the year ended 31 December 2007 included in the 2008 Annual Report.
[2] Operating profit is calculated as Gross profit, less Selling, general and administrative expenses, Research and exploration expenses and Other expenses, net.
[3] For details of the calculation EBITDA refer to section 16.2.1 of this document.

16.1.2 Gold sales

The following table shows the results and breakdown of the Polyus Group's gold sales for the years ended 2009, 2008 and 2007:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Gold sales (USD thousands)	1,199,088	1,062,331	849,023	12.9	25.1
Gold sales (thousand troy ounces) [1]	1,238	1,226	1,210	1.0	1.3
In the domestic market (thousand troy ounces)	1,207	1,226	1,050	(1.6)	16.8
In the domestic market (%)	97	100	87	–	–
For export (thousand troy ounces)	31	–	160	–	–
Weighted-average gold selling price (USD per troy ounce)	968.7	867.3	701.7	11.7	23.6
Average p.m. gold fixing price in London (USD per troy ounce)[2]	972.4	872	695.4	11.5	25.4
Excess/(deficit) of average selling price over/(under) average p.m. fixing price (USD per troy ounce)	(3.7)	(4.7)	6.3	–	–

[1] 1,207 thousand troy ounces of refined gold sold by business units in Russia and 31 thousand troy ounces of gold in semi-products sold by KazakhGold Group.
[2] Source: London Bullion Market Association.

In 2009, the Polyus Group's revenue from gold sales reached a record of USD 1,199,088 thousand, an increase of 12.9% as compared to 2008.

The increase in gold sales revenue was largely driven by higher realized gold prices, and a nominal increase in sales volumes. The sales volumes for the Polyus Group in 2009 were 1,238 thousand troy ounces, including 31 thousand ounces sold by the recently acquired by the Kazakhstan business unit. The comparable sales volume in 2008 was 1,226 thousand troy ounces. Sales volumes in Russia declined slightly in 2009 as a result of technical difficulties late in the year at Olimpiada, which delayed conversion of some production into final product.

In 2009, the Polyus Group produced 1,261 thousand troy ounces (39.2 tonnes) of refined gold, showing a 2.9% growth over 2008 levels when it produced 1,222 thousand troy ounces (38.0 tonnes). The growth in production is primarily a result of the launch of the Titimukhta project in the Krasnoyarsk region, and the acquisition in the third quarter of 2009 of a controlling stake in KazakhGold Group, one of the leading gold producers in the Republic of Kazakhstan. Enhanced production at alluvial business unit also contributed to production growth.

In 2009, the weighted-average gold selling price was USD 968.7 per troy ounce, reflecting a 12% growth as compared to 2008. The Group has a policy to sell gold at spot market prices. The weighted-average gold selling price for the Group was USD 3.7 per troy ounce lower than the average p.m. gold fixing price on the London market. The slight deficit is attributable to the Kazakhstan business unit which sells gold in a form of semi-products at a considerable discount to the London fixing price.

16.1.3 Cost of gold sales

The following table shows the results of the Polyus Group's cost of gold sales for the years ended 2009, 2008 and 2007:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Cash operating costs1	573,870	587,332	442,224	(2.3)	32.8
Labour	175,080	207,403	144,008	(15.6)	44.0
Consumables and spares, out of which:	248,143	239,522	200,601	3.6	19.4
Materials and spares	*168,885*	*150,503*	*137,956*	*12.2*	*9.1*
Fuel	*79,258*	*89,019*	*62,645*	*(11.0)*	*42.1*
Utilities, out of which:	25,386	26,646	23,340	(4.7)	14.2
Power	*24,572*	*25,753*	*19,494*	*(4.6)*	*32.1*
Other	*814*	*893*	*3,846*	*(8.8)*	*(76.8)*
Tax on mining	90,080	72,588	51,138	24.1	41.9
Outsourced mining services	8,258	15,105	8,826	(45.3)	71.1
Refining costs	4,332	5,383	3,569	(19.5)	50.8
Sundry costs	22,591	20,685	10,742	9.2	92.6
Amortisation and depreciation of operating assets	95,023	98,999	87,196	(4.0)	13.5
Change in deferred stripping costs	50,736	(112,804)	(68,065)	(145.0)	65.7
Change in gold-in-process and refined gold	(151,886)	(6,879)	(12,621)	2108.0	(45.5)
Change in provision for land restoration	7,379	(8,530)	482	–	–
Cost of gold sales	575,122	558,118	449,216	3.0	24.2

[1] The presentation of cash operating costs is more detailed than that presented in the financial statements. The amounts are derived from the management accounts, and agree in total with the amounts presented in the financial statements.

In 2009, cost of gold sales increased by 3% or USD 17,004 thousand, to USD 575,122 thousand. The change is a result of several factors, and combines the effects of the addition of KazakhGold in the amount of USD 24,848 thousand, enhanced mining works, increase in local currency costs offset by decreased exchange rates, the amortisation of previously deferred stripping costs, and an increase in gold-in-process/finished goods.

Cash operating costs

Cash operating costs make up the major part of cost of gold sales. During 2009, cash operating costs were USD 573,870 thousand compared to USD 587,332 thousand in the previous year. The decrease in cash operating costs in USD reflects strong depreciation of the RUB in 2009 compared to 2008. Cash operating costs of business units in Russia calculated in RUB increased by 21%, which reflects enhanced mining and processing works.

In 2009, expenses for consumables and spares were the largest component of cash operating costs (43% of cash operating costs). These included materials and spares (spare parts for trucks, excavators and for construction machinery, expenses on rolled metal products and cables, technological materials for plants and other materials and spare parts used during the mining, concentration and smelting) and fuel.

The cost of materials and spare parts consumed in the reporting period represented 29% of the Polyus Group's cash operating costs and amounted to USD 168,885 thousand as compared to USD 150,503 thousand in 2008. The primary reason for the changes were increased chemical and materials consumption due to modifications to processes at Olimpiada facilities and commencement of ore treatment at Titimukhta, and also includes purchases of the Kazakhstan business unit since its acquisition by the Polyus Group.

A significant portion of consumables and spares is mainly fuel, diesel oil and lubricants for trucks and excavators and fuel for oil-fired power plant operating at the Nezhdaninskoye deposit and the diesel power plant at the Olimpiada mine. In the period under review expenses on fuel accounted for 14% of the Polyus Group's cash operating costs. These expenses decreased by 11% from USD 89,019 thousand in 2008 to USD 79,258 thousand in 2009, consistent with the decline in global prices for oil products.

The cost of gold sales for the Krasnoyarsk business unit accounted for 57% of the Polyus Group's total cost of gold sales. The following sets forth the principal consumables and spares procured by the Krasnoyarsk business unit in 2009, 2008 and 2007, to illustrate the Group's cost components:

Item	Years ended 31 December					
	2009		2008		2007	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and digging machines		15,185		10,371		12,958
Grinding balls	17,876	16,633	11,020	13,511	6,580	5,505
Pipes for current operations		1,042		1,212		1,198
Spare parts for road-building machines		2,619		3,428		1,787
Rolled metal products for current operations		1,224		1,859		784
Summer diesel fuel	46,353	25,050	45,600	31,954	50,075	29,588
Winter diesel fuel	35,515	23,915	30,400	24,182	33,952	22,740
Ai-80 gasoline	351	235	360	316	360	289
Ai-92 gasoline	508	377	420	417	300	285
Explosives		7,999		15,575		17,202
Cyanides	16,950	47,108	19,565	62,232	8,639	18,377
Total		141,387		165,057		110,713

The following table shows costs per unit of consumables and spare parts procured by the Krasnoyarsk business unit in 2009 and 2008:

USD per tonne	Years ended 31 December		2009 against 2008 %
	2009	2008	
Grinding balls	930	1,226	(24.1)
Summer diesel fuel	540	701	(22.9)
Winter diesel fuel	673	795	(15.3)
Ai-80 gasoline	670	877	(23.7)
Ai-92 gasoline	743	994	(25.2)
Cyanides	2,779	3,181	(12.6)

The amount of purchases of consumables and spare parts by the Krasnoyarsk business unit in monetary terms reduced by 14% from USD 165,057 in 2008 to USD 141,387 thousand in 2009. This decrease relates primarily to a substantial decline in the purchase prices for materials, spares and fuel, which resulted partly from the RUB depreciation and partly from the decreased global market prices of underlying commodities, such as hot rolled steel and oil.

The volume of purchases in physical terms increased primarily due to additional purchases of grinding balls as a result of processing of more refractory ores at the Olimpiada mine in comparison to the previous periods and the start-up of operations at Titimukhta, and purchases of gasoline and diesel fuel for the construction works carried out at the Titimukhta, and Blagodatnoye mines. Enhanced ore mining at the Olimpiada deposit (in 2008 most part of the ore was supplied to the mills for processing from the stockpile), commencement of ore mining and on-going construction activities at the Titimukhta and Blagodatnoye deposits required additional purchases of spare parts for tipper trucks and digging machines. While cost of purchases of spare parts for road-building machines, rolled metal products and pipes declined under the influence of the exchange rate factor. In 2008, an explosive workshop was constructed at the Olimpiada mine, which allowed to reduce purchases of explosives from third parties.

The second largest item included in cash operating costs in 2009 was labour expenses (31% of cash operating costs). Labour expenses for production personnel were USD 175,080 thousand in 2009, representing a 16% decrease in comparison to 2008 levels, largely driven by the exchange rate movements. The Polyus Group managed to restrain growth of payroll costs denominated in the RUB and KZT even despite an increase in the average number of operating personnel by 3,190 employees following integration of Kazakhstan business unit into the Polyus Group.

Expenses on power represent 4% of the Polyus Group's cash operating costs. In the reporting period power costs declined by 5%, to USD 24,572 thousand reflecting growth in the electricity rates throughout Russia and consolidation of the Kazakh business unit results for the final five months of the year (which, however, has lower power tariffs than other business units), which were more than offset by the impact of the exchange rate factor.

In 2009, the Polyus Group paid USD 90,080 thousand in mining tax, which was USD 17,492 thousand more than in the previous year due to increased production volumes and higher gold selling price. In accordance with Chapter 26 of the Tax Code of the Russian Federation, the tax on mining base includes concentrate or any other semi-product containing precious metal obtained by extraction of this metal from ore, alluvial or industrial deposits, including gold produced by the Polyus Group. Concentrates and other semi-products containing gold are subject to the tax at the rate equal to 6% of the cost of these semi-products. The cost is determined based on selling prices for the relevant tax period. The tax is accruable on gold, which the ore under processing contains, and thus is payable not only on gold sold, but also on gold lost during processing. Additionally the Group recorded unsettled mining tax for the previous periods.

Mining tax in the Republic of Kazakhstan is calculated with reference to the value of the reserves of commercially useful minerals which are contained in mineral raw materials, which are extracted. The value of the reserves of commercially useful minerals contained in mineral raw materials is determined on the basis of the average exchange price for such commercial minerals for the tax period. The average exchange price is the arithmetic mean of the daily average quotations for each commercial mineral recorded on the London Metal Exchange. The mining tax rate for gold, silver, platinum and palladium from 1 January 2009 is 5%.

Amortisation and depreciation of operating assets

Amortisation and depreciation of operating assets included in cost of sales decreased by 4% from USD 98,999 thousand in 2008 to USD 95,023 thousand in 2009. This decrease primarily resulted from the changes in the currency exchange rates, more than offsetting the effect of asset base enlargement on Olimpiada, Blagodatnoye and Titimukhta and addition of the Kazakhstan business unit's assets. The sum of amortisation and depreciation amount included amortisation of the mineral rights in the amount of USD 14,943 thousand.

Deferred stripping costs expensed/(capitalised)

In 2008, the Polyus Group capitalized excessive stripping works relating to the extension of the Vostochny pit of Olimpiada (Krasnoyarsk business unit) in the transition of production from oxide to sulfide ores. The amount of deferred stripping costs capitalized during 2008 amounted to USD 112,804 thousand. In 2009, the Polyus Group started to amortise previously capitalized stripping costs from Olimpiada. The Polyus Group's accounting policy stipulates that stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. In case the current stripping ratio falls below the average life-of-mine stripping ratio, the stripping costs are charged to operating costs. Deferred stripping costs expensed for the reporting period amounted to USD 50,736 thousand.

Change in gold-in-process and refined gold

In the reporting year the Polyus Group's metal inventories substantially increased, mainly due to the fact that in 2009, some stock of ore from the Olimpiada and Titimukhta mines had been mined, but not processed during 2009 and have been recorded at net production cost. In addition, as at 31 December 2009 some stock of refined gold in the amount of 30 thousand troy ounces (including gold contained in semi-products produced by KazakhGold Group), remained. Total gold-in-process and refined gold of USD 151,886 thousand were recorded to inventory from cost of gold sales.

16.1.4 Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Polyus Group for the years ended 2009, 2008 and 2007:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Salaries	76,918	73,742	76,291	4.3	(3.3)
Taxes other than mining and income taxes	16,105	18,318	20,724	(12.1)	(11.6)
Professional services	21,738	13,321	8,288	63.2	60.7
Depreciation	3,775	3,782	3,969	(0.2)	(4.7)
Administrative overheads	36,476	25,797	19,956	41.4	29.3
Share option plan	–	–	132,548	–	–
Total	155,012	134,960	261,776	14.9	(48.4)

In 2009, the Polyus Group's selling, general and administrative expenses increased by 15% from USD 134,960 thousand in 2008 to USD 155,012 thousand in 2009. This increase resulted mainly from the consolidation of the Kazakhstan business unit's selling, general and administrative expenses, for the last 5 months of 2009.

Salaries

In the reporting period, the Polyus Group's administrative labour costs increased from USD 73,742 thousand in 2008 to USD 76,918 thousand in 2009, resulting primarily from an increased number of administrative staff by approximately 890 people, mainly relating to acquisition of the controlling stake in KazakhGold Group. However, the increase in labour expenses denominated in the national currencies of Russia and Republic of Kazakhstan was significantly offset by depreciation of the RUB and KZT during 2009, resulting in a modest payroll cost increase of 4%.

Taxes, other than mining and income taxes

In addition to tax on mining and income taxes, the Polyus Group pays property tax, VAT (which for the purpose of this item includes only non-recoverable VAT), unified social tax and other taxes. In 2009, the Polyus Group accrued USD 16,105 thousand in federal and regional taxes other than tax on mining and income tax, which was 12% less than in 2008, primarily due to the RUB depreciation.

The amount of property tax denominated in the national currencies increased substantially as a result of commissioning of property related to the new projects development (relating to Titimukhta, Blagodatnoye and Natalka projects) and the modernization of existing production facilities (Zapadnoye mine, alluvial enterprises), and tax payments by KazakGold Group for the relevant period.

The following table shows the components of taxes, other than mining and income taxes, for 2009, 2008 and 2007:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Taxes, other than mining and income taxes	16,105	18,318	20,724	(12.1)	(11.6)
VAT	2,648	3,100	10,092	(14.6)	(69.3)
Property tax	11,478	11,561	8,231	(0.7)	40.5
Other taxes	1,979	3,657	2,401	(45.9)	52.3

Professional services

In 2009, professional services expenses increased by 63%, from USD 13,321 thousand in 2008 to USD 21,738 thousand in 2009. The increase in professional services expenses was mainly due to legal and consulting services provided on the acquisition of the controlling stake in KazakhGold Group.

Administrative overheads

Administrative overheads represent rent expenses, communication services, bank charges, repair and maintenance costs and other expenses. In the reporting period rent expenses, repair and maintenance and expenses on communication services declined from 2008 levels primarily reflecting the effect of changes in exchange rates. The following table shows the components of administrative overheads for 2009, 2008 and 2007:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Administrative overheads	36,476	25,797	19,956	41.4	29.3
Rent expenses	3,587	4,609	1,799	(22.2)	156.2
Repair and maintenance	1,030	1,541	1,734	(33.2)	(11.1)
Communication services	1,420	1,749	1,278	(18.8)	36.9
Other	30,439	17,898	15,145	70.1	18.2

16.1.5 Research expenses

In 2009, research costs decreased by USD 3,694 thousand, or 74%, from USD 4,959 thousand in 2008 to USD 1,265 thousand in 2009. The volume of initial research works within greenfield projects was substantially reduced due to cost reduction measures undertaken in response to deterioration of global market conditions in the second half of 2008.

16.1.6 Other expenses, net

In the reporting period, other operating expenses almost doubled from USD 17,056 thousand in 2008 to USD 32,955 thousand in 2009. This increase is attributable to increased impairment charges (USD 10,859 thousand as compared to USD 1,831 thousand in 2008) at the Krasnoyarsk business unit and losses on disposal of property, plant and equipment (USD 3,875 thousand as compared to USD 548 thousand in 2008) mainly relating to the Krasnoyarsk, Kazakhstan and Irkutsk hard rock business units. Change in allowance for obsolescence of inventory also contributed to increased expenses (USD 3,639 thousand as compared to USD 1,489 thousand in 2008). In 2009, charity contributions decreased by 3% in the USD terms, but amounts denominated in the RUB and KZT increased.

In 2008, the Polyus Group realized other operating income totaling USD 5,569 thousand, which comprised deferred consideration in the sum of USD 3,152 thousand and other operating income in the sum of USD 2,417 thousand. In 2008, other operating expenses totaled USD 22,625 thousand. This included charity contributions in the amount of USD 7,135 thousand, changes in the allowance for reimbursable VAT totaling USD 7,078 thousand, impairment charges and loss on disposal of property, plant and equipment (in the sum of 2,379 thousand), change in allowance for obsolescence of inventories and inventories written off (in the sum of USD 2,243 thousand) and other operating expenses (USD 3,790 thousand).

16.1.7 Finance costs, income/(loss) from investments and foreign exchange gain/(loss)

The following table sets forth the components of financial and investment activity in 2009, 2008 and 2007:

USD'000	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Finance costs	(18,870)	(4,417)	(6,629)	327.2	(33.4)
Income/(loss) from investments	14,197	(217,591)	61,537	(106.5)	–
Foreign exchange gain/(loss)	1,364	(2,685)	8,484	(150.8)	–

Finance costs
In the period under review, the Polyus Group's finance expenses increased substantially from USD 4,417 thousand in 2008 to USD 18,870 thousand. This increase reflects primarily interest charged on KazakhGold Group's USD 200 million 9.375% senior notes due November 2013 ("Senior Notes") and other bank loans held at KazakhGold.

Income/(loss) from investments
In 2009, the Polyus Group recognized net income from investments totaling USD 14,197 thousand.

Following acquisition of a 50.15% stake in KazakhGold, the Polyus Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder Gold Lion Holdings Limited ("Gold Lion"). At the date of acquisition the fair value of the call options for convertible loans was recognized at USD 89,872 thousand. These derivatives were classified as held for trading investments carried at fair value through profit and loss. At the end of the reporting year, the fair value of call options amounted to USD 109,911 thousand. The increase in fair value of the instrument in the amount of **USD 20,039 thousand** was recognized in the consolidated income statement, and arises from increases in the trading price of KazakhGold shares.

In the reporting period, the Polyus Group received income from investments in securities held for trading. These investments are carried at fair value through profit and loss. As a result of financial markets recovery during 2009, the value of these investments, increased by **USD 13,702 thousand**.

In addition, the Polyus Group holds an investment share in the Management Company Rosfund which is accounted for as available-for-sale investments carried at fair value. For the reporting year, the Polyus Group disposed of USD 23,500 thousand of these investments, which resulted in a gain on disposal of investments in the amount of **USD 696 thousand** recognized in its income statement. The fair value of the remaining available-for-sale investments grew by USD 17,505 thousand. This increase, net of gain on disposal of available-for-sale investments, was recognized directly in equity within the investment revaluation reserve.

In 2009, the Polyus Group sold all the promissory notes, which led to a loss of **USD 34,928 thousand.** Although these notes were not previously impaired, as a result of declining markets early in the year, the Group decided to dispose of the notes, and realized amounts significantly less than the carrying value.

In 2009 the Polyus Group received interest income on bank deposits in the amount of **USD 14,688 thousand** (USD 31,646 thousand in 2008), the decrease is reflective of reduced cash balances.

Foreign exchange gain/(loss)

During 2009, although there was significant volatility in the RUB/USD and KZT/USD, the change between opening and closing rates in RUB/USD was relatively small. As a result, the Polyus Group recognized a net foreign exchange gain of USD 1,364 thousand, compared to a net loss of USD 2,685 thousand in the previous period.

16.1.8 Income tax

During 2009, the Polyus Group accrued USD 108,837 thousand in income tax, which was 75% more than in 2008. The increase in income tax expense was mainly driven by higher income before taxation. The effective income tax rate (ratio of current and deferred tax expense to IFRS income before tax) in 2009 was 25% (50% in 2008), whereas the statutory income tax rate in Russia established during 2009 was 20% (compared with 24% on 31 December 2008). The difference between the statutory and the effective tax rates was mainly because of a significant amount of non-deductible items for tax purposes and other permanent differences.

16.1.9 Other sales and cost of other sales

Revenue received by the Polyus Group from the sale of products other than gold and services grew by 5% in 2009 and amounted to USD 26,136 thousand compared to USD 24,987 thousand in the previous period. This revenue includes sales of electricity, rent services sales, revenue from transportation, handling and storage services, and other sales. The growth in RUB terms was more significant and resulted primarily from increased sales of electricity. Sale of electricity to third parties accounts for the largest part of other revenues – USD 10,993 thousand. These sales relate to CJSC Vitimenergosbyt, the Polyus Group's subsidiary located in the Bodaibo district of the Irkutsk region.

Cost of other sales was USD 25,541 thousand, which is almost the same as in 2008. Cost of other sales included, in addition to electricity costs, depreciation, expenses on materials and fuel, and payroll costs related to non-mining activities. In 2009, revenue from other sales exceeded cost of their sales which resulted in a net gain from other sales in the amount of USD 595 thousand, compared to a net loss of USD 74 thousand in 2008.

16.2. Non-GAAP financial measures

In its analysis of the Polyus Group's results, Polyus Gold uses key performance indicators which are not measures determined in accordance with IFRS.

16.2.1 EBITDA

"EBITDA" is defined by Polyus Gold as profit before finance costs, income tax, income (losses) from investments, depreciation, amortisation and interest, and is further adjusted by certain items included in the table below. As these line items are not of a recurring nature, Polyus Gold has made these adjustments in calculating EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. Polyus Gold believes that EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the year and operating cash flows based on IFRS and should not necessarily be construed as a comprehensive indicator of the Polyus Group's measure of profitability or liquidity.

The following table sets forth the Polyus Group's EBITDA for the years ended 31 December 2009, 2008 and 2007:

USD'000	Years ended 31 December		
	2009	2008	2007 (restated)
Profit for the year	323,183	60,361	91,808
+ Income tax charged	108,837	62,110	85,299
+ Depreciation and amortisation for the year	98,561	86,927	82,066
+ Interest expense	18,870	4,417	6,629
– Interest payable written off	–	–	(4,055)
– Interest income	(14,688)	(47,106)	(51,493)
– Gain on disposal of investments	34,232	(13,770)	–
+ Loss/(gain) from investments in listed companies held for trading	(13,702)	178,377	(9,898)
+ Impairment of available-for-sale investments	–	100,090	–
– Foreign exchange (gain)/loss	(1,364)	2,685	(8,484)
+ Loss from disposal of property, plant and equipment and work-in-progress	3,875	548	6,421
+ Impairment of property, plant and equipment	10,859	1,831	313
+ Charge from share option plan obligations	–	–	132,548
– Change in fair value of derivative	(20,039)	–	–
EBITDA	548,624	436,470	331,154

The Polyus Group's EBITDA in 2009 was USD 548,624 thousand, which was USD 112,154 thousand or 26% more than in 2008 as a result of growth in gold selling prices and slightly higher sales volumes.

16.2.2 Total Cash Costs

The Polyus Group presents the financial items "total cash costs" ("TCC") and "total cash costs per troy ounce" which have been calculated and presented by management as TCC presentation is common industry practice, although its calculations of these items may differ from those of its industry peers. These items are not IFRS measures. An investor should not consider these items in isolation or as alternatives to cost of sales, profit for the year attributable to shareholders of the parent company, net cash generated from operating activities or any other measure of financial performance presented in accordance with IFRS. The calculation of total cash costs may vary significantly among gold mining companies, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

Total cash costs are defined by the Polyus Group as cost of sales reduced by property, plant and equipment depreciation, provision for annual vacation payment, provision for land rehabilitation and adjusted by non-monetary changes in inventories and non-monetary changes in deferred stripping works. Total cash costs per troy ounce are the attributable total cash costs divided by the attributable troy ounce of gold sold.

The following table shows the Polyus Group's TCC for the years ended 31 December 2009, 2008 and 2007:

USD'000, unless otherwise indicated	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Cost of gold sales	575,122	558,118	449,216	3.0	24.2
– property, plant and equipment depreciation	(95,023)	(98,999)	(87,196)	(4.0)	13.5
– provision for annual vacation payment	(3,062)	(6,124)	(4,190)	(50.0)	46.2
– provision for land rehabilitation	(7,379)	8,530	(482)	(186.5)	–
+ non-monetary changes in inventories[1]	22,939	1,140	2,383	–	(52.2)
+ non-monetary changes in deferred stripping works[2]	(8,528)	17,490	10,429	(148.8)	67.7
TCC	484,068	480,155	370,160	0.8	29.7
Gold sales, thousand troy ounces	1,238	1,226	1,210	1.0	1.3
TCC (USD/oz)	391	392	306	(0.3)	28.0
TCC (RUB/oz)	12,404	9,737	7,825	27.4	24.4

[1] "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.
[2] "Non-monetary changes in deferred stripping works" is a calculation to estimate the non-cash portion of costs included in the change in the amount of deferred stripping costs, primarily representing depreciation and amortisation.

In 2009, TCC per troy ounce grew by 27% on a RUB basis and remained approximately at 2008 levels on a USD basis.

The increase in TCC resulted from the increase in cost of gold sales due to the initiated expense of previously capitalized stripping costs, enhanced mining works at the Polyus Group's mines under construction and operating mines in Russia and consolidation of production results of KazakhGold for the last 5 months of 2009, strongly offset by depreciation of the RUB in 2009 compared to 2008. See paragraph 16.1.3 above ("Cost of gold sales").

16.2.3 Analysis of profitability indicators

Adjusted net profit is defined as net profit attributable to shareholders of the parent company adjusted for the charge from stock option plan obligations in 2007 and investment losses/gains and impairment of investments in 2008 and 2009. Adjusted return on assets is calculated as the adjusted net profit divided by the average assets for the year. Adjusted return on equity is calculated as the adjusted net profit divided by the average equity attributable to shareholders of the parent for the year. Adjusted return on invested capital is calculated as the adjusted net profit divided by the sum of the average equity attributable to shareholders of the parent and average non-current and current loans and borrowings for the year.

We have made these adjustments as these items are not of a recurring nature, to provide a clearer view of the performance of our underlying business operations and to generate a metric that we believe will give greater comparability over time with peers in our industry. Polyus Group believes that adjusted net profit, adjusted return on assets, adjusted return on equity and adjusted return on invested capital are meaningful indicators of its profitability and performance. These measures should not be considered alternatives to profit for the year and operating cash flows based on IFRS and should not necessarily be construed as a comprehensive indicator of Polyus Group's measure of profitability or as a measure of liquidity. The following table shows the Polyus Group's calculation of adjusted net profit, adjusted return on assets, adjusted return on equity and adjusted return on invested capital for the years ended 31 December 2009, 2008 and 2007:

USD'000, unless otherwise indicated	Years ended 31 December			2009 against 2008 %	2008 against 2007 %
	2009	2008	2007 (restated)		
Net profit attributable to shareholders of the parent company	321,604	51,507	85,809	524.4	(40.0)
+ Charge from share option plan obligations	–	–	132,548	–	–
+ Loss/(gain) on disposal of investments	34,232	(13,770)	–	–	–
+ Loss/(gain) from investments in listed companies held for trading	(13,702)	178,377	(9,898)	–	–
+ Impairment of available-for-sale investments	–	100,090	–	–	–
– Income on derivatives classified as held for trading	(20,039)	–	–	–	–
Adjusted net profit	322,095	316,204	208,459	1.9	51.7
Assets (average for the year)	3,434,871	3,426,156	3,527,817	0.3	(2.9)
Equity attributable to shareholders of the parent (average for the year)	2,916,417	3,009,254	3,043,901	(3.1)	(1.1)
Non-current and current loans and borrowings (average for the year)	99,916	10,455	17,955	855.7	(41.8)
Adjusted return on assets	9.38%	9.23%	5.91%	–	–
Adjusted return on equity	11.04%	10.51%	6.85%	–	–
Adjusted return on invested capital	10.68%	10.47%	6.81%	–	–

In 2009, the Polyus Group's profitability indicators increased. This was due to a multiple increase in net profit adjusted for net gain from investments. In the reporting period the asset base remained approximately at the levels of 2008. Retained loss of KazakhGold Group resulted in the decreased amounts of equity attributable to shareholders of the parent and invested capital, which contributed to the increase of adjusted return on equity and invested capital.

16.3. Summary table of performance results by business units

The following table shows the Polyus Group's performance results by business units for the years ended 31 December 2009, 2008 and 2007:

	Years ended 31 December								
	2009			2008			2007		
	Gold sales revenue	Production	Sales	Gold sales revenue	Production	Sales	Gold sales revenue	Production	Sales
	USD '000	000 oz	000 oz	USD '000	000 oz	000 oz	USD '000	000 oz	000 oz
Krasnoyarsk business unit	833,466	878	854	761,318	873	877	603,649	861	856
Irkutsk alluvial business unit	185,237	194	194	154,907	181	181	124,111	179	179
Yakutsk Kuranakh business unit[1]	129,789	135	135	124,640	144	144	98,032	142	142
Irkutsk ore business unit	23,678	24	24	21,466	25	25	23,231	32	33
Kazakhstan business unit[2]	26,918	30	31	–	–	–	–	–	–
Group total[3]	1,199,088	1,261	1,238	1,062,331	1,222	1,226	849,023	1,214	1,210

[1] For the purpose of the Management report for 2009 operating and financial results of the Yakutsk Kuranakh business unit include the results of the Exploration business unit (See Note 5 to the consolidated financial statements for the year ended 31 December 2009).
[2] Operating results of the Kazakhstan business unit include amounts of gold produced and sold in August – December 2009 in the form of sludge, flotation and gravitation concentrates and other semi-products.
[3] Totals may not add due to the rounding error.

16.3.1 Krasnoyarsk business unit (Olimpiada and Titimukhta deposits)

USD'000, unless otherwise indicated	2009
Gold sales revenue	833,466
Cost of gold sales	(324,287)
Gross profit on gold sales	509,179
Gross profit margin	61%
TCC (USD/oz)	322

The Krasnoyarsk business unit is the Polyus Group's largest mining operation. The Krasnoyarsk business unit also acts as a distributing agent and sells its own gold and that of its subsidiaries.

Refined gold output at the Mills No. 2 and 3 of the Olimpiada mine (which process the ores of the Olimpiada and Olenye deposits) totaled 839 thousand ounces and refined gold output at the Mill No. 1 of the Olimpiada mine (which process the ores of the Titimukhta deposit) equalled 40 thousand ounces from the ores of Titimukhta, compared to 873 thousand ounces in the previous year. The successful modernization of the Plant No. 1 and commissioning of the Titimukhta deposit, helped to stabilize and increase the production of the Olimpiada mine.

In 2009, gold sales of the Krasnoyarsk business unit were USD 833,466 thousand, as compared to USD 761,318 thousand in 2008. The sales volumes were 854 thousand troy ounces.

Despite full conversion to the processing of sulfide ores in 2009, the Krasnoyarsk business unit TCC indicator remains one of the lowest in the world gold industry. The gross profit margin in 2009 was 61%.

16.3.2 Irkutsk alluvial business unit (Alluvial deposits)

USD’000, unless otherwise indicated	2009
Gold sales revenue	185,237
Cost of gold sales	(125,003)
Gross profit on gold sales	60,234
Gross profit margin	33%
TCC (USD/oz)	554

In 2009, gold production at the alluvial deposits in the Irkutsk region totaled 194 thousand troy ounces, while in 2008 the alluvial deposits produced 181 thousand troy ounces. The increase of quantity of gold sold in the Irkutsk alluvial business unit was caused by the increase of average gold grade and acquisition of a new alluvial enterprise in 2008.

During the reporting period all of the gold produced by the Irkutsk alluvial business unit was sold. The positive gold price movements resulted in a 20% increase in revenues over the 2008 levels to USD 185,237 thousand in 2009. The gross profit margin was 33%.

Alluvial deposits’ TCC amounted to USD 554 per troy ounce in the reporting year, compared to USD 633 per troy ounce in 2008. This decrease reflects the impact of the exchange rate factor, while in RUB terms TCC increased due to increased salaries, electricity, repair and maintenance costs and mining tax expense resulting from increased sales volumes and realized gold price.

16.3.3 Yakutsk Kuranakh business unit (Kuranakh mine)

USD’000, unless otherwise indicated	2009
Gold sales revenue	129,789
Cost of gold sales	(86,226)
Gross profit on gold sales	43,563
Gross profit margin	34%
TCC (USD/oz)	551

In 2009, the Kuranakh mine in the Sakha Republic (Yakutia) produced 135 thousand troy ounces of refined gold, compared to 144 thousand troy ounces in 2008. A slight decrease in production was due to implementation of a modernization works aimed at raising the mine's processing capacity.

In 2009, the gold sales revenue of the Yakutia business unit totaled USD 129,789 thousand compared to USD 124,640 thousand in 2008. The revenue growth resulted from the increased gold selling price. The gross profit margin equalled 34%.

The Kuranakh mine's TCC decreased from USD 681 per troy ounce in 2008, to USD 551 per troy ounce in 2009 primarily under the influence of the RUB depreciation. RUB-denominated TCC increased by 3% as a result of slight growth in materials and spares costs, expenses on electricity and increased salaries.

The Kuranakh mill was commissioned in 1965 and is one of the oldest in the Russian gold mining industry. Obsolescence of its production facilities have resulted in a gradual reduction of profitability. The Polyus Group is in the process of modernizing the mill in order to increase its capacity from 3.6 mtpa to 4.5 mtpa.

16.3.4 Irkutsk ore business unit (Zapadnoye mine)

USD'000, unless otherwise indicated	2009
Gold sales revenue	23,678
Cost of gold sales	(33,072)
Gross profit on gold sales	(9,394)
Gross profit margin	–
TCC (USD/oz)	709

In 2009, refined gold production of the Zapadnoye mine was 24 thousand troy ounces, which is approximately the same as in the previous year.

Gold sales revenue increased from USD 21,466 thousand in 2008 to USD 23,678 thousand in 2009. A substantial part of cost of gold sales was high amortization and depreciation charges, including amortization of mineral rights.

The Zapadnoye mine's TCC amounted to USD 709 per troy ounce in 2009, compared to USD 895 per troy ounce in 2008. The decrease resulted from the USD/RUB exchange rate movements. The RUB-denominated TCC remained at the levels of 2008.

The Zapadnoye deposit is a western flank of the Sukhoi Log ore field, the largest gold deposit in Russia, which is a perspective area of a potential interest for the Polyus Group.The Zapadnoye mill was commissioned in 2004 and cannot be considered as a rigorous producing business unit, but as a pilot plant for modelling of industrial technologies for processing of ores similar to the ores of Sukhoi Log. The mine's production volumes and TCC contributed only 2% and 4% to the total Group's output and TCC, respectively, in 2009.

16.3.5 Kazakhstan business unit (Aksu, Bestobe and Zholymbet mines)

USD'000, unless otherwise indicated	2009
Gold sales revenue	26,918
Cost of gold sales	(24,848)
Gross profit on gold sales	2,070
Gross profit margin	8%
TCC (USD/oz)	542

From August to December 2009 the Kazakhstan business unit, KazakhGold Group, produced 30 thousand troy ounces and sold 31 thousand ounces of gold in the form of sludge, flotation and gravitation concentrates and other semi-products.

Gold sales revenue for the appropriate period was USD 26,918 thousand. Poor condition of production facilities at all the three producing mines of the Kazakhstan business unit (Aksu, Bestobe and Zholymbet located in Stepnogorsk area of Akmola region of the Republic of Kazakhstan) led to a high cost of sales, and, as a result, high TCC and low profitability levels. A large part of cost of gold sales was amortization and depreciation of operating assets. High amortization and depreciation charges resulted from revaluation of fixed assets by an independent appraiser and, consequently, change in book value, useful life and depreciation methods of some operating assets. The gross profit margin for the period under review was 8%.

Following the acquisition of a controlling stake in KazakhGold by the Polyus Group, efforts to arrest the deterioration in production levels and stabilise the KazakhGold Group's financial situation were undertaken. An immediate injection of working capital was made, and urgent maintenance and repair works were performed at the mines. In the third quarter of 2009, measures aimed at streamlining the KazakhGold Group's structure, improving control systems and upgrading production assets were taken. During the final five months of 2009, an upgrading programme of underground mine equipment was initiated at all mines. As a result of the ongoing production upgrades, improved gold production results are expected in 2010 and annual gold production is targeted at approximately 106 thousand ounces.

16.4. Review of financial sustainability and solvency

16.4.1 Analysis of statement of financial position items

The table below offsets forth key items from the Polyus Group's consolidated statement of financial position as at 31 December 2009, 2008 and 2007:

USD '000	As at 31 December		
	2009	2008	2007 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	2,299,071	1,772,319	1,783,432
Goodwill	132,906		
Investments in securities and other financial assets	114,792	4,095	2,147
Deferred stripping costs	106,088	163,988	82,061
Other non-current assets[1]	46,631	50,415	11,824
Total non-current assets	2,699,488	1,990,817	1,879,464
Current assets			
Inventories	415,238	233,001	224,209
Investments in securities and other financial assets	312,733	285,236	1,270,918
Cash and cash equivalents	173,360	398,826	226,174
Other current assets[2]	190,060	170,982	172,685
Total current assets	1,091,391	1,088,045	1,893,986
TOTAL ASSETS	3,790,879	3,078,862	3,773,450
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	3,076,100	2,756,733	3,261,774
Non-controlling interest	64,871	37,808	47,187
TOTAL EQUITY	3,140,971	2,794,541	3,308,961
Total non-current liabilities	313,427	182,623	281,950
Current liabilities			
Short-term borrowings	173,437	-	20,909
Trade and other payables and accrued expenses	116,812	83,527	105,583
Other current liabilities[3]	46,232	18,171	56,047
Total current liabilities	336,481	101,698	182,539
TOTAL LIABILITIES	649,908	284,321	464,489
TOTAL EQUITY AND LIABILITIES	3,790,879	3,078,862	3,773,450

[1] Other non-current assets consist of the long-term portion of reimbursable value added tax and other non-current assets.
[2] Other current assets consist of reimbursable value added tax, accounts receivable, advances paid to suppliers, income tax receivable and other current assets.
[3] Other current liabilities consist of contingent consideration on acquisition of subsidiaries, income tax payable and other taxes payable.

16.4.1.1 Assets

Non-current assets

Property, plant and equipment

The table below sets forth the components of the Polyus Group's property, plant and equipment at 31 December 2009, 2008 and 2007:

USD '000	As at 31 December		
	2009	2008	2007 (restated)
Exploration and evaluation assets	240,900	214,920	301,238
Mining assets	1,567,117	1,218,349	1,253,565
Non-mining assets	36,816	39,814	41,084
Capital construction-in-progress	454,238	299,236	187,545
Total property, plant and equipment	2,299,071	1,772,319	1,783,432

In 2009 the Polyus Group continued its construction and mine development works. As a result, the value of capital construction-in-progress showed a substantial increase from USD 299,236 thousand in 2008 to USD 454,238 thousand in 2009. In the reporting year, the value of mining assets, which represent the largest group of assets in the Polyus Group, grew by 29% from USD 1,218,349 thousand as at 31 December 2008 to USD 1,567,117 thousand as at 31 December in 2009. This growth resulted primarily from substantial additions and transfers from capital construction-in-progress, and consolidation of the Kazakhstan business unit's assets as at the year end. At the end of the reporting year, mining assets included mineral rights of USD 547,961 thousand. Exploration and evaluation assets increased by 12% and amounted to USD 240,900 thousand as at 31 December 2009. This growth was primarily the result of the reduction in exploration works throughout the Polyus Group as most of its large exploration projects reached their final stages. The decrease in the value of non-mining assets by 8% resulted from translation to presentation currency more than offsetting additions during the year. The closing balance of the Polyus Group's property, plant and equipment was USD 2,299,071 thousand as at 31 December 2009, compared to USD 1,772,319 thousand as at 31 December 2008.

Deferred stripping costs

Pursuant to the Polyus Group's accounting policy, in 2009 the Polyus Group started to expense previously capitalized deferred stripping costs, related to excessive stripping works implemented at the Krasnoyarsk business unit in order to access the sulfide ore body after the depletion of the oxide ores of Olimpiada. As a result, this item declined from USD 163,988 thousand as at 31 December 2008 to USD 106,088 thousand at the same date of 2009. In 2008, these stripping costs were capitalised, resulting in a twofold growth of deferred stripping costs as compared to 2007.

Derivative

Following its acquisition of a 50.15% stake in KazakhGold Group, the Polyus Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder Gold Lion. Under the loan agreements the Lender may convert the principal amounts of USD 31,025 thousand together with accrued interest into ordinary shares of KazakhGold at the price of USD 1.5 per share. At acquisition date the fair value of the call options for convertible loans was determined in the amount of USD 89,872 thousand. The fair value of the call options is determined by financial modeling, with reference to the difference between the market price of KazakhGold share at the date of acquisition less conversion price. As at 31 December 2009 the fair value of call options for convertible loans amounted to USD 109,911 thousand and increase in fair value of the instrument in the amount of USD 20,039 thousand was recognized in the consolidated income statement.

Goodwill

As a result of acquisition of a controlling stake in KazakhGold Group, the Polyus Group recognized goodwill in the amount of USD 132,906 thousand. During 12 months following the date of acquisition the Polyus Group will be required to finalize the provisional acquisition accounting and this amount may either be classified as mineral rights within property, plant and equipment or written off as an impairment on acquisition.

Current assets

In 2009, the value of the Polyus Group's current assets did not change materially, but the asset structure changed, mostly due to a USD 225,466 thousand decrease in cash and cash equivalents and a USD 182,237 thousand increase in inventories.

Cash and cash equivalents

During the year, cash was partly used for financing of working capital, acquisition of the controlling stake in Kazakhgold Group in July 2009, an extensive capital expenditure program at the mines located in Russia and Kazakhstan and payment of dividends, and partly placed on bank deposits. As a result, at 31 December 2009, cash and cash equivalents amounted to USD 173,360 thousand, showing a 57% year-on-year decrease.

Inventories

In the reporting year, inventories increased by 78% to USD 415,238 thousand. The major contributor to growth of inventories was a multiple increase in gold-in-process, which amounted to USD 202,647 thousand as at the end of 2009. The principal reason for the increase was the fact that some stock of ore from the Olimpiada and Titimukhta mines that had been mined, but not processed during 2009, was recorded in the Polyus Gold's accounts at net production cost. At 31 December 2009, the residual balance of refined gold produced, but not sold during the year, amounted to 30 thousand troy ounces (including gold contained in semi-products produced by KazakhGold Group), while at the end of 2009 there was no gold left at the refinery. This led to a USD 12,760 thousand increase in metal inventories. The value of stores and materials at cost, net of allowance for obsolescence, increased by 9%. This was primarily related to the growing cost of grinding balls and spare parts procured for mining equipment as a result of processing of more refractory ores at the Olimpiada mine and the start-up of operations at Titimukhta, as well as increased fuel stocks for the needs of construction at the Titimukhta and Blagodatnoye mines.

Investments in securities and other financial assets

As at 31 December 2009, the short-term investments in securities and other financial assets totalled USD 312,733 thousand, compared to USD 285,236 thousand as at 31 December 2008, showing a 10% year-on-year increase. At the end of the reporting year, these were presented by available for sale equity investments, bank deposits and equity investments in listed company held for trading.

Movements in investments and other financial assets during the year ended 31 December 2009 are presented in the table below:

USD '000	Years ended 31 December		Movements
	2009	2008	
Available-for-sale investments	203,376	208,680	The Groups's available-for-sale investments include a share in Rosfund which declined by USD 5,304 thousand and amounted to USD 203,376 thousand as at 31 December 2009. During the reporting year, the Polyus Group disposed of USD 22,804 thousand of these investments at a realized price of USD 23,500 thousand which resulted in a gain on disposal of investments in the amount of USD 696 thousand, reflected in the income statement. For the reporting year, the fair value of the remaining available-for-sale investments grew by USD 18,201 thousand. This increase, net of gain on disposal of available-for-sale investments, was recognized in equity through an increase in the investment revaluation reserve.
Equity investments in listed companies held for trading	39,199	40,628	Investments in listed companies held for trading are represented by financial assets carried at fair value through profit and loss. During the year 2009, the Polyus Group disposed of USD 14,173 thousand of these investments. By the end 2009, the value of held for trading investments increased by USD 13,702 thousand, which was recognized as an investment income. As at 31 December 2009, the investments in listed companies held for trading amounted to USD 39,199 thousand, compared to USD 40,628 thousand at 31 December 2008.
Bank deposits	70,158	–	In the reporting period, the Polyus Group deposited cash on bank accounts in the total amount of USD 70,158 thousand. These RUB-denominated funds are deposited in VTB, Rosbank and Gazprombank and bear annual interest rates of 7.5-10.5%.
Promissory notes	–	35,928	In 2009, the Polyus Group disposed of all the promissory notes, which amounted to USD 35,928 thousand in the beginning of the year.
Total investments in securities and other financial assets:	312,733	285,236	

16.4.1.2 Capital and liabilities

Share capital and reserves

As at 31 December 2009, share capital and reserves were USD 3,140,971 thousand compared to USD 2,794,541 thousand as at 31 December 2008. This increase comes mainly from growth in retained earnings and a decrease in treasury shares and related additional paid-in capital.

During the period, the Polyus Group' retained earnings increased by USD 285,278 thousand, reflecting a net profit attributable to the parent company of USD 321,604 thousand less dividends paid of USD 38,378 thousand (in respect of the first half of 2009 results) and proceeds from issuance of treasury shares in the amount of USD 2,052 thousand.

In August 2009, the Polyus Group issued shares from treasury shares as a part of consideration for acquisition of the controlling stake in KazakhGold Group. This led to a USD 98,614 decrease in the value of treasury shares and a USD 35,029 thousand decrease in additional paid-in capital.

As a result of currency exchange rate movements, translation reserve decreased by USD 47,001 thousand and amounted to USD 90,407 thousand as at 31 December 2009. The investment revaluation reserve equalled USD 17,505 thousand due to the increase in fair value of available-for-sale investments.

Non-controlling interest increased by USD 27,063 thousand and was USD 64,871 thousand as at the end of 2009, reflecting acquisition of non-controlling interest of KazakhGold Group of USD 30,545 thousand less profit for the year and other comprehensive income attributable to minorities for the sum of USD 1,514 thousand, and dividends paid to shareholders of non-controlling interest of USD 4,996 thousand.

Non-current liabilities

Following consolidation of the Kazakhstan business unit's liabilities, the Polyus Group recorded long-term borrowings of USD 26,394 thousand, primarily representing loans payable to Gold Lion, previously its major shareholder.

At 31 December 2009, environmental obligations of USD 90,518 thousand were almost three times higher than at the same date of 2008. This was mainly due to a substantial re-estimation of decommissioning assets and provision for land restoration as a result of decrease in the applied discount rate from 15% to the range 6.6-10.2%. Additional obligations also related to the Kazakhstan business unit.

In 2009, deferred tax liabilities totalled USD 180,989 thousand which is 22% more than in the previous year (USD 148,244 thousand) resulting primarily from an increase in income tax liabilities in respect of valuation of inventory and amortised deferred stripping costs. The increase in the liability was recognized through the income statement for the period in the amount of USD 14,936 thousand.

Other non-current liabilities included liabilities for bank guarantees and for historical costs liability assumed upon the acquisition of KazakhGold Group and its consolidation with the Polyus Gold financial statements. The bank guarantee liability was incurred by a KazakhGold Group's subsidiary JSC "MMC KazakhAltyn" in 2006 in respect of finance lease agreements. At 31 December 2009 the Polyus Group fully provided for potential losses related to the bank guarantee liability in the amount of USD 11,014 thousand (full amount of USD 13,249 thousand less USD 2,235 thousand representing the current portion of this amount). The historical costs liability relates to amounts oweing for geological studies due to the Government of Kazakhstan, which were reflected in the statement of financial position as at 31 December 2009 at a net present value of USD 4,512 thousand.

Current liabilities

Current liabilities increased from USD 101,698 as at 31 December 2008 thousand to USD 336,481 thousand, mostly related to short-term borrowings at KazakhGold Group, which were consolidated within the Polyus Gold Group financial statements following the acquisition.

At 31 December 2009, the statement of financial position reflected KazakhGold Senior Notes at fair value and bank loans obtained by KazakhGold Group's principal subsidiary, JSC "MMC KazakhAltyn" redeemable within three months, while at 31 December the Polyus Group had no short-term borrowings. In connection with the acquisition of KazakhGold, Polyus Gold has become a limited liability guarantor of the outstanding USD 200 million Senior Notes issued by KazakhGold. At 31 December 2009, the liability under the Senior Notes was reflected in the Polyus Group's statement of financial position at fair value at acquisition and carried at amortized cost and was classified as a current liability, as a result of KazakhGold Group's default under certain terms of the Senior Notes.

Trade payables increased by USD 6,414 thousand primarily as a result of addition of the Kazakhstan business unit liabilities and abandon from advances for purchasing and moves to increase payables due to unstable financial situation on the market. There was a tendency to renegotiate terms of contracts with existing suppliers and negotiate after-delivery payments with new suppliers. Other payables grew by 41% mainly due to accrual of dividends payable to minority shareholders of OJSC Lenzoloto (Irkutsk alluvial business unit) and some payables of KazakhGold Group. Wages and salaries payable increased from USD 37,159 thousand to USD 43,212 thousand, mainly on account of the consolidation of the Kazakhstan business unit. The latter also accrued interest on a loan from Jenington and interest on the Senior Notes for the total amount of USD 2,821 thousand. Accrued annual leave payments totalled USD 27,530 thousand at the end of the reporting period, compared to USD 18,542 thousand at the end of the previous period. The 48% increase mainly comes from the Krasnoyarsk and the consolidation of the Kazakhstan business unit.

At an extraordinary General Shareholders' meeting which took place on 14 September 2009, the decision was made to pay dividends based on the first half 0f 2009 results. During 2009 the Polyus Group paid USD 40,387 thousand as dividends to Polyus Gold shareholders. As at the end of the reporting year, there was no dividends payable liability relating to shareholders of Polyus Gold.

At the end of 2009, income tax payable amounted to USD 2,609 thousand. Other taxes payable grew substantially from USD 16,827 thousand to USD 43,623 thousand with the addition of KazakhGold, as there are VAT obligations at KazakhGold which were not part of the Group in the previous year. In 2009, the Polyus Group's mining tax payable increased by 79% as a result of additional charges for the previous periods.

16.4.2 Cash flow analysis

The following table sets forth the main components of the Polyus Group's consolidated cash flow statement for the years ended 31 December 2009, 2008 and 2007:

USD '000	As at 31 December		
	2009	2008	2007 (restated)
Operating activities			
Profit before income tax	432,020	122,471	177,107
Adjustments[1]	194,413	308,564	159,594
Operating profit before working capital changes	626,433	431,035	336,701
Changes in working capital	(172,706)	(145,947)	(40,197)
Cash flows from operations	453,727	285,088	296,504
Interest paid	(10,795)	(2,434)	(1,671)
Income tax paid	(99,832)	(90,421)	(50,187)
Net cash generated from operating activities	343,100	192,233	244,646
Investing activities			
Capital expenditures, acquisition of subsidiaries and deferred stripping costs[2]	(495,990)	(629,842)	(459,394)
Other investments spendings/proceeds[3]	(20,075)	700,728	90,648
Net cash (used in)/generated from investing activities	(516,065)	70,886	(368,746)
Net cash generated from/(used in) financing activities	(56,698)	(43,588)	42,337
Effect of translation to presentation currency	4,197	(46,879)	13,740
Net (decrease)/increase in cash and cash equivalents	(225,466)	172,652	(68,023)
Cash and cash equivalents at beginning of the year	398,826	226,174	294,197
Cash and cash equivalents at end of the year	173,360	398,826	226,174

[1] Adjustments for non-cash items include: the share option plan, amortisation and depreciation, expensed stripping costs, finance costs, loss on disposal of property, plant and equipment, change in allowance for obsolescence of inventory, change in provision for land restoration, impairment of property, plant and equipment, change in allowance for reimbursable value added tax, income/(loss) from investments, change in fair value of derivative, foreign exchange (gain)/loss, net and other items.
[2] Capital expenditures, acquisition of subsidiaries and deferred stripping costs include purchases of property, plant and equipment, acquisition of shares in subsidiaries, deferred stripping costs capitalised, proceeds from sale of property, plant and equipment and proceeds from sale of shares in subsidiaries.
[3] Other investments spendings/proceeds include repayment of contingent consideration, dividends received, interest received, purchase of promissory notes and other financial assets and proceeds from sale of promissory notes and other financial assets.

In 2009, the Polyus Group generated income before tax in the amount of USD 432,020 thousand. Operating profit before working capital changes amounted to USD 626,433 thousand, which was 45% higher than in the previous year. In 2009 working capital changes were 18% higher than in 2008 and were affected mainly by growth in metal inventories. In the reporting period, net cash generated from operating activities increased by USD 150,867 thousand to USD 343,100 thousand.

In the reporting year, capital expenditures and acquisition of subsidiaries totalled USD 495,990 thousand, compared to USD 629,842 thousand in the previous period. Deferred stripping costs were capitalized in 2009 but were charged to operating costs in accordance with the Polyus Group's accounting policy. In addition, in the period under review the Polyus Group deposited cash on bank accounts, which resulted in a USD 170,811 thousand cash outflow. This was partly offset by proceeds from disposal of deposits, available-for-sale investments and investments in securities held for trading for a total consideration of USD 137,702 thousand. As a result, in 2009 the Polyus Group used USD 516,065 thousand in investment activities, while in 2008 it received USD 70,886 thousand in investment activities.

Cash outflow from financing activities in the year ended 31 December 2009 totalled USD 56,698 thousand, as compared to USD 43,588 in the year ended 31 December 2008. The major cash outflows during the reporting year were payment of dividends in respect of the first half 2009 results and repayment of borrowings by KazakhGold Group during the final 5 months of 2009.

16.4.3 Capital expenditures, acquisitions of subsidiaries and deferred stripping costs

Capital expenditures represent the Polyus Group's purchase of property, plant and equipment adjusted for the proceeds from the sale of property, plant and equipment. The Polyus Group also presents capitalised deferred stripping costs and the acquisition of subsidiaries adjusted for the repayment of contingent consideration and proceeds from the disposal of such subsidiaries.

The following table shows the Polyus Group's capital expenditures, acquisition of subsidiaries and deferred stripping costs for the years ended 31 December 2009, 2008 and 2007:

USD '000	As at 31 December		
	2009	2008	2007 (restated)
+ Purchase of property, plant and equipment	302,405	481,504	382,802
– Proceeds from sale of property, plant and equipment	(1,270)	(5,747)	(17,952)
Net capital expenditures	301,135	475,757	364,850
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	182,247	39,156	–
+ Repayment of contingent consideration on acquisition of subsidiaries	–	19,616	38,228
– Proceeds from disposal of subsidiary, net of cash disposed of	–	–	(1,320)
Acquisition of subsidiaries, net of adjustments above	182,247	58,772	36,908
+ Deferred stripping costs capitalised	12,608	95,313	57,636
Total capital expenditures, acquisition of subsidiaries and deferred stripping costs	495,990	629,842	459,394

In 2009, total capital expenditures, acquisition of subsidiaries and deferred stripping costs equalled USD 495,990 thousand, which was 21% less than in 2008. In the reporting period, the Polyus Group implemented its capital expenditures programme and expended USD 301,135 thousand on property, plant and equipment, including equipment for mills under construction, mining and construction equipment and rolled metal products. The largest amounts were spent on the construction of the Blagodatnoye mine, modernization program at Olimpiada aimed at raising the mine's operating efficiency after complete transition to refractory sulfide ores processing, and development of key growth projects: Natalka, Titimukhta and Verninskoye.

In 2009, the Polyus Group expended USD 182,247 thousand on acquisition of subsidiaries, reflecting cash consideration of acquisition of a 50.15% stake in KazakhGold Group.

In the reporting period the Polyus Group capitalised stripping costs in the amount of USD 12,608 thousand.

16.5. Description of principal risks

The activities of the Polyus Group (hereinafter the Company) are associated with a number of risks that may affect the Company's production and financial results. The current global financial crisis has exacerbated the risks facing the mining industry, though the Company believes that gold mining companies, in general, are in a better position to weather such additional risks than producers of other metals.

The Company is committed to achieving successful development, including through ensuring an effective risk management system designed to achieve optimal results, an efficient distribution of resources, and a strengthening of the Company's competitiveness. Successful risk management requires, amongst other things, the identification and assessment of potential threat parameters, and the development of measures aimed at the mitigating potential risks. The Company has developed internal procedures governing the process though which risks are managed. Such procedures require that each business unit has a designated risk manager, identifies risks facing the unit, and takes measures aimed at lowering its risk levels.

16.5.1 Risks connected with the financial and economic crisis

Risks associated with failures to perform under existing agreements and of securing new equipment and material supply agreements

One of the consequences of the global financial crisis is a material drop in the financial status or credit ratings of a number of enterprises in Russia and internationally that manufacture and supply spare parts and equipment. Any possible suspension of their activities would increase the risk of them failing to perform their contractual obligations, possibly resulting in the late delivery of equipment and materials. Further failures to observe the Company's logistic schedules may affect the launch time of new production capacities and the fulfilment of the Company's production plans.

To attempt to mitigate the risk of late delivery, the Company monitors the financial status of its major counterparties on a regular basis and takes measures to increase the number of actual, and potential, counterparties with which it conducts business.

Risks associated with insufficient credit resources

The Company currently has no significant debts payable and is currently facing high prices and demand for gold.. Coupled with ample liquidity reserves in the form of the Company's own cash resources, the Company believes it has a sufficient level of capital to continue the current activities of the Company's enterprises and to fulfil currently approved plans aimed at the expansion of production capacities and production volumes. However, the global financial crisis has resulted in little, if any, access to the capital markets and increased the costs associated with securing credit lines. If the Company is unable to access credit, or if this credit is more costly to it, the implementation of a number of major projects may need to be adjusted.

Risk of the government's rejection to take part in the implementation of projects

As a result of various economic and political factors, including current economic recession, it is likely that the Government of the Russian Federation will have to revisit the priorities of the Investment Fund of the Russian Federation project with due regard for its social consequences and regional effects.

The absence of accurate forecasts of economic growth and uncertain macroeconomic trends may lead to a reduction in the Government's investment budget, which could impact the Government's ability to co-finance a number of the Company's projects, leading to such projects being indefinitely postponed.

16.5.2 Risks characteristic of mining industry enterprises

Operational risks

Ore and mineral reserves are difficult to quantify, actual volumes may be inaccurate and are therefore subject to significant correction

The Company's activities are heavily reliant upon its available stocks and resources. The evaluation of ore and mineral reserves depends to a certain extent on statistical conclusions made on the basis of the results of limited volumes of drilling and other analyses that may turn out to be incorrect. The evaluation and classification of ore and mineral reserves may also be affected by the changes in the prices of gold. If the quantity and quality of the explored reserves are not confirmed, the production efficiency may deteriorate as a result of labor consuming mining operations.

The Company engages independent experts to conduct audits on prospective and existing deposits and to provide reports on the results of the exploration activity, mineral and ore resources and reserves. The Company's reserves were audited by Micon International from 2006 to 2008.

Risks connected with mining and production activity

The Company's production activities are carried out in remote regions, which are subject to severe climatic conditions. As a result, the delivery of equipment, technological materials and spare parts is more difficult, thus affecting production costs. Mining machinery, transport and new technologies, including those developed by the Company, are used for operations in areas which have complicated geological and climatic conditions.

There are increased risks of flooding, pit slope and rim slide, accidents caused by the use of the mining transport equipment and preparation and performance of explosion works in the pit, reduction of gold production due to adverse weather conditions and problems in the power supply facilities and recovery plants. These risks could result in suspended ore production and recovery, increased costs, health, safety and environmental issues and affect the Company's production activities.

The Company aims to mitigate the risks associated with unplanned production interrupions through various processes, including probability analysis and effective risk management. Such risk management includes the identification of potential threat parameters, the identification of defined risk categories and the adoption of measures designed to prevent accidents and emergencies. A risk reduction programme is also currently in the process of being developed.

Risks associated with the implementation of investment projects
The implementation of the Company's investment projects is subject to market, technical, production and operational risks.

Market risks induced by the changes in the price of gold, exchange rates and inflation may affect the implementation of the Polyus Group's projects. Technical, production and operational risks include construction delays, and malfunction due to errors in the design, construction or installation, which may lead to higher costs and affect the Company's results.

To reduce these project risks the Company has developed a procedure for a careful and comprehensive study, selection and analysis of investment projects proposed for implementation. Each project is subject to approval by the Company's Investment Committee, which is constituted by members with expertise in economics, production and law. Control over investment projects is exercised at all the stages of implementation.

Risks connected with acquisition and merger transactions
The Company actively looks for opportunities to invest in the gold mining industry both in Russia and abroad. Such acquisitions and mergers inevitably entail a variety of risks. To reduce the risks connected with any acquisition and merger transaction, the Company conducts a comprehensive analysis of the pending transactions and an assessment of the consequences with due regard for the political, economic, ecological and social factors.

16.5.3 Financial risks

Inflation and market risks
Increased inflation induced by the current economic climate may have an adverse impact on the Company's financial results. Costs which are subject to inflationary changes are denominated in Russian rubles and the Kazakhstan tenge and, in particular, include materials and utilities, wages and services. Furthermore, increasing tariff rates of the natural monopolies may result in increased costs.

In order to reduce the impact of increasing tariff rates, the Company seeks to develop and modernize its own energy-generating facilities and to purchase and consume energy resources based on long – term fixed-price contracts. Prospective inflationary changes are also considered as a part of the analysis when planning budget and costs of implementing investment projects.

The Company's income is sourced from gold sales, which are generally effected at spot prices. Gold prices are quoted in international markets in US dollars. Accordingly, the economic results of the Company depend, to a considerable extent, on the fluctuations in gold prices. The gold market is cyclical and sensitive to any economic changes. The price of gold is subject to substantial fluctuations and are affected by a number of factors which are beyond control of the Company. A substantial continued price reduction may result in a reduction in profitability of gold exploration and extraction activities. In the current economic climate, gold is used to hedge potential losses in currency and capital markets. Therefore currently the level of demand for gold remains stable and maintains high price levels.

Liquidity Risk

Management of liquidity risk is intended to maintain a sufficient level of monetary resources to fund production-, management-, and investment-related needs, to ensure stability of compliance with the financial obligations of the Company and to develop the appropriate capital structure. The Company monitors on a regular basis the following risks: production levels, operational expenditures, prices of raw materials, volumes of floating assets and capital expenditure. The enterprises of the Company implement a co-ordinated and automatic program of cash asset record-keeping. The measures taken to regulate liquidity risk enable the Company to maintain its competitiveness and long-term financial solvency.

16.5.4 Regulatory risks

The activities of the Company may be adversely impacted by the failure to obtain, or the termination or non-renewal of its licenses.

The ability of the Company to carry out its activities depends on its licenses, in particular those licenses relating to the use of mineral resources, and on being able to obtain new licenses and complying with their terms. The terms of the license agreements require the Company to comply with a number of industrial standards, employ qualified personnel, ensure that the necessary equipment and operation quality control systems are available, maintain relevant documentation and provide information to the licensing authorities when requested. Failure to comply with such terms may result in the termination of the licenses critical to the operations of the Company or confer obligations on the Company, which may decrease its profitability.

The Company is focused on improving the system control over compliance with license agreements and industrial standards requirements. These control activities include the analysis and response to comments or reports made by state regulatory and supervisory authorities in connection with inspections of the Polyus Group's business activities.

Tax Risks

As with all Russian mining companies, the Company pays a significant amount of taxes. The tax obligations of the Company can result in uncertainties due to the ambiguity of certain tax legislation. The risks include: ambiguous interpretation of law, inconsistent application of legislation, amendments to tax legislation or change in application. Such risks may result in fines, penalties and other sanctions. One of tasks of managing the risks of the Company is to promptly identify, assess and eliminate the risks.

Changes of Environmental Legislation

The Company's activities are subject to environmental control and regulation as a result of the use of environmentally hazardous substances, and the disposal of operational waste and hazardous substances into the environment, soil disturbance, potential harm to wildlife and other factors.

The Company seeks to comply with its environmental obligations and follows the requirements of Russian and international standards, agreements, conventions and protocols applicable to it. The task of enhancing efficiency of Company performance is intended, among other things, to reduce emissions of hazardous substances and develop waste disposal sites. The changes in environmental legislation and introduction of stricter licensing requirements may result in additional expenditures to modify industrial process and an increase in environmental charges.

16.6. Key features of internal control and risk management system in relation to the financial reporting process

The Company has internal control and risk management system in place, primarily aimed at insuring fairness and reliability of the Company's financial statements.

Given bellow are the key elements of the system:

1. Internal financial and economic control act approved by the Board of directors. The following procedures are regulated by the document:
   - Activity allocation and delegations of powers on key functions, ensuring best interaction between departments.
   - Organization of data collection, processing and transmission, which includes formation of reports and messages containing operational, financial and other kinds of information about the Company's activities, creating efficient data channels and communication tools supporting both vertical and horizontal corporate interactions.
   - Communicating to all the Company's employees of their obligations in respect of internal control.
   - Choosing appropriate methods of accounting of events, operations and transactions.
   - Ensuring that all activities are carried out by authorized people.
   - Segregation of key duties between people, including duties relating to approval and confirmation of certain operations, accounting of operations, access to resources, analyses and verification of operations.
   - Regular assessments of internal control systems.

2. Audit Committee, responsible for:
   - Review of financial statements, review of financial statements audit results, discussions with external auditor and management, before the financial statements and financial statements audit results are submitted to the Board;
   - Consideration of significant accounting and auditing issues, such as amendments and changes in the accounting policy, that may affect the financial results of the Company;
   - Preparation of auditor's report assessment, which is included into the list of materials for the annual general shareholders meeting (refer to Corporate governance report for more information about Audit Committee).

3. Internal audit Group, one of the key responsibilities of which being monitoring of existing procedures of risk management and internal control in relation to the financial reporting process.

4. Audit commission, responsible for ensuring fairness and reliability of the Company's annual report, balance sheet and income statement prepared in accordance with Russian accounting standards.

While preparing and improving its internal control and risk management systems, the Company relies, among others, on recommendations of Codex of corporate conduct, approved by the Government of the Russian Federation on November 28th, 2001.

Accounting policy

The Company's accounting policy is approved by its management and is used for the preparation of audited annual financial statements in accordance with IFRS. The accounting policy is revised annually to adopt of new and revised Standards, Interpretations and changes in IFRS and to ensure more reliable and relevant presentation of information about the Company's assets, liabilities and financial results.

External Audit

The Audit committee manages the relationship with the External Auditor on behalf on the Board. It considers the remuneration and other terms of the engagement of the External Auditor and makes recommendations in connection therewith to the Board.

The Audit committee reviews the integrity, independence and objectivity of the External Audit through the regular meetings with auditors. The External Auditor also certifies its independence to the Audit committee.

Approximately once every two to three years the management considers proposals from leading auditing companies to become its external auditor, and makes a decision whether to keep the existing auditor or change to another. The last competitive audit tender was in 2009 when ZAO “Deloitte and Touche CIS” was appointed by the Board on the recommendation of Audit committee.

Although the External Auditor does provide some non-audit services, the objectivity and independence of the External Auditor is safeguarded through restrictions on the provision of these services.

Based on the review by the Audit committee, the Board confirms that the External Auditor is independent.

17. Consolidated financial statements

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Statement of Management's Responsibilities for the Preparation And Approval of the Consolidated Financial Statements for the Year Ended 31 December 2009

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Polyus Gold" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2009 were approved by the Board of Directors on 27 April 2010:

Ivanov E.I.

General Director

Ignatov O.V.

Deputy General Director

Moscow, Russia
29 April 2010

Independent Auditors’ Report

To shareholders of Open Joint Stock Company “Polyus Gold”:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company “Polyus Gold” and its subsidiaries (hereinafter refer to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, cash flows, changes in equity for for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the consolidated 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 the financial statements that are free from material misstatement, 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 audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 auditors’ 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 auditors consider internal control relevant to the Group’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 Group’s internal control. An audit also includes evaluating the appropriateness of accounting policies 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 audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russia
29 April 2010

Consolidated financial statements for the year ended 31 December 2009

Consolidated Income Statement for the Year Ended 31 December (in thousands of US Dollars)

	Notes	2009	2008
Gold sales	6	1,199,088	1,062,331
Other sales		26,136	24,987
Total revenue		1,225,224	1,087,318
Cost of gold sales	7	(575,122)	(558,118)
Cost of other sales		(25,541)	(25,061)
Gross profit		624,561	504,139
Selling, general and administrative expenses	8	(155,012)	(134,960)
Research expenses		(1,265)	(4,959)
Other expenses, net	9	(32,955)	(17,056)
Finance costs	10	(18,870)	(4,417)
Income/(loss) from investments	11	14,197	(217,591)
Foreign exchange gain/(loss), net		1,364	(2,685)
Profit before income tax		432,020	122,471
Income tax	12	(108,837)	(62,110)
Profit for the year		323,183	60,361
Attributable to:			
Shareholders of the parent company		321,604	51,507
Non-controlling interest		1,579	8,854
		323,183	60,361
Earnings per share			
Weighted average number of ordinary shares in issue during the year		178,803,493	178,138,065
Basic and diluted (US cents)		180	29

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income for the Year Ended 31 December (in thousands of US Dollars)

	2009	2008
Profit for the year	323,183	60,361
Other comprehensive income/(loss)		
Increase/(decrease) in fair value of available-for-sale investments	18,201	(8,549)
Realised gain on disposal of available-for-sale investments (net of tax in the amount of USD nil (2008: USD 7,200 thousand)	(696)	(28,358)
Exchange difference on translation of foreign operations	36,219	214,920
Effect of translation to presentation currency	(81,233)	(691,274)
Other comprehensive loss for the year	(27,509)	(513,261)
Total comprehensive income/(loss) for the year	295,674	(452,900)
Attributable to:		
Shareholders of the parent company	294,160	(454,226)
Non-controlling interest	1,514	1,326
	295,674	(452,900)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position at 31 December (in thousands of US Dollars)

	Notes	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,299,071	1,772,319
Goodwill	15	132,906	-
Deferred stripping costs	14	106,088	163,988
Inventories	17	40,732	39,063
Investments in securities and other financial assets	16	114,792	4,095
Long-term portion of reimbursable value added tax		5,899	9,188
Other non-current assets		-	2,164
		2,699,488	1,990,817
Current assets			
Inventories	17	415,238	233,001
Reimbursable value added tax		103,688	104,872
Trade and other receivables	18	17,810	15,513
Advances paid to suppliers	19	20,773	14,558
Investments in securities and other financial assets	16	312,733	285,236
Income tax prepaid		27,152	17,545
Other current assets	20	20,637	18,494
Cash and cash equivalents	21	173,360	398,826
		1,091,391	1,088,045
TOTAL ASSETS		3,790,879	3,078,862
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	6,871	6,871
Additional paid-in capital		2,081,626	2,116,655
Treasury shares	22	(626,313)	(724,927)
Investments revaluation reserve		17,505	-
Translation reserve		(90,407)	(43,406)
Retained earnings		1,686,818	1,401,540
Equity attributable to shareholders of the parent company		3,076,100	2,756,733
Non-controlling interest		64,871	37,808
		3,140,971	2,794,541
Non-current liabilities			
Borrowings	25	26,394	-
Deferred tax liabilities	12	180,989	148,244
Environmental obligations	23	90,518	34,379
Other non-current liabilities	24	15,526	-
		313,427	182,623
Current liabilities			
Borrowings	25	173,437	-
Trade payables	26	24,332	17,918
Other payables and accrued expenses	26	92,480	65,609
Income tax payable		2,609	1,344
Other taxes payable	27	43,623	16,827
		336,481	101,698
TOTAL LIABILITIES		649,908	284,321
TOTAL EQUITY AND LIABILITIES		3,790,879	3,078,862

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year Ended 31 December (in thousands of US Dollars)

	Notes	2009	2008
Operating activities			
Profit before income tax		432,020	122,471
Adjustments for:			
Amortisation and depreciation		98,561	86,927
Finance costs		18,870	4,417
Expensed stripping cost		65,847	-
Loss on disposal of property, plant and equipment		3,875	548
Impairment of property, plant and equipment		10,859	1,831
Change in provision for obsolete inventory		3,639	1,489
Change in provision for land restoration		7,379	(8,530)
Change in allowance for reimbursable value added tax		(171)	7,078
(Income)/loss from investments		(14,197)	217,591
Foreign exchange (gain)/loss, net		(1,364)	2,685
Other		1,115	(5,472)
		626,433	431,035
Movements in working capital			
Inventories		(176,327)	(101,665)
Trade and other receivables		1,562	(4,734)
Advances paid to suppliers		(5,456)	8,140
Other current assets and reimbursable value added tax		4,772	(49,038)
Trade payables		(8,416)	(3,500)
Other payables and accrued expenses		13,501	5,884
Other taxes payable		(2,342)	(1,034)
Cash flows from operations		453,727	285,088
Interest paid		(10,795)	(2,434)
Income tax paid		(99,832)	(90,421)
Net cash generated from operating activities		343,100	192,233
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	4	(182,247)	(39,156)
Repayment of consideration on acquisition of subsidiaries		-	(19,616)
Purchase of property, plant and equipment		(302,405)	(481,504)
Deferred stripping costs capitalised		(12,608)	(95,313)
Proceeds from sale of property, plant and equipment		1,270	5,747
Interest received		13,034	43,967
Purchase of promissory notes and other financial assets		(170,811)	(7,390)
Proceeds from sale of promissory notes and other financial assets		137,702	664,151
Net cash (used in)/generated from investing activities		(516,065)	70,886

Consolidated Statement of Cash Flows for the year Ended 31 December (continued) (in thousands of US Dollars)

	Notes	2009	2008
Financing activities			
Repayments of borrowings		(13,760)	(19,034)
Repayments of finance lease obligations		(400)	(1,622)
Proceeds from issuance of Company's shares from treasury shares	22	-	1,334
Dividends paid to shareholders of the Company	22	(40,387)	(22,258)
Dividends paid to shareholders of non-controlling interest		(2,151)	(2,008)
Net cash used in financing activities		(56,698)	(43,588)
Net (decrease)/increase in cash and cash equivalents		(229,663)	219,531
Cash and cash equivalents at beginning of the year		398,826	226,174
Effect of translation to presentation currency on cash and cash equivalents		4,197	(46,879)
Cash and cash equivalents at end of the year	21	173,360	398,826

Non-cash investing activities in 2009 also included issuance of treasury shares as a consideration for acquisition of KazakhGold in the amount of USD 63,585 thousand (refer to note 4).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2009 (in thousands of US Dollars)

	Notes	Equity attributable to shareholders of the parent company								Total
		Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	
Balance at 31 December 2007		6,871	2,118,165	(730,450)	36,907	425,727	1,404,554	3,261,774	47,187	3,308,961
Profit for the year		-	-	-	-	-	51,507	51,507	8,854	60,361
Other comprehensive loss (net of tax of USD 7,200 thousand)		-	-	-	(36,907)	(468,826)	-	(505,733)	(7,528)	(513,261)
Total comprehensive loss		-	-	-	(36,907)	(468,826)	51,507	(454,226)	1,326	(452,900)
Dividends to shareholders of the parent company	22	-	-	-	-	-	(22,258)	(22,258)	-	(22,258)
Dividends to shareholders of non-controlling interest		-	-	-	-	-	-	-	(2,008)	(2,008)
Decrease in non-controlling interest due to increase in ownership in subsidiaries	4	-	-	-	-	-	(30,887)	(30,887)	(10,073)	(40,960)
Increase in non-controlling interest due to change of shareholding structure of subsidiaries	4	-	-	-	-	-	(1,376)	(1,376)	1,376	-
Issuance of shares from treasury shares under share option plan	22	-	(1,510)	5,523	-	(307)	-	3,706	-	3,706
Balance at 31 December 2008		6,871	2,116,655	(724,927)	-	(43,406)	1,401,540	2,756,733	37,808	2,794,541
Profit for the year		-	-	-	-	-	321,604	321,604	1,579	323,183
Other comprehensive income/ (loss)		-	-	-	17,505	(44,949)	-	(27,444)	(65)	(27,509)
Total comprehensive income		-	-	-	17,505	(44,949)	321,604	294,160	1,514	295,674
Issuance of shares from treasury shares as a part of consideration for acquisition of subsidiaries	22	-	(35,029)	98,614	-	(2,052)	2,052	63,585	-	63,585
Acquired on acquisition of subsidiary	4	-	-	-	-	-	-	-	30,545	30,545
Dividends to shareholders of the parent company	22	-	-	-	-	-	(38,378)	(38,378)	-	(38,378)
Dividends to shareholders of non-controlling interest		-	-	-	-	-	-	-	(4,996)	(4,996)
Balance at 31 December 2009		6,871	2,081,626	(626,313)	17,505	(90,407)	1,686,818	3,076,100	64,871	3,140,971

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2009

1. General

Organisation

Open Joint Stock Company "Polyus Gold" (the "Company" or "Polyus Gold") was incorporated in Moscow, Russian Federation, on 17 March 2006. The Company was formed as a result of a spin-off from OJSC "Mining and Metallurgical Company Norilsk Nickel" ("Norilsk Nickel"). The principal activities of the Company and its subsidiaries (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation and in the Republic of Kazakhstan. The Group also performs research, exploration and development works, primarily at the Natalka field located in the Magadan region, Nezhdaninskoe field located in the Sakha Republic and in the Republic of Kazakhstan. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 32.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

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

The consolidated financial statements of the Group are prepared on the historical cost basis, except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Adoption of new and revised Standards and Interpretations

In the preparation of the consolidated financial statements, the Group has adopted all of the new and revised International Financial Reporting Standards and Interpretations issued by IFRIC that are relevant to its operations and effective for the annual reporting periods reported herein. The principles changes due to implementation were as follows:

IFRS 8 *Operating Segments* (adopted 1 January 2009, revised in April 2009 and early adopted revisions from 1 January 2009)

This standard requires disclosure of financial information about the Group's operating segments based on the management reporting system and replaces the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect of the financial position or performance of the Group. Segment information presented in these consolidated financial statements complies with management reporting system, including comparative information for the year ended 31 December 2008. Additional information and disclosure about each of the operating segments are presented in note 5.

IAS 1 *Presentation of Financial Statements* (as revised in 2007 and effective 1 January 2009)

This revised standard separates owner and non-owner changes in the statement of changes in equity. Based on revised standard the statement of changes in equity includes only details of transactions with owner, with non-owner changes in equity presented as a single line item and separately disclosed in the statement of comprehensive income. In addition, the Standard introduces the statement of comprehensive income and introduces new names of some statements. All information presented in these consolidated financial statements was amended, accordingly.

IFRS 3 *Business Combinations* (as revised in 2008 and effective 1 July 2009)

IFRS 3 (2008) has been adopted in the current year in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009). Its adoption has affected the accounting for business combinations in the current period.

In accordance with the relevant transitional period, IFRS 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009. The impact of adoption of IFRS 3 (2008) has been to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as “minority interest”) either at fair value or at the non-controlling interests’ share of the fair value of the identifiable net assets of the acquiree. In the current period, when accounting for the acquisition of KazakhGold Group Limited, the Group has elected to measure the non-controlling interests at non-controlling interest’s share of the fair value of the identifiable net assets acquired at the date of acquisition. Adoption of IFRS 3 (2008) required acquisition-related costs being accounted separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted as a part of the cost of the acquisition.

In the current period, these changes have resulted in decrease in profit and other comprehensive income for the year ended 31 December 2009 in the amount of USD 11,911 thousand as a result of inclusion of acquisition-related costs into Selling, General and Administrative expenses. Under previous IFRS 3 the Group would have accounted acquisition-related costs as a part of the cost of acquisition.

IFRS 3 (2008) has also required additional disclosures in respect of the business combinations in the period (refer to note 4).

IFRS 7 *Financial Instruments: Disclosures* (revised and effective 1 January 2009)

This amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments. Additional information and disclosure about fair value are presented in note 30. Liquidity risk disclosure is not significantly impacted by these amendments.

IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2008 and effective 1 July 2009)

IAS 27 (2008) has been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009). The revisions to IAS 27 principally affect the accounting for non-controlling interest. Under the revised standard total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

In the current period, these changes have affected the accounting for non-controlling interest, resulting a decrease of non-controlling interest in the amount of USD 3,492 thousand as a result of allocating losses to the non-controlling interest.

In accordance with relevant transitional period, IAS 27 (2008) has been applied prospectively in respect of the amendment for attributing total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Standards and interpretations adopted with no effect on the financial statements

The revisions and amendments to the following Standards and Interpretations presented below did not have any significant impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based Payments*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 7 *Statement of Cash Flows*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 18 *Revenue*;
- IAS 19 *Employee Benefits*;
- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
- IAS 23 *Borrowing Costs*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IAS 28 *Investments in Associates*;
- IAS 29 *Financial Reporting in Hyperinflationary Economies*;
- IAS 31 *Interests in Joint Ventures*;
- IAS 32 *Financial Instruments: Presentation*;
- IAS 36 *Impairment of Assets*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IAS 40 *Investment Property*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 17 *Distribution of Non-Cash Assets to Owners* (adopted in advance of effective date of 1 July 2009);
- IFRIC 18 *Transfers of Assets from Customers* (adopted for transfers of assets from customers received on or after 1 July 2009).

Standards and interpretations in issue but not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective for 2009:

Standards and interpretations	Effective for annual periods beginning on or after
IAS 1 *Presentation of Financial Statements* (amended)	1 January 2010
IAS 7 *Statement of Cash Flows* (amended)	1 July 2009 and 1 January 2010
IAS 17 *Leases* (amended)	1 January 2010
IAS 21 *The Effects of Changes in Foreign Exchange Rates* (amendments)	1 July 2009
IAS 24 *Related Parties: Disclosures* (amended)	1 January 2011
IAS 28 *Investments in Associates* (revised due to revision of IFRS 3)	1 July 2009
IAS 31 *Investments in Joint Ventures* (revised due to revision of IFRS 3)	1 July 2009
IAS 32 *Financial Instruments: Presentation* (amended)	1 February 2010
IAS 36 *Impairment of Assets* (amended)	1 January 2010
IAS 38 *Intangible Assets* (amended)	1 July 2009
IAS 39 *Financial Instruments: Recognition and Measurement* (amended)	1 July 2009 and 1 January 2010
IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended)	1 July 2009
IFRS 2 *Share-based Payment* (amended)	1 January 2010
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (amended)	1 January 2010
IFRS 9 *Financial Instruments*	1 January 2013
IFRIC 14 IAS 19: *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (amended)	1 January 2011
IFRIC 16 *Hedges of a Net Investment in a Foreign Operations*	1 July 2009
IFRIC 17 *Distribution of Non-cash Assets to Owners*	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010

Management anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of these standards and interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

2. Significant accounting policies

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in consolidated subsidiaries is identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in net assets since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually, on 1 July. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Functional and presentation currency

The individual financial statements of the Group's subsidiaries are prepared in their functional currency.

The Russian Rouble ("RUB") is the functional currency of the Company and all subsidiaries of the Group, except for the following subsidiaries operating with significant degrees of autonomy:

Subsidiary	Functional currency
Jenington International Inc.	US Dollar
Polyus Exploration Limited	US Dollar
Polyus Investments Limited	US Dollar
JSC "MMC Kazakhaltyn" and its subsidiaries	Kazakh Tenge
KazakhGold Group Limited	US Dollar

The Group has chosen to present its consolidated financial statements in the US Dollar ("USD"), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is made as follows:

- all assets, liabilities, both monetary and non-monetary are translated at closing exchange rates at each reporting period end date;
- all income and expenses in each income statement are translated at the average exchange rates for the years presented;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within *Translation reserve*; and
- in the statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction. Resulting exchange differences are presented as *Effect of translation to presentation currency*.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	2009	2008
Russian Rouble/US Dollar		
31 December	30.24	29.38
Average for the year	31.72	24.86
Kazakh Tenge/US Dollar		
31 December	148.36	n/a
Average for the year	147.50	n/a

Foreign currencies

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Estimated 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. The majority of the Group's reserves are estimated in accordance with the JORC code or using the Russian Resource Reporting Code for alluvial gold reserves.

Mineral rights

Mineral rights are recorded as assets when acquired as part of a business combination and are then amortised within mining assets on a straight-line basis over the life of mines based on estimated proven and probable ore reserves.

Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditures are capitalised when it is expected that they will be recouped by future exploitation or sale, and when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold reserves. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable, capitalised exploration and evaluation assets are reclassified to mining assets.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

- the term of exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration licence areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out below.

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 mining and exploration licenses and the present value of future decommissioning costs.

Mining assets are amortised on a straight-line basis over the life of mines of 7 to 23 years, which is based on estimated proven and probable ore reserves. Amortisation is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

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 such assets:

- buildings, structures, plant and equipment 5-50 years;
- transport 3-11 years;
- other assets 3-10 years.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are placed into commercial production.

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. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

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.

Impairment of tangible assets, other than exploration and evaluation assets

An impairment review of tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any).Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in theconsolidated income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Deferred stripping costs

The Group accounts for stripping costs incurred using the average life of mine stripping ratio. The method assumes that stripping costs incurred during the production phase to remove waste ore are deferred and charged to operating costs on the basis of the average life of mine stripping ratio. The average stripping ratio is calculated as the number of cubic meters of waste material removed per ton of ore mined based on proven and probable reserves. The average life of mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life of mine ratio are accounted for prospectively as changes in accounting estimates.

Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life of mine ratio. Such deferred costs are then charged against profit and loss to the extent that, in subsequent periods, the current ratio falls short of the life of mine ratio.

The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or a change in circumstances indicate that the carrying value may not be recoverable. Amortisation of deferred stripping costs is included in cost of gold sales.

Deferred expenditures

Certain of the Group's surface (alluvial) mining operations are located in regions with extreme weather conditions, and gold at these locations can only be mined during certain months of the year. Costs incurred in preparation for future seasons, usually during winter months, are deferred until summer of the following year. Such expenditures mainly include excavation costs and mine specific administration costs, and are recognised on the consolidated statement of financial position within other current assets.

Inventories

Refined gold

Gold is measured at the lower of net production cost and net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, by the saleable mine output of gold.

Production costs include consumables and spares, labour, tax on mining, utilities, outsourced mining services, refining costs, sundry costs, amortisation and depreciation of operating assets, adjustments for deferred stripping costs capitalised/expensed, change in provision for land restoration and change in gold-in-process and refined gold.

Gold-in-process and stockpiles

Costs that are incurred in the production process are accumulated as stockpiles and gold-in-process. Net realisable value tests are performed at least annually and represent the estimated future sales price of the product, based on prevailing spot metal prices, less estimated costs to complete production and bring the product to sale.

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

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpiles are verified by periodic surveys.

Stores and materials

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

Financial assets

Financial assets are recognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group's financial assets are classified into the following categories:

- financial assets at fair value through profit or loss ("FVTPL");
- held-to-maturity investments;
- available-for-sale ("AFS") financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Income/(loss) from investments* line item in the consolidated income statement. Fair value is determined in the manner described in note 30.

Held-to-maturity investments

Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets mainly include investments in listed and unlisted shares.

Listed shares held by the Group that are traded in an active market are stated at fair value. Fair value of AFS is determined as follows:

- the fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised directly in equity in the *Investments revaluation reserve* with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in the consolidated income statement for the period.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group’s right to receive the dividends is established.

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

Loans and receivables

Loans and receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial liabilities
Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Finance costs
Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other finance costs are recognised in the consolidated statement of financial position in the period in which they are incurred.

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employee benefit obligations
Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Defined contribution plan

The Group contributes to the respective Pension Funds on behalf of all employees of subsidiaries in Russian Federation and in other jurisdictions where the Group operates. These contributions are recognised in the income statement when employees have rendered services entitling them to the contribution.

Defined benefit plans

In 2009, the Group has introduced defined benefits plans, which are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. The past service costs are recognised as an expense on straight-line basis over the average period until the benefits become vested. The past service costs at the introduction of the plans are being deferred and amortised on a straight-line basis over the expected average remaining working lives of the employees participating in the plans.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items that are recognised outside consolidated income statement, in which case the tax is also recognised outside consolidated income statement, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue recognition

Gold sales revenue

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

Other revenue

Other revenue consists of sales of electricity, transportation, handling and warehousing services, and other. Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements. Revenue from service contracts are recognised when the services are rendered.

Operating leases

The lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised in the consolidated income statement in the period in which they are incurred in accordance with lease terms.

Dividends

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

Retained earnings legally distributable by the Company 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.

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning 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. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the consolidated income statement as finance costs. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary with correspondence to property, plant and equipment.

Provision for land restoration, representing the cost of restoring land that arises when environmental disturbance is caused by the development or ongoing production of a mining property, is estimated at the net present value of the expenditures expected to settle the obligation. Change in provision and unwinding of discount on land restoration are recognised to the consolidated income statement and included in cost of production.

Ongoing restoration costs are expensed when incurred.

3. Critical accounting estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Exploration and evaluation assets

Management's judgment is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploitation or sale. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities, and some of its licensed properties contain gold reserves under the definition of ore reserves under internationally recognised reserve reporting methodology. A number of licensed properties have no resource delineation. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- deferred stripping costs;
- impairment of tangible assets;
- calculation of allowances;
- environmental obligations;
- renewal of a license; and
- income taxes.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- change of estimates of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Deferred stripping costs

The Group defers stripping costs incurred during the production stage of its open-pit operations, on the basis of the average life of mine stripping ratio.

The factors that could affect capitalisation and expensing of stripping costs include the following:

- change of estimates of proven and probable ore reserves;
- changes in mining plans in the light of additional knowledge and change in mine's pit design, technical or economic parameters; and
- changes in estimated ratio of the number of cubic meters of waste material removed per ton of ore mined.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Renewal of a license

The Group's geological research license for Kyutchus field expired on 31 October 2009. Management is in the process of applying for renewal and has assessed the probability of the renewal of the license as high. The consolidated financial statements are prepared based on management's expectation that either the term of this license will be renewed, or the Group will obtain an exploration and production license for the same area. Management's estimate is based on competitive advantage of the Group and historical experience of renewal of the licence. If the license is not renewed the Group will have to write off costs incurred in connection with this project with a carrying amount of USD 23,833 thousand as at 31 December 2009.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

4. Business combinations

Acquisition of controlling interest in subsidiaries in 2009

On 30 July 2009, the Group has acquired 50.2% of the outstanding share capital of KazakhGold Group Limited, a gold-mining company with primary operations in the Republic of Kazakhstan.

The Group made an offer to acquire 50.1% of outstanding share capital of KazakhGold (the "Partial Offer"). According to terms of the Partial Offer the Group offered 0.423 Polyus Gold shares ("Consideration Shares") in exchange for each KazakhGold share. On 30 July 2009, the partial Offer had become unconditional as to required number of acceptances and on 14 August 2009 announced that it had become unconditional in all respects. The market capitalisation of KazakhGold on 14 August 2009 ("Closing Date"), which represents the date on which approximately 96% of the KazakhGold shareholders had accepted the Partial Offer, was estimated at USD 439 million based on the issued and outstanding share capital of KazakhGold Group Limited at the Closing Date, and the closing price of Polyus Gold ADR's at that date.

According to the Partial Offer terms, 84.86% of Consideration Shares were repurchased immediately by the Group for cash at a price of USD 20 per each Consideration Share. The fair value of the remaining outstanding Consideration Shares (1,700,240 shares) was USD 63,585 thousand based on market quotations of Polyus Gold's shares on MICEX at the date of acquisition.

In addition to the share purchase, the Group has acquired from a significant shareholder of KazakhGold call options to acquire rights and obligations under convertible loan agreements. Under the convertible loan agreements the lender may convert the principal amounts of USD 31,025 thousand together with accrued interest into ordinary shares of KazakhGold at the price of USD 1.5 per share. The fair value of the call options for the convertible loans was estimated as USD 89,872 thousand at the date of entering into the call option. The value of the option has been recorded as a reduction to the consideration transferred for acquisition of KazakhGold.

Cash consideration for repurchased shares	190,615
Transfer of Company's treasury shares at fair value at the date of acquisition	63,585
Less: Consideration allocated to acquisition of call options for convertible loans	(89,872)
Total consideration transferred for the acquisition of KazakhGold	164,328

Acquisition-related costs amounting to USD 11,911 thousand have been recognised as an expense in the period, within the "*Selling, General and Administrative expenses*".

Assets acquired and liabilities assumed at the date of acquisition

	Provisional values at the date of acquisition
ASSETS	
Property, plant and equipment	344,034
Inventories	14,419
Trade and other receivables	6,887
Cash and cash equivalents	8,368
Other assets	3,784
LIABILITIES	
Borrowings	207,147
Deferred tax liabilities	21,092
Trade payables	11,148
Other payables and accrued expenses	17,135
Other taxes payable	32,814
Other liabilities	25,654
Identifiable net assets at the date of acquisition	62,502

The initial accounting for the acquisition of KazakhGold has been provisionally determined at the end of the reporting period. The necessary fair values and other calculations have not been finalised and therefore were provisionally accounted based on management’s best estimate.

The receivables acquired (which principally comprised other receivables) in these transactions with a provisional value of USD 6,887 thousand had gross contractual amounts of USD 16,595 thousand. The best estimate at acquisition date of the contractual cash flows not expected to be collected are USD 9,708 thousand.

Non-controlling interest

The non-controlling interests (49.8%) in KazakhGold recognised at the acquisition date was measured at the non-controlling interests proportionate share of the provisional value of the KazakhGold’s identifiable net assets and amounted to USD 30,545 thousand.

Goodwill arising on acquisition

Consideration transferred	164,328
Plus: Non-controlling interest	30,545
Less: Provisional value of identifiable net assets acquired	(62,502)
Goodwill arising on acquisition	132,371

The Group also acquired the customer lists and customer relationships of KazakhGold as part of the acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

Net cash outflow on acquisition

Consideration paid in cash	190,615
Less: Cash and cash equivalents acquired	(8,368)
Net cash outflow on acquisition	182,247

Impact of acquisition on the results of the Group

KazakhGold contributed USD 26,918 thousand of revenue and USD 31,865 thousand of loss after tax from the date of acquisition to 31 December 2009.

Had these business combinations been effected at 1 January 2009, the revenue of the Group would have been USD 1,229,462 million, and the profit for the year would have been USD 200,231 thousand. The directors of the Group consider these “pro-forma” numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Increase of ownership in subsidiaries in 2008

OJSC "Matrosov Mine"

On 7 September 2007, the Group acquired 100% of additional shares issued by OJSC "Matrosov Mine" for a cash consideration of USD 72,085 thousand (at 7 September 2007 exchange rate), bringing its ownership in the company from 93.3% to 94.8%. This transaction resulted in an increase of non-controlling interest by USD 2,171 thousand.

During 2008, the Group has acquired the remaining shares of Matrosov mine from non-controlling shareholders for cash consideration of USD 38,909 thousand, bringing its ownership to 100%. This transaction resulted in a decrease of non-controlling interest by USD 9,292 thousand.

OJSC "Aldanzoloto GRK"

During 2008, the Group has acquired the remaining shares of OJSC "Aldanzoloto GRK" from non-controlling shareholders for cash consideration of USD 247 thousand, bringing its ownership to 100%. This transaction resulted in a decrease of non-controlling interest by USD 781 thousand.

CJSC "ZDK Lenzoloto"

During 2008, the Group acquired 100% of additional shares issued by CJSC "ZDK Lenzoloto" for a cash consideration of USD 24,728 thousand, bringing its ownership in the company from 64.1% to 66.2%. This transaction resulted in an increase of non-controlling interest by USD 1,376 thousand.

5. Segment information

For management purposes the Group is organised by separate business segments identified by a combination of operating activities and geographical area basis with separate financial information available and reported regularly to the chief operating decision maker ("CODM"), identified as the Budget Committee. The following is a description of the Group's seven identified reportable segments:

- Krasnoyarsk business unit – located in Krasnoyarsk region of Russian Federation and includes extraction, refining and sales of gold from Olimpiada mine, as well as research, exploration and development works at Blagodatnoe, Titimukhta, Kvartsevaya Gora, Kuzeevskoe and Olimpiada deposits;
- Kazakhstan business unit– located in Republic of Kazakhstan, Kyrgyzstan and Romania and includes extraction, refining and sales of gold from Aksu, Bestobe, Zholymbet mines, as well as exploration and evaluation works in Southern Karaultube, Akzhal, Kaskabulakskoe deposits;
- Irkutsk alluvial business unit – located in Irkutsk region (Bodaibo district) of Russian Federation and includes extraction, refining and sales of gold from several alluvial deposits;
- Irkutsk ore business unit – located in Irkutsk region (Bodaibo district) of Russian Federation and includes extraction, refining and sales of gold from Zapadnoe mine, as well as research, exploration and development works at Chertovo Koryto, Pervenetc, Verninskoe, Zapadnoe, Medvezhiy Ruchei and Mukodek deposits. Irkutsk ore business unit also includes electricity and utilities production and sales in Bodaibo district of Irkutsk region;
- Yakutsk Kuranakh business unit – located in Sakha Republic of Russian Federation and includes extraction, refining and sales of gold from Kuranakh ore field;

- Exploration business unit comprising of Yakutsk (Nezhdaninskoe) and Polyus Exploration (PEL) business units – represents two operating segments combined into single reportable segment in accordance with aggregation criteria. Yakutsk (Nezhdaninskoe) business unit is located in Sakha Republic of Russian Federation and includes research and exploration works at Nezhdaninskoe deposit; PEL business unit represents research and exploration works in several regions of Russian Federation (Krasnoyarsk region, Irkutsk region, Amur region, and other);
- Magadan business unit – located in Magadan region of Russian Federation and represented by OJSC "Matrosov Mine" which performs development works at Natalka deposit.

The reportable segments derive their revenue primarily from gold sales and substantial costs incurred are cost of gold sold for the period. CODM performs analysis of operating results based on these business units separately and evaluates reporting segments results based on profit before income tax. For the purposes of this analysis, the CODM does not consider finance costs, other sales, cost of other sales and income from investments. Business segment assets or liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. Segment financial information provided to CODM is prepared based on Russian or Kazakhstan accounting standards, respectively.

The Group chose not to allocate segment results of companies that perform management, investing activities and certain other functions.

	Gold sales	Statutory profit before income tax	Capital expenditures	Statutory depreciation and amortisation
2009				
Krasnoyarsk business unit	833,466	421,517	229,506	39,189
Irkutsk alluvial business unit	185,237	33,999	9,888	7,304
Yakutsk Kuranakh business unit	129,657	9,751	7,540	5,639
Kazakhstan business unit	26,918	(32,890)	6,624	9,515
Irkutsk ore business unit	23,678	(1,016)	22,261	5,296
Exploration business unit	132	(19,440)	19,399	257
Magadan business unit	-	(11,940)	29,922	204
Segment result	1,199,088	399,981	325,140	67,404
2008				
Krasnoyarsk business unit	761,318	430,770	203,787	39,779
Irkutsk alluvial business unit	154,907	28,834	16,263	7,192
Yakutsk Kuranakh business unit	124,640	11,812	34,633	5,818
Irkutsk ore business unit	21,466	(6,983)	42,781	6,947
Exploration business unit	-	(42,733)	69,121	231
Magadan business unit	-	(14,070)	28,421	-
Segment result	1,062,331	407,630	395,006	59,967

Gold sales reported above represents revenue generated from external customers. There were no inter-segment gold sales during 2009 year (2008: nil).

Reconciliation of segment result to IFRS profit before income tax

	2009	2008
Segment result	399,981	407,630
Differences between IFRS and management accounts:		
Capitalised exploration works	8,474	9,466
Provisions and accruals	(47,138)	25,691
Additional depreciation charge and amortisation of mineral rights	(33,521)	(44,135)
Revaluation of gold-in-process at net production cost	16,265	5,502
Difference in stripping costs capitalisation	(20,646)	(2,278)
Other	3,905	3,776
Unallocated	104,700	(283,181)
Profit before income tax	432,020	122,471
Segment capital expenditures	325,140	395,006
Differences between IFRS and management accounts:		
Differences in the moment of recognition of capital expenditures	(7,333)	39,201
Reclassification of advances paid for property, plant and equipment and construction works	(17,854)	10,764
Reclassification of materials related to construction works	21,277	30,647
Differences in capitalised exploration and evaluation costs	12,482	28,242
Other	(9,546)	1,088
Unallocated	-	776
Capital expenditures	324,166	505,724

	2009	2008
Segment depreciation and amortisation	67,404	59,967
Additional depreciation charge	21,248	28,608
Amortisation of mineral rights	12,412	15,842
Depreciation and amortisation	101,064	104,417

The Group's information about its non-current assets by geographical location is as follows:

	2009	2008
Russian Federation	2,103,062	1,986,722
Republic of Kazakhstan	432,584	-
Kyrgyzstan	35,815	-
Romania	13,108	-
United Kingdom	127	-
Total	2,584,696	1,986,722

6. Gold sales

	2009	2008
Refined gold	1,172,170	1,062,331
Other gold-bearing products	26,918	-
Total	1,199,088	1,062,331

7. Cost of gold sales

	2009	2008
Cash operating costs	573,870	587,332
Consumables and spares	248,143	239,522
Labour	175,080	207,403
Tax on mining	90,080	72,588
Utilities	25,386	26,646
Outsourced mining services	8,258	15,105
Refining costs	4,332	5,383
Sundry costs	22,591	20,685
Amortisation and depreciation of operating assets	95,023	98,999
Deferred stripping costs expensed/(capitalised)	50,736	(112,804)
Change in provision for land restoration	7,379	(8,530)
Increase in gold-in-process and refined gold	(151,886)	(6,879)
Total	575,122	558,118

8. Selling, general and administrative expenses

	2009	2008
Salaries	76,918	73,742
Administrative overheads	36,476	25,797
Professional services	21,738	13,321
Taxes other than mining and income taxes	16,105	18,318
Depreciation	3,775	3,782
Total	155,012	134,960

9. Other expenses, net

	2009	2008
Impairment of property, plant and equipment	10,859	1,831
Donations	6,932	7,135
Loss on disposal of property, plant and equipment	3,875	548
Change in allowance for obsolescence of inventory	3,639	1,489
Change in allowance for reimbursable value added tax	(171)	7,078
Other	7,821	(1,025)
Total	32,955	17,056

10. Finance costs

	2009	2008
Interest on borrowings	14,430	88
Unwinding of discounts	4,440	4,329
Total	18,870	4,417

11. Income/(loss) from investments

	2009	2008
Income/(loss) from financial assets at fair value through profit and loss		
Income on derivatives classified as held for trading	20,039	-
Income/(loss) from investments in listed companies held for trading	13,702	(178,377)
Income/(loss) from available-for-sale investments		
Gain on disposal of available-for-sale investments	696	13,770
Impairment of available-for-sale investments	-	(100,090)
(Loss)/income from held-to-maturity investments		
Loss on disposal of promissory notes	(34,928)	-
Interest income on promissory notes	-	5,493
Income from loans given		
Interest income on bank deposits	14,688	31,646
Interest income on loans under repurchase agreements	-	9,967
Total	14,197	(217,591)

12. Income tax

	2009	2008
Current tax expense	93,901	85,003
Deferred tax expense/(benefit)	14,936	(22,893)
Total	108,837	62,110

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% to 28%.

A reconciliation of statutory income tax at the rate effective in the Russian Federation, location of the Group's major production entities and operations, to the amount of actual income tax expense recorded in the consolidated income statement is as follows:

	2009	2008
Profit before income tax	432,020	122,471
Income tax at statutory rate	86,404	29,393
Tax effect of non-deductible expenses and other permanent differences	7,070	7,396
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,042	21,089
Taxable losses of subsidiaries not recognised/(benefit arising from a previously unrecognised taxable losses of subsidiaries)	10,321	(8,929)
Deferred tax asset not recognised on loss from investments	-	42,810
Effect on deferred tax balances due to change in statutory income tax rate from 24% to 20% (effective from 1 January 2009)	-	(29,649)
Income tax at effective rate of 25% (2008: 51%)	108,837	62,110

The tax rate used for the 2009 reconciliations above is the income tax rate of 20% (2008: 24%) payable by the Company in Russian Federation on taxable profits under tax law.

At 31 December 2009, the Group has not recognised deferred tax asset in the amount of USD 10,321 thousand in respect of tax losses carried forward that are available for offset against future taxable profit of the Group. The tax loss carried forward expire in periods up to ten years due to unpredictability of future profit streams.

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

	2009	2008
Net liability at beginning of the year	148,244	200,609
Recognised in the income statement	14,936	6,756
Acquired on acquisition of subsidiaries (refer to note 4)	21,092	-
Revaluation of available-for-sale investments	-	7,200
Recycled from equity on disposal of investments classified as available-for-sale	-	(7,200)
Effect on deferred tax balances due to change in statutory income tax rate from 24% to 20% (effective from 1 January 2009)	-	(29,649)
Effect of translation to presentation currency	(3,283)	(29,472)
Net liability at end of the year	180,989	148,244

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:

	2009	2008
Property, plant and equipment	148,333	132,083
Inventory valuation	33,592	4,542
Deferred stripping costs	20,158	32,798
Valuation of receivables	(1,054)	(290)
Accrued operating expenses	(20,040)	(20,889)
Total	180,989	148,244

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 214,271 thousand (2008: USD 135,279 thousand), because management believes that it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

13. Property, plant and equipment

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost					
Balance at 31 December 2007	301,238	1,584,243	60,739	193,716	2,139,936
Additions	138,366	104,876	13,734	248,748	505,724
Transfers	(181,811)	261,400	-	(79,589)	-
Change in decommissioning liabilities	-	(35,491)	-	-	(35,491)
Disposals	-	(10,078)	(1,335)	(658)	(12,071)
Effect of translation to presentation currency	(42,873)	(310,450)	(11,903)	(57,826)	(423,052)
Balance at 31 December 2008	214,920	1,594,500	61,235	304,391	2,175,046
Additions	32,512	140,517	1,086	150,051	324,166
Transfers	-	51,490	-	(51,490)	-
Change in decommissioning liabilities	-	30,689	-	-	30,689
Acquired on acquisition of subsidiaries (refer to note 4)	-	272,534	1,231	70,269	344,034
Disposals	-	(8,700)	(589)	(6,483)	(15,772)
Effect of translation to presentation currency	(4,549)	(30,956)	(1,705)	(3,093)	(40,303)
Balance at 31 December 2009	242,883	2,050,074	61,258	463,645	2,817,860

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2007	-	(330,678)	(19,655)	(6,171)	(356,504)
Charge for the year	-	(121,689)	(6,692)	-	(128,381)
Disposals	-	4,995	781	-	5,776
Impairment	-	(1,831)	-	-	(1,831)
Effect of translation to presentation currency	-	73,052	4,145	1,016	78,213
Balance at 31 December 2008	-	(376,151)	(21,421)	(5,155)	(402,727)
Charge for the year	-	(117,912)	(3,800)	-	(121,712)
Disposals	-	5,518	334	4,775	10,627
Impairment	(1,891)	-	-	(8,968)	(10,859)
Effect of translation to presentation currency	(92)	5,588	445	(59)	5,882
Balance at 31 December 2009	(1,983)	(482,957)	(24,442)	(9,407)	(518,789)
Net book value					
31 December 2008	214,920	1,218,349	39,814	299,236	1,772,319
31 December 2009	240,900	1,567,117	36,816	454,238	2,299,071

Mining assets at 31 December 2009 included mineral rights of USD 547,961 thousand (31 December 2008: USD 433,112 thousand).

Amortisation and depreciation capitalised during the year ended 31 December 2009 amounted to USD 23,151 thousand (2008: USD 41,454 thousand).

At 31 December 2009 property, plant and equipment with a carrying value of USD 20,510 thousand (31 December 2008: nil) have been pledged to secure borrowings of the Group (refer to note 25).

Impairment loss recognised in respect of property, plant and equipment for the year ended 31 December 2009 in the amount of USD 10,859 thousand (2008: USD 1,831 thousand) was attributable to the greater than anticipated wear and tear of certain production assets and exploration and evaluation costs in the specific area that have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area.

14. Deferred stripping costs

	2009	2008
Balance at beginning of the year	163,988	82,061
Deferred stripping costs capitalised	15,111	112,804
Expensed stripping cost	(65,847)	-
Effect of translation to presentation currency	(7,164)	(30,877)
Balance at end of the year	106,088	163,988

15. Goodwill

	2009	2008
Balance at beginning of the year	-	-
Acquired on acquisition of subsidiary	132,371	-
Effect of translation to presentation currency	535	-
Balance at end of the year	132,906	-

16. Investments in securities and other financial assets

	2009	2008
Non-current		
Derivative financial asset	109,911	-
Loans advanced	4,562	3,772
Other	319	323
Total non-current	114,792	4,095
Current		
Available-for-sale equity investments	203,376	208,680
Bank deposits	70,158	-
Equity investments in listed companies held for trading	39,199	40,628
Promissory notes receivable	-	35,928
Total current	312,733	285,236

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

In connection with the acquisition of KazakhGold, the Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (refer to note 4). At acquisition date the fair value of the call options for convertible loans was USD 89,872 thousand. At 31 December 2009 the fair value of call options for convertible loans amounted to USD 109,911 thousand and increase of fair value of the instrument in the amount of USD 20,039 thousand was recognised in the consolidated income statement.

Equity investments in listed companies held for trading are treated as financial assets at fair value through profit or loss.

Available-for-sale investments, carried at fair value

At 31 December 2009 and 2008, available-for-sale equity investments mainly represented investment in shares of Rosfund, SPC (Cayman Islands) acquired in July 2006. The principal amounts invested by the Group to Rosfund, SPC shares as of 31 December 2009 was USD 275,028 thousand (31 December 2008: USD 308,770 thousand).

Rosfund, SPC invests in securities and other financial assets. At 31 December 2009 and 2008 Rosfund, SPC included equity investments in listed companies and loans provided under repurchase agreements.

Fair value of available for sale investment in Rosfund, SPC as at 31 December 2009 and 2008 was determined based on:

- loans under securities repurchase agreements measured at amortised cost using the effective interest method less any impairment; and
- quoted market prices of securities, included in the portfolio.

Increase in fair value of available-for-sale equity investments during the year, ended 31 December 2009 in the amount of USD 18,201 thousand was recognised in equity within investments revaluation reserve.

In 2008, the decline in the fair value of investment in shares of Rosfund, SPC below its cost was assessed as not recoverable and was recognised in the consolidated income statement. As a result investments revaluation reserve was recycled from equity at 31 December 2008.

In 2008, the Group sold 14.2% of shares of Rosfund, SPC for USD 35,000 thousand. As a result of this transaction the Group recognised loss in the amount of USD 16,230 thousand in the consolidated income statement.

In July 2008, a subsidiary of the Group sold 350,000 ordinary shares of OJSC “Vysochaishy” for cash consideration for USD 30,000 thousand. As a result, the Group has recognised gain in the consolidated income statement for the same amount.

Investments, carried at amortised cost

During the year ended 31 December 2009, the Group has sold all the promissory notes for the total consideration of USD 1,000 thousand. The loss on disposal of promissory notes was recognised in the consolidated income statement in the amount of USD 34,928 thousand. In 2008, the promissory notes were expected to be collectible.

Loans and receivables, carried at amortised cost

Bank deposits at 7.5-10.5% per annum are denominated in RUB and mature in January - December 2010.

17. Inventories

	2009	2008
Inventories expected to be recovered after twelve months		
Stockpiles	40,732	39,063
Total	40,732	39,063
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	202,647	49,052
Refined gold at net production cost	14,609	1,849
Total metal inventories	217,256	50,901
Stores and materials at cost	204,817	185,313
Less: Allowance for obsolescence	(6,835)	(3,213)
Total	415,238	233,001

18. Trade and other receivables

	2009	2008
Trade receivables for gold sales	4,298	-
Other receivables	17,284	19,608
	21,582	19,608
Less: Allowance for doubtful debts	(3,772)	(4,095)
Total	17,810	15,513

Substantially all gold sales are made to banks with immediate payment terms. Average credit period on gold-bearing product sales to customers, other then banks varied from 3 to 8 days in 2009. No interest is charged on trade receivables.

Other receivables included amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. In 2009 the average credit period for other receivables was 74 days (2008: 78 days). No interest is charged on other receivables.

The Group has fully provided for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

The procedure of accepting a new customer includes check by security department for business reputation, licenses and certifications. At 31 December 2009, the Group's largest customers individually exceeding 5% of the total balance represented 39% (31 December 2008: 24%) of the outstanding balance of accounts receivable.

At 31 December 2009 included in the Group's accounts receivable were balances of USD 3,465 thousand (31 December 2008: USD 3,185 thousand) which were past due but which were not impaired. The Group does not hold any collateral over these amounts. The average age of these receivables was 184 days (31 December 2008: 166 days).

Aging of past due but not impaired receivables:

	2009	2008
Less than 90 days	1,213	1,054
91-180 days	234	720
181-365 days	2,018	1,411
Total	3,465	3,185

Movement in the allowance for doubtful debts:

	2009	2008
Balance at beginning of the year	4,095	8,357
Receivable balances written off	(69)	(3,229)
Recognised in income statement	1,389	1,008
Amounts recovered during the year	(1,549)	(1,390)
Effect of translation to presentation currency	(94)	(651)
Balance at end of the year	3,772	4,095

Included in the allowance for doubtful debts are individually impaired other receivables of companies which have been placed under liquidation amounting to USD 632 thousand (31 December 2008: nil). The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

19. Advances paid to suppliers

At 31 December 2009, advances paid to suppliers in the amount of USD 20,773 thousand (31 December 2008: USD 14,558 thousand) were presented net of impairment of USD 2,643 thousand (31 December 2008: USD 2,085 thousand).

20. Other current assets

	2009	2008
Deferred expenditures	16,918	14,938
Other prepaid taxes	3,719	3,556
Total	20,637	18,494

Deferred expenditures relate to the preparation for the seasonal alluvial mining activities mostly comprised of excavation costs, general production and specific administration costs.

21. Cash and cash equivalents

		2009	2008
Bank deposits	– RUB	73,245	70,375
	– foreign currencies	-	208,074
Current bank accounts	– RUB	44,416	25,645
	– foreign currencies	44,137	81,409
Other cash and cash equivalents		11,562	13,323
Total		173,360	398,826

Bank deposits are denominated in RUB and bear interest of 4.0-8.6% per annum with original maturity within three months.

22. Share capital

At 31 December 2009 and 2008, authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1. Treasury shares are held by a subsidiary of the Group have been recorded at cost and presented as a separate component in equity.

At 14 September 2009, the Company declared dividends of RUB 6.55, or USD 0.21 (at 14 September 2009 exchange rate) per share for the six months ended 30 June 2009. Dividends in the amount of USD 40,387 thousand (net of USD 2,297 thousand attributable to treasury shares) were paid to shareholders at 13 November 2009.

At 26 June 2008, the Company declared dividends of RUB 2.95, or USD 0.13 (at 26 June 2008 exchange rate) per share for the year ended 31 December 2007. Dividends in the amount of USD 22,258 thousand (net of USD 1,559 thousand attributable to treasury shares) were paid to shareholders at 31 August 2008.

Treasury shares transferred as a part of consideration for acquisition of KazakhGold

In August 2009, Jenington International Inc., a wholly owned subsidiary of the Group, transferred 1,700,240 shares of the Company's shares as partial consideration for acquisition of KazakhGold Group Limited (refer to note 4) resulting in a decrease in treasury shares of USD 98,614 thousand and decrease in additional paid-in-capital of USD 35,029 thousand.

Share Option Plan

In February 2008, management exercised 95,314 options for cash consideration of USD 1,334 thousand. Treasury shares of the Company were issued to management upon exercise of the options resulting in a decrease in treasury shares of USD 5,523 thousand and decrease in additional paid-in-capital of USD 1,510 thousand. The remaining unsettled options were cancelled in 2008.

23. Environmental obligations

Decommissioning obligations

	2009	2008
Balance at beginning of the year	26,820	63,656
New obligations raised	9,009	2,784
Change in estimate	21,680	(38,275)
Acquired on acquisition of subsidiaries	11,156	-
Unwinding of discount on decommissioning obligations	4,230	4,329
Effect of translation to presentation currency	1,119	(5,674)
Balance at end of the year	74,014	26,820

Provision for land restoration

	2009	2008
Balance at beginning of the year	7,559	17,685
New obligations raised	-	290
Change in estimate	5,899	(10,030)
Acquired on acquisition of subsidiaries	1,409	-
Charge to the income statement	1,480	1,210
Effect of translation to presentation currency	157	(1,596)
Balance at end of the year	16,504	7,559
Total environmental obligations	90,518	34,379

The principle assumptions used for the estimation of environmental obligations were as follows:

	2009	2008
Discount rates	6.6-10.2%	15.0%
Expected mine closure dates	2011-2050	2010-2050

Present value of cost to be incurred for settlement of environmental obligations was as follows:

	2009	2008
Due from second to fifth year	1,596	1,013
Due from sixth to tenth year	11,400	1,216
Due from eleventh to fifteenth year	44,346	29,261
Due from sixteenth to twentieth year	17,381	2,601
Due thereafter	15,795	288
Total	90,518	34,379

32. Other non-current liabilities

	2009	2008
Bank guarantee liability	11,014	-
Historical costs liability	4,512	-
Total	15,526	-

Bank guarantee liability

As a result of the acquisition of KazakhGold, the Group has acquired bank guarantee liability which was entered in April 2006 by JSC "MMC KazakhAltyn" ("Kazakhaltyn"), a wholly owned subsidiary of KazakhGold. Under the contractual arrangement Kazakhaltyn guaranteed a credit facility of USD 15,000 thousand provided by JSC "Kazkommertsbank" ("KKB") to "Akir Group" LLP. That credit facility has a maturity date of 4 April 2013. Funds received from the credit facility were used by "Akir Group" to acquire mining and other equipment which was subsequently leased to Kazakhaltyn under finance lease agreements concluded during 2006-2007.

In 2009, "Akir Group" LLP defaulted on the loan agreement with KKB of USD 13,249 thousand (including the current portion of the loan in the amount of USD 2,235 thousand). The Group has fully provided for potential losses related to this guarantee liability at 31 December 2009.

Historical costs liability

The Group is obligated to reimburse the Government of Kazakhstan the amount of USD 8,991 thousand for the historical cost of geological studies performed in respect of the subsoil use contracts. The historical cost of geologic studies is expected to be repaid in 10 equal annual instalments, commencing from 2011, and subject to approval from the appropriate governmental authority. The amount was discounted at a rate of 12% per annum to arrive to the net present value of the liability.

25. Borrowings

		Currency	2009		2008	
			Rate,%	Outstanding balance	Rate,%	Outstanding balance
Guaranteed senior notes	(i)	USD	9.375	163,513	n/a	-
Secured bank loan	(ii)	USD	13.75	4,751	n/a	-
Secured bank loan	(ii)	KZT	16.0	1,854	n/a	-
Unsecured bank loan	(iii)	USD	11.0	4,348	n/a	-
Loans payable	(iv)	USD	10.0	25,365	n/a	-
Total				199,831		-
Less: current portion due within twelve months				(173,437)		-
Long-term borrowings				26,394		-

Summary of borrowing agreements

(i) Guaranteed senior notes

KazakhGold Group Limited, a subsidiary of the Group, has outstanding USD 200,000 thousand 9.375% senior notes (the "Notes"). The Notes were issued at par with interest payable semi-annually in arrears on 6 May and 6 November of each year, and the principal due on 6 November 2013. At the moment of issuance the Notes were unconditionally and irrevocably guaranteed by JSC "MMC Kazakhaltyn" and its subsidiaries. On 30 July 2009 Jenington International Inc., the Company's indirectly wholly owned subsidiary acquired KazakhGold Group Limited (refer to note 4).

KazakhGold is obliged to comply with a number of restrictive financial and other covenants, including maintaining of certain financial ratios and restrictions related to terms of issuance of KazakhGold IFRS consolidated financial statements. At 31 December 2009 KazakhGold is not in compliance with all the covenants, and accordingly, the Notes are classified as current. By the date of issuance of the consolidated financial statements, the Group did not receive any enforcement notice from the bondholders regarding earlier redemption.

(ii) Secured bank loans

A subsidiary of the Group obtained a USD 4,751 thousand secured loan agreement denominated in USD from Sberbank at a fixed rate of 13.75% per annum. The loan is to be repaid on 5 December 2010. Interest is payable monthly.

A subsidiary of the Group obtained a USD 1,854 thousand secured loan agreement denominated in KZT from Kazkommertzbank at a fixed rate of 16% per annum. The principal amount of the loan is to be repaid on a quarterly basis during the period until 6 March 2012. Interest is payable quarterly.

(iii) Unsecured bank loan

A USD 4,348 thousand unsecured loan agreement was obtained by a subsidiary of the Group from HSBC at a fixed rate of 11% per annum. The loan is to be repaid on 16 October 2010. Interest is payable monthly.

(iv) Loans payable

In June 2009 KazakhGold Group Limited signed two loan agreements with Gold Lion Holdings Limited. Loan agreements have 10% interest rate per annum. Principal amounts of USD 21,650 thousand and USD 9,375 thousand together with accrued interest are payable on 6 November 2014 and wholly or in part are convertible into KazakhGold's ordinary shares at a rate of USD 1.5 per one share.

In June 2009 the Group has acquired from a significant shareholder of KazakhGold call options to acquire rights and obligations under convertible loan agreements. Under the convertible loan agreements the lender may convert the principal amounts of USD 31,025 thousand together with accrued interest into ordinary shares of KazakhGold at the price of USD 1.5 per share.

Property, plant and equipment with book value of USD 20,510 thousand were pledged to secure borrowings (31 December 2008: nil).

26. Trade, Other payables and accrued expenses

	2009	2008
Trade payables to third parties	24,332	17,918
Other payables, including:		
Wages and salaries payable	43,212	37,159
Interest payable	2,821	-
Other accounts payable	18,917	9,908
Total other payables	64,950	47,067
Accrued annual leave	27,530	18,542
Total	116,812	83,527

In 2009 the average credit period for payables was 13 days (2008: 16 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

27. Other taxes payable

	2009	2008
Value added tax	25,315	1,417
Social taxes	7,791	7,063
Tax on mining	6,759	3,781
Property tax	3,321	2,259
Other taxes	437	2,307
Total	43,623	16,827

Contribution to the state Pension fund of the Russian Federation for the year ended 31 December 2009 amounted to USD 25,642 thousand (2008: USD 29,502 thousand).

At 31 December 2009, outstanding contributions to the State Pension Fund amounted to USD 1,885 thousand (2008: USD 2,330 thousand).

28. Related parties

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. During 2009 and 2008 related party transactions included only transactions with entities under common control. The terms of these transactions would not necessarily be on similar terms had the Group entered into the transactions with third parties.

As a result of change of shareholders of OJSC "MMC Norilsk Nickel", this company and its subsidiaries are no longer considered related parties for the Group from 24 April 2008. As a result of change of shareholders of Rosbank, this company and its subsidiaries are no longer considered related parties for the Group from 13 February 2008.

As at 31 December 2009 and 2008, the Group had the following outstanding balances with related parties:

	2009	2008
Cash and cash equivalents	22,574	-

During the years ended 31 December 2009 and 2008, Group entered into the following transactions with related parties:

	2009	2008
Purchase of goods and services	1,078	15,392
Gold sales	-	57,753
Income from investments	-	567

The amounts outstanding are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

Compensation of key management personnel for the year ended 31 December 2009 amounted to USD 12,047 thousand (2008: USD 8,792 thousand).

29. Contingencies

Capital commitments

The Group's budgeted capital expenditures commitments for the year ended 31 December 2010 amounted to USD 587,211 thousand, including USD 20,946 thousand of contracted capital commitments.

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2009 were as follows:

Due within one year	2,714
From one to five years	8,005
Thereafter	17,328
Total	28,047

Equity capital raising

According to terms of Partial Offer KazakhGold has committed to raise USD 100,000 thousand of equity capital in form of placing of new KazakhGold global depositary receipts ("GDRs") at the placing price of USD 1.5 per GDR. The Group has committed to subscribe for at least 50.2% of the equity capital raising at the placing price. In the event that there is insufficient investor demand for the placing the Group will underwrite the remaining amount of the offering.

Litigation

The Group has a number of insignificant claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Compliance with licenses

The business of the Group depends on the continuing validity of its licenses, particularly subsoil licenses for the Group's exploration and mining operations, the issuance of new licences and the Group's compliance with the terms of its licenses. Russian and Kazakhstan regulatory authorities exercise considerable discretion in the timing of licenses issuances and renewals and the monitoring of a licensee's compliance with the terms of a license. Requirements imposed by these authorities, including requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Accordingly, licenses that may be needed for the operations of the Group may be invalidated or may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion.

The legal and regulatory basis for the licensing requirements is subject to frequent change, which increases the risk that the Group may be found in non-compliance. In the event that the licensing authorities discover a material violation by the Group, the Group may be required to suspend its operations or incur substantial costs in eliminating or remediating the violation, which could have a material adverse effect on the Group's business and financial condition.

Insurance

The insurance industry is not yet well developed in the Russian Federation and Republic of Kazakhstan and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance 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, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities may become subject to liability for risks that can not be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation 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.

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 31 December 2009 of approximately USD 15,260 thousand (31 December 2008: USD 436 thousand). This amount had not been accrued at 31 December 2009 as management does not believe the payment to be probable.

Environmental matters

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

The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those 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 and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

Although in recent years there has been a general improvement in economic conditions in the Russian Federation, the Russian Federation continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

30. Risk management activities

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings as described in note 25) less of cash and cash equivalents (disclosed in note 21) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interest).

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, other non-current liabilities and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable and loans advanced, cash and cash equivalents, and promissory notes and other investments.

	2009	2008
Financial assets		
Financial assets at fair value through profit or loss, carried at fair value		
Derivative financial asset	109,911	-
Equity investments in listed companies held for trading	39,199	40,628
Held-to-maturity financial assets, carried at amortised cost		
Promissory notes receivable	-	35,928
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	173,360	398,826
Bank deposits	70,158	-
Trade and other receivable	17,810	15,513
Loans advanced	4,562	3,772
Available-for-sale financial assets, carried at fair value		
Available-for-sale equity investments	203,376	208,680
Total financial assets	618,376	703,347
Financial liabilities		
Borrowings	199,831	-
Trade payables	24,332	17,918
Other payables	89,282	47,067
Other non-current liabilities	15,526	-
Total financial liabilities	328,971	64,985

The main risks arising from the Group's financial instruments are commodity price, equity investments price, foreign currency, credit and liquidity risks. Due to the fact that there are no borrowings with floating rate at 31 December 2009 and 2008, management believes that the Group is not exposed to interest rate risk.

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 price of gold. A decline in gold prices could result in a decrease in profit and cash flows. Management of the Group regularly monitors gold price, market forecasts and believes that current trend of price increase will continue in the future.

The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Equity investments price risk

The Group is exposed to equity investments price risk. Presented below is the sensitivity analysis illustrating the Group's exposure to equity investments price risks at the reporting date. Management of the Group has decided to use the range of market prices of 10% higher/lower for the sensitivity analysis as the effect of such variation is considered to be significant and appropriate in the current market situation.

If market prices for equity investments had been 10% higher/lower:

- profit before tax for the year ended 31 December 2009 would increase/decrease by USD 16,180 thousand (2008: USD 4,063 thousand) as a result of changes in fair value of securities held-for-trading; and
- investment revaluation reserve within equity balance would increase/decrease by USD 20,338 thousand (2008: USD 20,868 thousand) as a result of changes in fair value of securities available-for-sale.

The Group normally places the investments under Assets management agreements with asset management companies who, in turn, utilize a variety of risk management activities in relation to the investments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other then quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	-	203,376	203,376
Equity investments in listed companies held for trading	39,199	-	39,199
Derivative financial asset	-	109,911	109,911

During the reporting period, there were no transfers between Level 1 and Level 2.

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of financial assets (refer to notes 16, 18 and 21) and financial liabilities (refer to notes 24, 25, 26 and 27) recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature, except for the fair value of the Company's Senior Notes, which fair value at the reporting date was USD 201,000 thousand based on the mid market price as quoted on the Luxembourg Stock Exchange.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of RUB against USD. In assessing this risk management takes into consideration changes in gold price.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2009 and 2008 were as follows:

	Assets		Liabilities	
	2009	2008	2009	2008
USD	15,835	55,411	279,510	1,108
EURO	5,546	40,312	1,164	3,542
Total	21,381	95,723	280,674	4,650

Currency risk is monitored on a monthly basis by performing sensitivity analysis in order to verify that the potential loss is at an acceptable level.

The table below details the Group's sensitivity to changes of exchange rates of the RUB to USD and EURO by 10% which is the sensitivity rate used by the Group for internal reporting purposes. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	2009	2008
Profit or loss (RUB to USD)	26,368	5,430
Profit or loss (RUB to EURO)	438	3,677
Profit or loss (KZT to USD)	27,251	-

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks, loans advanced, promissory notes and trade and other receivables.

Prior to dealing with new counterparty, management assesses the credit worthiness and liquidity of potential customer. Information available from the major rating agencies is used in evaluating the creditworthiness of foreign banks. For Russian banks the creditworthiness is evaluated using financials analysis and the overall market experience. Bank should be solvent, liquid and have efficient system of risk management.

Although the Group sells all the gold produced to three major customers, the Group is not economically dependant on these customers because of the high level of liquidity in the gold commodity market. Substantial part of gold sales is made to banks on immediate payment terms, therefore credit risk related to trade receivables is minimal. At 31 December 2009 the Group had USD 4,298 thousand of outstanding trade receivables for gold sales (31 December 2008: nil). Gold sales to the Group's three major customers, individually exceeding 10% of the Group's gold sales, amounted to USD 1,160,461 thousand (2008: USD 1,054,187 thousand).

Other receivables include amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. The procedures of accepting a new customer include check by a security department and responsible on-site management for a business reputation, licenses and certification, credit worthiness and liquidity.

Management of the Group believes that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting process and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2009 based on undiscounted contractual payments, including interest payments:

	Total	Due within three months	Due from three to six months	Due from six to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due in thereafter
Borrowings, including:									
Principle	241,978	200,206	206	9,512	823	206	-	31,025	-
Interest	22,609	357	357	565	297	53	-	20,980	-
Other non-current liabilities, including:									
Principle	20,005	-	-	-	11,583	1,229	899	899	5,395
Trade and other payables, including:									
Principle	89,282	75,976	8,018	5,288	-	-	-	-	-
Total	373,874	276,539	8,581	15,365	12,703	1,488	899	52,904	5,395

The contractual maturity of guaranteed senior notes is 6 November 2013. As described in note 25, the Group has violated the terms of Notes and Lenders have the right to enforce repayment of the face value.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2008 based on undiscounted contractual payments:

	Total	Due within three months	Due from three to six months	Due from six to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due in thereafter
Trade and other payables, including:									
Principle	64,985	62,082	2,330	573	-	-	-	-	-
Total	64,985	62,082	2,330	573	-	-	-	-	-

31. Subsequent events

on 19 April 2010 the Board of Directors of the Company recommended dividends of RUR 9.28, or USD 0.32 (at 19 April 2010 exchange rate) per share for the second half of 2009 year.

32. Investments in significant subsidiaries

Subsidiaries	Country of incorporation	Nature of business	Effective % held[1]	
			2009	2008
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	100.0	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	100.0	100.0
OJSC "Lenzoloto"	Russian Federation	Market agent	64.1	64.1
LLC "Lenskaya Zolotorudnaya Company"	Russian Federation	Market agent	100.0	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	66.2	66.2
CJSC "Lensib"	Russian Federation	Mining	40.4	40.4
CJSC "Svetliy"	Russian Federation	Mining	55.6	55.6
CJSC "Marakan"	Russian Federation	Mining	55.6	55.6
CJSC "Dalnaya Taiga"	Russian Federation	Mining	54.3	54.3
CJSC "Sevzoto"	Russian Federation	Mining	43.0	43.0
CJSC "GRK Sukhoy Log"	Russian Federation	Mining	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	100.0	100.0
CJSC "Tonoda"	Russian Federation	Mining (exploration stage)	100.0	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	100.0	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	100.0	100.0
Polyus Exploration Limited	British Virgin Islands	Geological research	100.0	100.0
KazakhGold Group Limited[2]	Jersey	Sub-holding company	50.2	-
JSC "MMC Kazakhaltyn"[2]	Kazakhstan	Mining	50.2	-
Jenington International Inc.	British Virgin Islands	Market agent	100.0	100.0
Polyus Investments Limited	Cyprus	Market agent	100.0	100.0

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] Acquired in 2009.

18. List of terms and abbreviations

Balance mineral resources – The volume of material that indicates the presence of metal at a sufficient probability level, the economic value of which is confirmed by the State Committee of Reserves

Biooxidation – Oxidation of sulfide minerals exposed to bacteria with metal extraction through desalination

Cut-off grade – The minimally acceptable sample value that can be used to determine the economic value of a mineral; unit cut-off grade- unit value that optimizes net value generated by developing property

Cyanidation (cyanide desalination) – A method of extracting uncovered gold or silver from crushed or milled ore by dissolving it in a weak cyanide mixture; may be performed using crushed ore in containers or in piles in the open air.

Dore, Dore alloy – Unrefined gold; a commercial end product of a gold extraction factory (mill), which is produced by alloying the products of the previous ore enrichment processes

Flotation – Process of physical segregation, during which minerals attach to bubbles and resurface as other minerals sink

State Reserves Commission (State Reserves Commission of the Federal Agency for Subsoil Usage) – State commission for mineral reserves; set up in 1927, the SRC controls the usage of mineral resources on behalf of the RF Ministry of Ecology and Natural Resources.

JORC Code – Australasian reporting code for mineral resources and ore reserves, developed by the Joint committee on ore reserves of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geological Sciences and the Mineral Council of Australia; the currently valid code dates to 2004.

Mineral resources – The Russian equivalent of the Western notion of mineral resources and ore reserves; mineral resources are subdivided into the categories A, B, and C1, depending on the extent of their certainty and degree of technological exploration.

Mineral resources (the JORC Code) – Defines mineral resources as the concentration or deposit of minerals, in or on the Earth's crust, that is sufficiently economically attractive to justify their extraction; they are subdivided into the categories of "Assessed", "Uncovered" or "Possible", depending on their degree of exploration.

Off-balance mineral reserves – Material volume which manifests metal availability to a sufficient extent of certainty, but whose economic extraction profitability has not been proved

Open pit – Open surface excavation; among these are open-cast coal mines and open pits

Ore body – Mineralized body, which is either profitably exploited, or which manifests reasonable certainty of profitable exploitation

Ore field – Total number of mines used to exploit a general mineral deposit or a group of closely interconnected ore bodies (diggings)

Ore resources (reserves) – The JORC Code defines ore reserves as the part of measured or indicated mineral reserves that may be mined on an economically profitable basis; ore reserves are subject to respective studies, such as a feasibility study using real mining-technological, metallurgical, economic, market-related, legal, environmental, social and administrative factors; these studies suggest that excavation may be reasonably justified at the moment of developing reporting documentation.

Oxidated ore – Ore exposed to the process of natural oxidation

Ore stock pile – Excavated ore stored at the surface, which is to be processed or delivered

Sulphide ore – Ore in its primarily mineralized state, which has not been exposed to natural oxidation

ADRs	American depositary receipts
ASU GTK	The Automated System of Mining and Transportation Complex Management
GDR	Global Depositary Receipts
SRC	State Reserves Commission
GMO	Hydrometallurgical Department
POL	petroleum, oil, lubricants
g/t	gram per tonne
mW	megawatt
kV	kilovolt
R&D	Research and Development
t	tonne

Contacts

OJSC Polyus Gold
Address: 15/1 Tverskoy Boulevard, Moscow, Russia, 123104
Tel.: +7 (495) 641-33-77
Fax: + 7 (495) 785-45-90
www.polyusgold.com
info@polyusgold.com

Alexey Chernushkin
Director for Capital Markets and Investor Relations
Tel.: +7 (495) 785-40-31

Evgenia Buydina
Manager of Investor Relations
Tel.: +7 (495) 641-33-77 ext. 37-45
ir@polyusgold.com

Anna Solotova
Corporate Secretary
Tel.: +7 (495) 641-33-77 ext. 35-22
SolotovaAO@polyusgold.com

Anton Arens
PR Director
Tel.: +7 (495) 641-33-77 ext. 35-23
pr@polyusgold.com

Registrar
National Registration Company
6 Veresayeva Street, Moscow, Russia, 121357
Tel.: +7 (495) 440-63-45, 440-79-18/20/29
Fax: +7 (495) 440-63-55
info@nrcreg.ru