POLYUS

ANNUAL REPORT
POLYUS GROUP
2010

FROM PLAN TO PLANT

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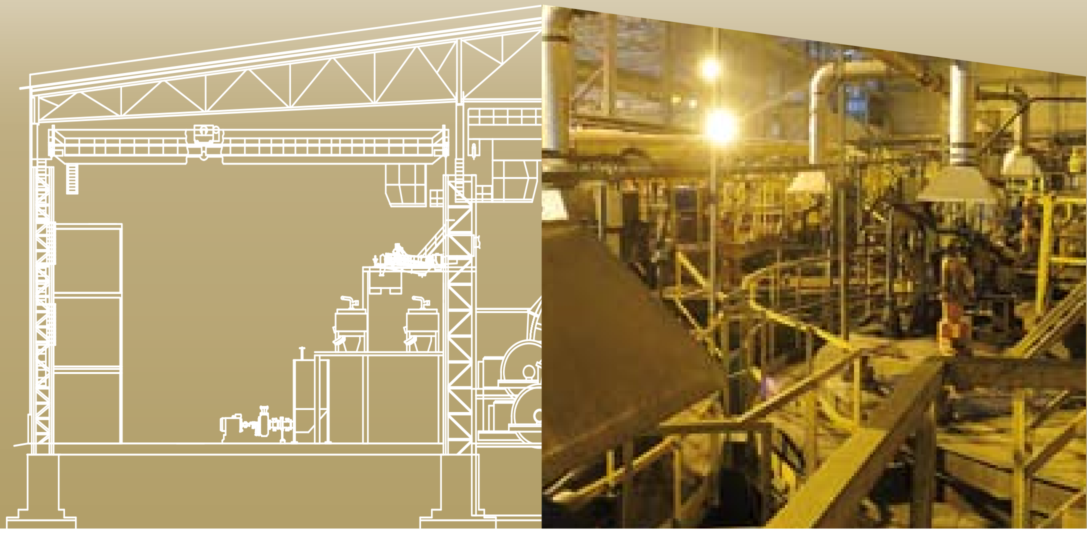
Blagodatnoye mine: commissioned in July 2010



1. Short description of the 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 financial results are consolidated by OJSC Polyus Gold when preparing financial statements in accordance with 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).

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 conducts gold mining and exploration operations 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 Russian stock indices of RTS, MICEX and AK&M, and world stock indices of FTSE (including FTSE Gold Mines), MSCI and Dow Jones. As at 31 December 2010 the Company's market capitalization was USD 13.8 billion.

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

The Company's Mission is to develop natural resources and human potential for the benefit of shareholders, employees and the community.

The Company's strategic vision:

- International public company with shares quoted on the world's leading stock exchanges.
- The leader of the Russian gold mining industry and a major global 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 the most admired employers in the regions of its presence.
- Innovative company striving to constantly improve.
- A reliable partner, always delivering on its promises.

Table 1
Key assets of the Polyus Gold

Region/deposit	Status of the asset development as at 31 December 2010	Gold production in 2010, thousand ounces	Owner	Share of OJSC Polyus Gold in the license owner as at 31 December 2010
Russian Federation				
KRASNOYARSK REGION				
Olimpiada	Production	584	CJSC Polyus	100%
Blagodatnoye	Production	249	CJSC Polyus	100%
Titimukhta	Production	100	CJSC Polyus	100%
IRKUTSK REGION				
Group of alluvial deposits	Production	197	CJSC ZDK Lenzoloto	40.4–66.2%[1]
Zapadnoye	Production	19	LLC LZRK	100%
Verninskoye	Construction	7[2]	LLC LZRK	100%
Chertovo Koryto	Feasibility study preparation	–	LLC LZRK	100%
Republic of Sakha (Yakutia)				
Kuranakh	Production	120	OJSC Aldanzoloto GRK	100 %
Nezhdaninskoye	Exploration/Feasibility study preparation		OJSC SVMC	100%
MAGADAN REGION				
Natalka	Construction	–	OJSC Matrosov Mine	100%
AMUR REGION				
Bamskoye	Geological exploration	–	LLC Amurskoye GRP	100%
Republic of Kazakhstan[3]				
Zholymbet	Production	42	JSC MMC Kazakhaltyn	65%
Bestobe	Production	35	JSC MMC Kazakhaltyn	65%
Aksu	Production	26	JSC MMC Kazakhaltyn	65%
Akzhal	Production	8	JSC MMC Kazakhaltyn	65%

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

[1] Licenses for alluvial deposits are held by various entities that are not owned directly by OJSC Polyus Gold. The holdings range from 40.4% to 66.2%. The Group has the power to govern the financial and operating policies of theses entities, and therefore the Company consolidates the financial results of all of these entities and accounts for all of their reserves in the Group's reserves.

[2] The metal is produced at Pervenets pilot plant, which was commissioned to fine-tune the production process for the Verninskoye mine.

[3] Production data for the Kazakhstan business unit includes gold in sludge, flotation and gravity concentrates and other semi-products.

Locations of the key assets of the Polyus Gold

Blagodatnoye mine: the largest gold ore processing plant in Russia

2. Key features of 2010

Production development and new projects

- The Blagodatnoye mine was commissioned:
  - The largest gold mill in Russia with a capacity of 6 million tonnes;
  - Large-scale project developed from scratch;
  - A project completed on time and on budget;
  - In 2010, the Blagodatnoye mine produced 249 thousand ounces of gold;
- Significant progress on the Verninskoye mine construction: commissioning scheduled for Q4 2011;
- OJSC Polyus Gold's Board of Directors approved the resolution to construct a mine on the Natalka deposit. All the necessary permits have been received;
- A heap leaching facility commissioned at the Akzhal deposit in Eastern Kazakhstan.

Production and finance

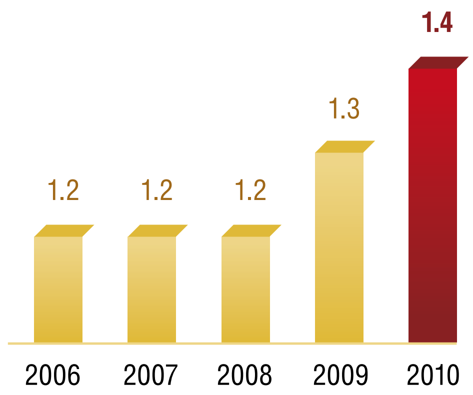
- Gold production grew 10% to 1,386 thousand ounces;
- Gold sales increased 43% to USD 1,711 million;
- Net profit increased by 91% to USD 356 million;
- EBITDA increased to USD 717 million, or by 31%;
- Gross profit margin and EBITDA margins were 47% and 41%, respectively;
- Total cash costs (TCC) per ounce of gold sold amounted to USD 554 per ounce;
- Cash margin grew to USD 689 per ounce, or by 19%;[4]
- Capital expenditure in 2010 was USD 359 million, compared to USD 496 in the previous year.

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

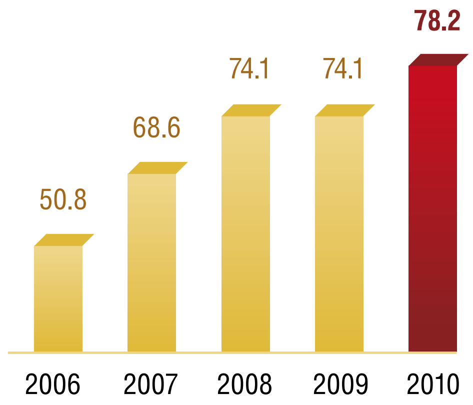
Exploration and reserves growth

- As a result of geological exploration operations and revaluation of reserves during the year, proved and probable reserves (measured under JORC) increased by 5.5% to 78.2 million ounces;
- The Company became one of the top three global gold mining companies by proved and probable reserves (JORC);
- Exploratory drilling amounted to 187.5 thousand meters.

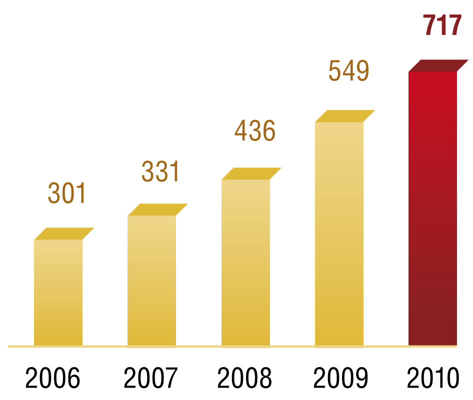
Gold production of the Group in 2006–2010, million ounces



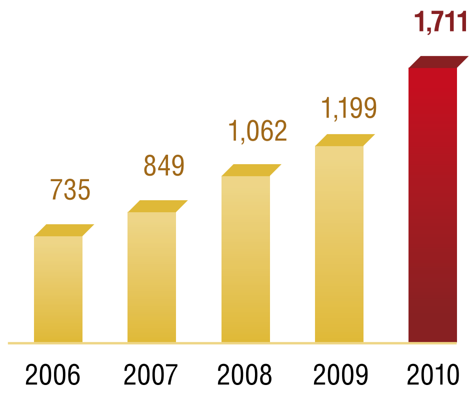
Proved and probable reserves (P&P, JORC), million ounces



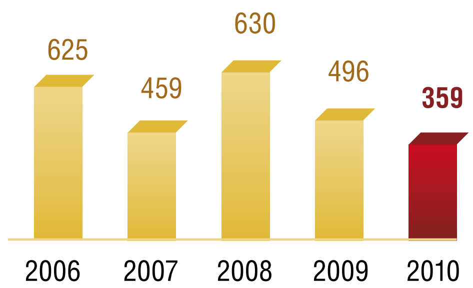
EBITDA of the Group in 2006–2010, USD million



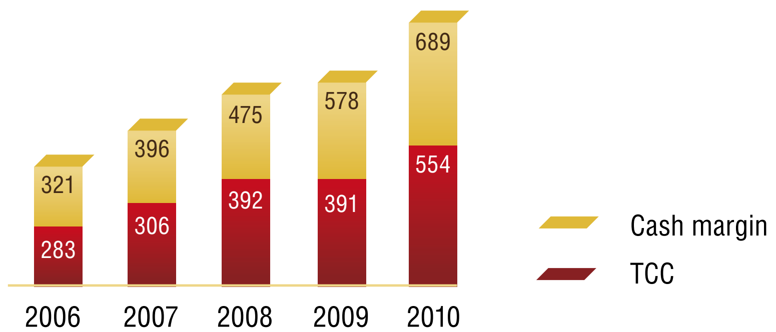
Gold sales of the Group in 2006–2010, USD million



Capital expenditure of the Group in 2006–2010, USD million



Total cash costs and cash margin of the Group in 2006-2010, USD/ounce



3. Letter from the Chairman of the Board of Directors

Dear shareholders,

In 2010, Polyus Gold continued to enhance its position as the Russian gold mining industry leader, made a number of important steps envisaged by its long-term strategy, and demonstrated growth of the key operating and financial indicators.

Commissioning of the Blagodatnoye mine, in the Krasnoyarsk Region in July 2010 was the key achievement of the year. By launching the largest gold mill in Russia, Polyus, once again, demonstrated that it has all the required capabilities — engineering, managerial, intellectual and financial — to realize large-scale mining projects from scratch.

The launch of the new facility contributed to gold production growth of 10% in the reporting period.

During 2010, Polyus operated in a favorable gold price environment. Gold continued to hold strong interest as an investment target, offering guarantees incomparable to other investment instruments in an environment of a continuing flux in the global financial markets. Steady investment demand, in conjunction with the demand from the jewellery and other industries, played the key role in the continuing rise of the gold price in 2010, which set a new record, reaching USD 1,426 per ounce. The policy of not hedging the gold price risks enabled the Company to enjoy the full benefits of the positive market situation.

In 2010 the Group showed positive dynamics in key financial indicators. The gold sales revenue increased by 43% to USD 1.7 billion. Gross profit on gold sales increased from USD 626 mln in 2009 to USD 816 mln in the reporting year. EBITDA increased by 31% to USD 717 mln. Earnings per share increased by 80%. At the same time total cash costs of the Group increased from 391 USD/oz to 554 USD/oz. However, in spite of the rise in costs, the Group maintained a competitive level of profitability.

During the period under review the Company actively proceeded with its new project development efforts. In addition to the startup of the Blagodatnoye mine, substantial progress was made on the Verninskoye mine construction. The Verninskoye mine is scheduled to be launched in Q4 2011. Moreover, in December 2010 the Board of Directors of OJSC Polyus Gold approved a resolution to begin construction of a large ore mining and processing facility at the Natalka deposit in the Magadan Region. The enhancing of the Blagodatnoye mine’s capacity and the launch of the new facilities are expected to ensure significant growth of gold production in the next 3 to 5 years.

In 2010, the Group continued the expansion of its reserve base. Notably, as a result of geological exploration work conducted during the last two years, the Verninskoye deposit’s reserves increased several times, indicating that the capacity of the processing facilities at the future mine may be significantly increased.

In 2010 Polyus issued the third report according to Global Reporting Initiative ("GRI") standards, confirming its commitment to sustainable development. During the year Polyus continued operating as a socially responsible organization focusing on the safety of its production facilities, assisting local communities in the regions of its activity and planning its operations with due regard to the interests of all the stakeholders of the Group. Notably, the Group's efforts to improve the environmental friendliness of its facilities during the year were rewarded as the Olimpiada, Kuranakh and Zapadnoye mines received ISO 14001 certifications.

On behalf of the Board of Directors of OJSC Polyus Gold, I would like to express my gratitude to all employees of the Company for their responsible and professional work, and to our shareholders for their support of management's initiatives aimed at enhancement of Polyus Gold's position in the global gold mining industry and growth in shareholder value.

Ekaterina Salnikova
Chairman of the Board of Directors of OJSC Polyus Gold

4. Letter from the General Director

Dear shareholders,

In 2010, Polyus Gold made a number of substantial steps towards its strategic goals and demonstrated growth of the key operating and financial indicators.

During the reporting period the Group produced 1,386 thousand ounces of refined gold[5], compared to 1,261 thousand ounces in 2009. The 10% output growth resulted primarily from the commissioning of the Blagodatnoye mine. The new facility began operations in July and produced 249 ounces of gold in 2010. Currently the Blagodatnoye mine operates at full ore processing capacity. The launch of the Blagodatnoye mine is a key milestone in the Group's development. This is the largest project since the Group's formation, and developed fully with the Group's own resources, from geological exploration to design, construction, and commissioning. The project was completed on schedule and on budget, and served as proof of Polyus' management's capability to realize big mining projects and to deliver on its commitments to shareholders.

In 2010, the Company performed a number of activities to stabilize output at the Olimpiada mine. Eight of the eleven planned activities were completed in the year. Management closely oversees the efforts and is pleased to report positive trends of the recovery rates at the mine's mills.

In 2010, gold sales amounted to USD 1,711 million, compared to USD 1,199 million in 2009. Revenue grew primarily as a result of the weighted average gold price increase from USD 968.7 per ounce in 2009 to USD 1,243.2[6] per ounce in 2010, combined with growth of the sales volumes by 11%. Gross profit from gold sales amounted to USD 816 million, compared to USD 626 million in 2009. Therefore, gross profit margin amounted to 47%. Profit for the period amounted to USD 356 million, as compared to USD 187 million in 2009. EBITDA was USD 717 million, as compared to USD 549 million in 2009. Therefore, EBITDA margin amounted to 41%.

Total cash costs amounted to USD 554 per ounce, as compared to USD 391 in 2009.

The commissioning of the Verninskoye mine in the Irkutsk Region is scheduled for the fourth quarter of 2011, and is to become the key milestone of 2011. Construction work was actively conducted at the Verninskoye site in 2010. During the year the main building was completed, and foundations for technological equipment started to be laid. Work on most infrastructure objects was completed, including the heating system, main warehousing facilities and the camp. As a result of the geological exploration work completed in the period, the reserves of the deposit increased to 5.8 million ounces of gold, which open up an opportunity to significantly expand the mine's capacity in future. This increase in reserves at Verninskoye increases the Company's proved and probable reserves to 78.2 million ounces, and Polyus has become one of the top three global gold mining industry leaders in terms of gold reserves.

[5] Including 110.5 thousand ounces produced by KazakhGold Group Limited in the form of slimes, flotation and gravity concentrate, and other semi-products.

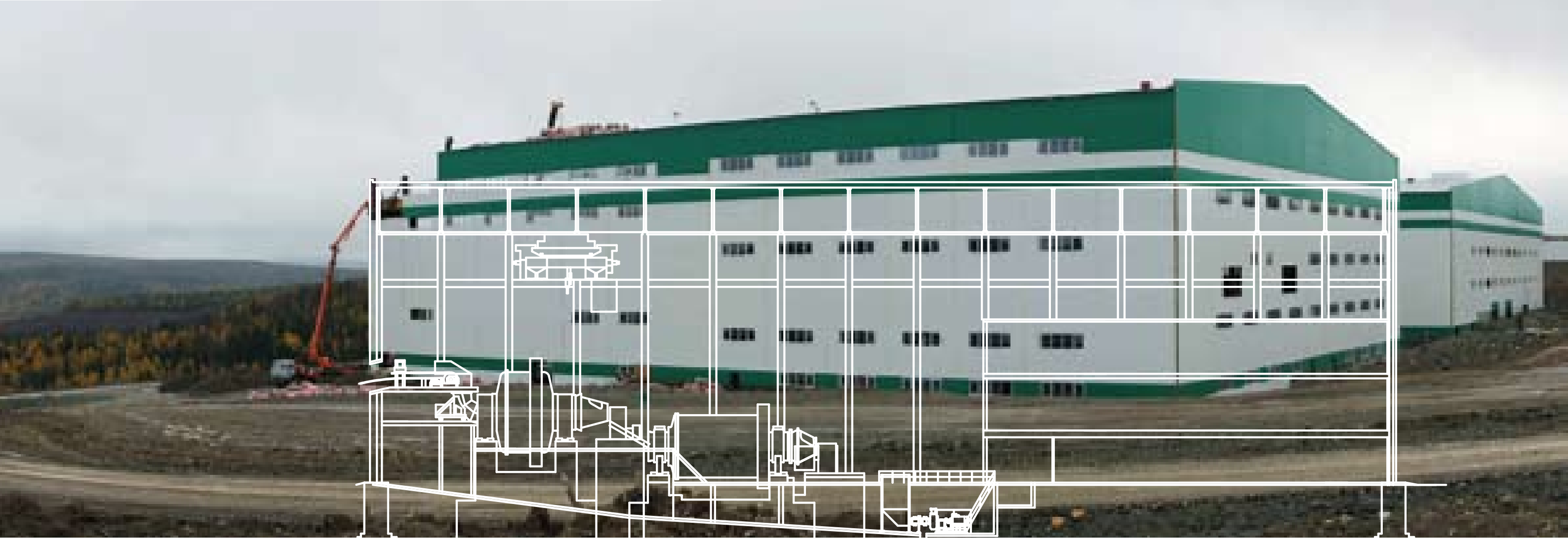
[6] The weighted-average gold selling price excluding metal sold by KazakhGold Group Limited in the form of semi-products was 1,254.2 USD/oz.

In 2010, the Board of Directors of OJSC Polyus Gold made a decision to start the construction of an ore mining and processing facility at the Natalka deposit, one of the largest global gold deposits. In 2010, the Company received all the necessary approvals for the project design documentation from regional and federal government authorities and began contracting equipment for the future facility. Micon International Ltd. performed a review of the project development plans. Pre-mining grade control drilling was started at the deposit in the third quarter of 2010.The pilot plant continued process validation tests for the future Natalka mine. We expect to commission the facility in 2013.

On behalf of OJSC Polyus Gold management, I would like to express gratitude to our shareholders for their support and trust, and to all the employees of Polyus for their professionalism and responsibility.

Mikhail Prokhorov
General Director of OJSC Polyus Gold

Blagodatnoye mine: project developed from scratch



5. Development of new projects

Within the framework of its long-term strategy of entering the top five in global gold mining industry, in 2010 the Company made a number of important steps in developing its production facilities. The commissioning of the Blagodatnoye mine in the Krasnoyarsk Region was the key milestone of the year.

Krasnoyarsk business unit

Blagodatnoye mine commissioning

The Blagodatnoye mine was commissioned in July 2010, after operating in start-up and test mode for several months. The construction of the mill took slightly more than 2.5 years. The project was completed with the Company's internal resources. In 2005 the geological exploration program undertaken by Polyus geologists resulted in the discovery of one of the major Russian gold deposit. During the subsequent years a design was developed for the future Blagodatnoye mine, and approved by the Board of Directors of OJSC Polyus Gold in 2007. In late 2007 construction started on the Blagodatnoye site, using personnel and construction equipment previously engaged in the the construction of Mill No. 3 at the Olimpiada mine.

Blagodatnoye mine. Main building and hydrometallurgy workshop

The design capacity of the facility is 6 million tonnes of ore per year. The design capacity provides for average annual production of 12.8 tonnes (412 thousand ounces) of gold. Total capital expenditures under the project were USD 450 million.

In 2010, construction and assembly work was completed for the principal facilities on the pit and the mill; and a steam boiler plant producing 24 MW of electricity was fully launched. Construction of warehousing facilities, repairs and garage unit, water supply facilities, and tailing facilities was also completed. The work was completed on time and on budget.

In 2010, the Blagodatnoye mine exceeded the planned mining, processing and gold output targets. Currently work is on achieving the design gold recovery target. A total of 249 thousand ounces of refined gold was produced from the Blagodatnoye deposit ore during the year.

In 2010, investment in the Blagodatnoye project was USD 116 million.

Titimukhta project

The project was launched in 2009 upon completion of reconstruction of Mill No.1 of the Olimpiada mine aimed at processing the ores of Titimukhta. During 2010, pit water removal facility was constructed, and the remaining mining equipment was delivered (1 EKG-10 mining shovel and 3 Komatsu HD-785 dump trucks). In 2010, investments in the project amounted to USD 11.4 million.

Expansion of the Olimpiada mine primary ore processing facility to 8 million tonnes per year

The Company has been working to expand the sulphide ore processing facilities at the Olimpiada mine for several years. In 2007, a new mill (Mill No. 3) with a capacity of 5 million tonnes of ore per year was commissioned.

During 2010, Nazimovo mooring berth construction on the Yenisei River was completed; construction work was carried out at the third reservoir group; reservoir park pipe-fitting was completed; retaining reinforced concrete walls were built; and intrasite infrastructure network foundations were laid. Work on tank storage oil warehouse is being completed. Furthermore, design work was conducted on the automated transport flow management system for Mill No. 3.

In 2010, investments in the Olimpiada mine expansion project amounted to USD 7.4 million.

Irkutsk ore business unit

Construction of new production facilities at the Verninskoye deposit

After the commissioning of the Blagodatnoye mine in 2010, LLC Polyus Stroy[7] resources were transferred to the Verninskoye mine construction site. Currently, more than 300 people are working on the Verninskoye construction site.

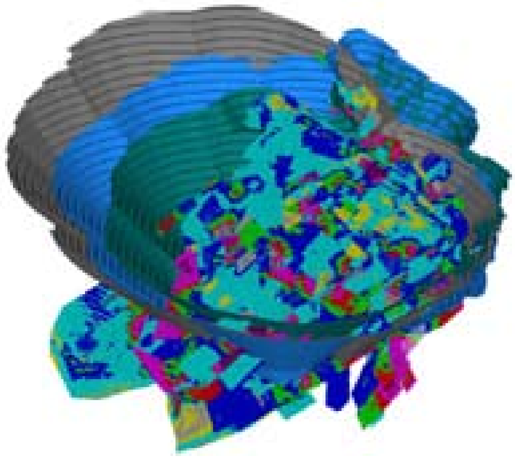
The Verninskoye deposit is located 4 km from the town of Kropotkin, in Kropotkinsky municipal unit, Bodaibo district of the Irkutsk Region. The distance from Bodaibo, the district center, to Kropotkin is 140 km.

Characteristics of the deposit and the types of ores

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 extent of 1000 m, 400–900 m width decline, and a thickness ranging from 50–70 m to 100–110 m. The front bottom part of the ore zone contains 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.

[7] LLC Polyus Stroy is the construction arm of the Polyus Group and a subsidiary of CJSC Polyus.

Verninskoye project pit



Verninskoye deposit ores are represented by sericite-carbonate-quartz schists and sandstones including gold-bearing quartz-sulphide mineralization in the form of pockets, impregnations, veinets 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, quartz and micaceous minerals prevail. The total content of sulphides is the first per cent. Gold is in a free state and is paragenetically related to pyrite and arsenopyrite.

Verninskoye mine. Construction of the plant building completed

Verninskoye deposit operations in 2010

In June 2010 a contract with FLSmidth Wiesbaden GmbH was signed for complex delivery and startup of the necessary technological equipment for the Verninskoye processing plant.

At the same time LLC Polyus Project prepared and issued the necessary design and budget documentation in time for planning and performance of construction and assembly work.

In 2010, all the key facilities of the camp were completed, and the "Temporary Construction Base" (concrete mixer and crushing unit), which produces concrete and crushed stone for the construction work, was commissioned. The "heating circuit" of the main mill building was completed as the boiler plant supplying heat to the main mill building was commissioned. This enables construction and assembly work to be conducted inside the building during winter.

Warehousing facilities for hypochlorite, reagents and crushing balls, lime and fuel continued to be constructed, as well as electricity, water, heat and sewage systems.

To model the production process for the future Verninskoye mine, the Pervenets pilot plant, previously suspended, was reactivated in 2010. During the year, the pilot plant processed 80 thousand tonnes of ore from the Verninskoye deposit and its satellite Pervenets deposit.

During 2010, capital-mining operations were conducted at the deposit. In June 2010 the Company obtained a permit from the Subsoil Use Department of the Irkutsk Region for Verninskoye open pit commissioning, and mined 249 thousand tonnes of ore.

Mining technology

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

The deposit is opened by cutting inclined internal trenches. Overburden rock is transported to external dump and ore is transported to the blending stockpile of the plant.

Blast boreholes are drilled by DM-45.900 (Ingersoll Rand) drill rigs, with borehole diameter 205–228 mm. Igdanite, based on porous ammonium nitrate with an energy additive, is used as the blasting agent. Stripping operations are performed by EKG-5A and EKG-10 excavators. Ore is mined by EKG-10 excavators. The lifted ore is transported by 91 tonne dump trucks to ore stockpiles. CAT-D9R bulldozers are used for auxiliary work.

Growth potential

A feasibility study was prepared in the year on the basis of advanced exploration of the flanks and deep horizons of the deposit. The feasibility study was submitted the State Mineral Reserves Commission (GKZ) for consideration. MICON International Ltd. audited the reserves of the deposit according to JORC standards. The results were published in February 2011. Proved and probable reserves of the Verninskoye deposit were increased to 5.8 million ounces of gold from the previously estimated 1.7 million ounces. The material increase of the reserves may provide the basis for increasing the processing capacity of the future operation to 4–5 million tonnes of ore per year.

Investments in the project in 2010 amounted to USD 20.6 million.

The commissioning of the facility with a capacity of 2.2 million tonnes of ore per year is expected in Q4 2011.

Magadan business unit

Natalka deposit

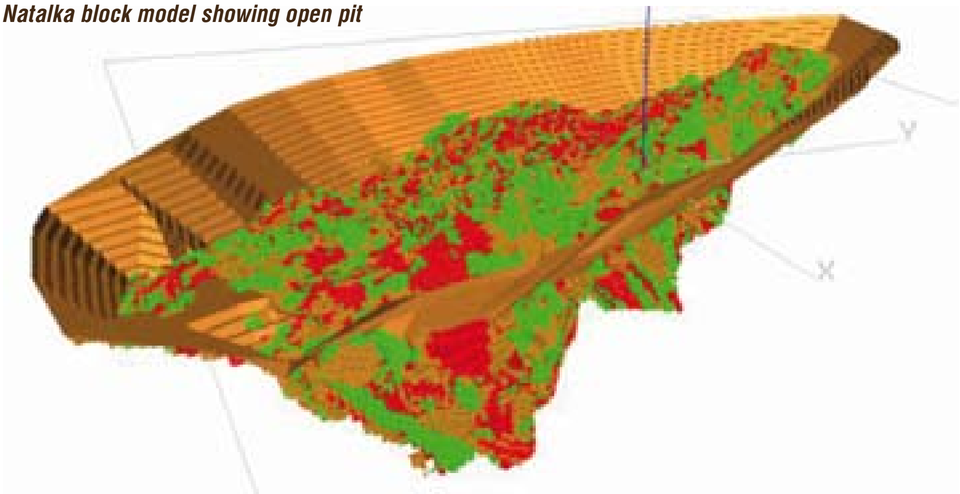
The Natalka gold deposit is located in the Tenkinsky district of the Magadan Region, in the Omchak river basin, 459 km from Magadan. The deposit was discovered in 1944. Mining of ore and production of gold at the deposit started in 1945. Until 2004, ore was principally extracted through underground mining. Ore was processed using the gravity and flotation method with amalgamation of gravity concentrate and hydrometallurgical processing of flotation concentrate, amalgamation tails and gravity products. Despite considerable reserves, the average output of the deposit did not exceed 1,500 kg of gold per year. A total of 93.2 tonnes (2.8 million ounces) of gold have been mined over the history of the deposit. By sulphide oxidation, ores may be primary and mixed, but still represent the same technological type. The ores have consistent composition.

Natalka deposit. Pilot plant

Ore mineralization includes unevenly distributed sulphides and gold. The mass concentration of sulphides, both in rock and in veins, varies from tenths of a percent to not more than 3 percent. Carbon black content is from 4 to 4.5 percent.

The main satellites of gold in the Natalka deposit ores include quartz, arsenopyrite and pyrite. Most gold is free; intergrowths and swells of gold in pyrite and arsenopyrite is a rarer form. A small portion of gold is associated with carbon black (1.3–3.2%) and other rock making minerals (4.6–9.5%). Toxic contaminants in the Natalka deposit ores include arsenic; however, its content does not exceed 1 percent.

Natalka block model showing open pit



In the period from 2004 to 2006 a large-scale advanced exploration program was carried out at the Natalka deposit. At the end of 2006, the State Mineral Reserves Commission (GKZ) of the Russian Ministry of Natural Resources performed an expert examination of the feasibility study of permanent conditions and reserve estimation which resulted from the advanced exploration on the Natalka deposit. As a result of the expert examination, added to the state register were reserves in the pit boundary of 1,449.5 tonnes of gold in the categories $B+C_1+C_2$ with the average grade of 1.71 g/t. This includes $B+C_1$ gold reserves of 1,262.8 tonnes. Furthermore, as a result of the state expert examination, off-balance reserves were added outside the pit boundary, of 309.4 tonnes of gold in the $B+C_1+C_2$ category. The feasibility study provides for the Natalka deposit development using the open pit method.

In July 2008 the Company launched a pilot plant at the Natalka deposit with a capacity of 120–130 k tonnes of ore per annum which is designed to work out and test core technical decisions for the projected Natalka mill.

During 2010, startup work at the Natalka deposit was conducted in several threads: obtaining approval of design documentation for the Natalka deposit mining and processing facility construction from the federal authorities; modelling of production processes at the pilot plant; pre-mining grade control drilling, etc.

Building new production facilities — Natalka gold deposit mining and processing facility construction project

In 2010, the Company received all the necessary approvals for the project design documentation from regional and federal government authorities, including:

- On 4 August 2010, the State Expertise Committee of Russia (Glavgosexpertiza), the expert examination authority, issued a positive opinion on the project;
- On 28 September 2010, design documentation was approved by the Central Commission for the Development of Solid Mineral Deposits of the Federal Agency for Subsoil Use;
- On 21 December 2010, the Board of Directors of OJSC Polyus Gold considered the project and resolved to start the construction of the mine. Completion of the Stage 1 facilities is scheduled for Q4 2013, and commissioning, for December 2013. The design capacity is planned to be achieved in 2014, with annual ore processing productivity of 10 mtpa. Stage 1 investment budget (2010–2013) has been approved, of RUB 31.5 billion. In accordance with the approved Project, the commissioning of the mining and processing facility at the Natalka deposit will be done in three stages: Stage 1 with a capacity of 10 mtpa — 2014; Stage 2 with additional capacity of 10 mtpa — 2016; Stage 3 with additional capacity of 20 mtpa — 2020. The aggregate design ore mining and processing capacity of the facility is 40 mtpa;
- On 14 January 2011, the Magadan Region department of the Federal Agency for Subsoil Use issued a permit for mine construction on the Natalka deposit.

In September 2010, an electric grid connection agreement was signed for Stage 1 of the mine under construction with OJSC Magadanenergo. Also, in November 2010 OJSC Matrosov Mine purchased subsoil use licenses for non-ore deposits in order to supply the capital construction sites of the Natalka deposit mine with construction materials.

In 2010, the design documentation was audited by leading international engineering firms. Micon International Ltd. confirmed that ore may be mined at the grade of 2 g/t with the cut-off grade of 0.8 g/t. SRK Consulting reviewed the design documentation, with an analysis of the available data for feasibility study preparation and gave a number of recommendations and suggestions on the project optimization. Hatch performed an audit of the design documentation and provided commentary on the results of engineering surveys.

In 2010, Micon International Ltd. performed the first stage of the audit of the Natalka development project which was approved by the Board of Directors of OJSC Polyus Gold in December. According to the preliminary technical analysis of the mining plan, the measured, indicated and inferred resources of the deposit amount to 44.8 million ounces.

The first stage of pre-mining grade control drilling started in the third quarter of 2010. The Group repaired and replaced deteriorated equipment. Tailings dumps were reconstructed.

Natalka pilot plant: technology adjusting

In 2010, technological tests continued at the pilot plant for the future Natalka mine. Tests have been performed for the stages of ore grinding, classification, gravitation, flotation and flotation concentrate cyanidation. In December comprehensive mill process testing was performed, and the design gold recovery targets were met.

Aksu mine. Open pit mining operations

In 2010, 30 thousand tonnes of ore were mined at the pilot pit. During the tests 38 thousand tonnes of ore were processed (including ore stockpiled in the previous years), and 697 ounces of gold produced.

In 2010, investments in the Natalka deposit project were USD 13 million.

Kazakhstan business unit

KazakhGold Group Limited deposits

In 2010, the Group continued modernization of the production facilities of KazakhGold Group Limited projects in the Stepnogorsk district of the Akmola Region, Kazakhstan.

Pit machines, mining and processing equipment were repaired or replaced, including:

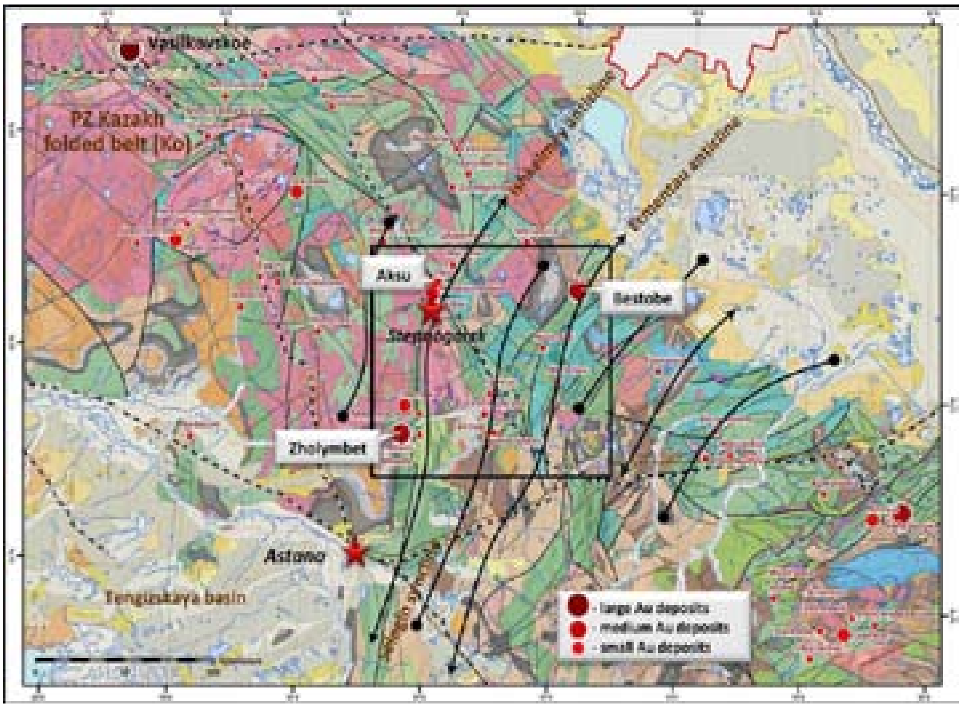
- At the Aksu mine, capital repairs of the primary mills were completed. Water supply facilities were reconstructed and the tailings dump dam was reinforced. The lifting facilities in shaft 38 are being overhauled.
- At the Bestobe mine, the ventilation shaft was overhauled, which enabled the Dalnaya ore zone to be mined; a new flotation unit and a slurry line were built, a mill unit and press filters were installed.
- At the Zholymbet mine, capital repairs of the shaft and reconstruction of the compressor station equipment at the Central shaft were performed; and a tailings dump overhaul was completed. Furthermore, first grinding stage thickeners and mills were repaired, and jaw and cone crushers replaced.

Currently an estimate of the Aksu, Bestobe and Zholymbet deposits according to JORC standards is under preparation, and a feasibility study for the Kaskabulak deposit is being prepared.

In April 2010, as part of the oxidized ore processing technology work out a heap leaching facility with a capacity of 0.3 million tonnes of ore per year was commissioned at the Akzhal deposit in Eastern Kazakhstan. The heap leaching facility produces gold bearing solution, which is further processed at the Group’s plant in Ust-Kamenogorsk to produce Doré gold (maximum mill output is up to 5 tonnes of ore or 160 thousand ounces of Doré gold per year).

In 2010, the capital expenditure of the Kazakhstan business unit amounted to USD 29.7 million.

Geological map of Astana region



6. Description of production assets and operating results for 2010

During the period the Group produced 1,386 thousand ounces of refined gold[8], compared to 1,261 thousand ounces in 2009, a 10% output growth. The growth resulted primarily, from the commissioning of the Blagodatnoye mine in the Krasnoyarsk Region in July 2010. In addition, modernization of the production facilities at KazakhGold Group Limited made a material contribution to the Group's production growth. Another important growth factor was the Titimukhta project which was commissioned in 2009 and increased processing capacity in 2010.

A number of factors which affected the Group's operations in 2010 should be noted. First of all, the Olimpiada mine, the largest producing unit of Polyus, faced the technological issues related to the processing of sulphide ores. When the plant transited to processing of ores from deep horizons with high pyrrhotine content, our bio-leaching technology BIONORD® showed high sensitivity to variations in material and mineralogical composition of the ore. This led to the decrease of the recovery rate. However, those difficulties are overcomable. The Company is currently implementing a series of measures aimed at raising the efficiency of sulfide ore processing at the Olimpiada mine and improving the bio-leaching technology. The first stage of that series of measures is to be completed by the middle of 2011. The expected recovery rate increase following the implementation of these measures — around 5–6%.

Other factors that affected the Group's operating results in 2010 were: reduction in average grade in ore processed at Titimukta, as well as continued modernization works at the Kuranakh mine.

In 2010 the Group's operating mines and development projects moved 56.9 million cubic meters of total rock, which is 17% more than in 2009. The growth is primarily related to increasing mining works at new mines and projects — Titimukhta, Blagodatnoye, Verninskoye.

In 2010 23.4 million tonnes of ore were mined at the Group's production units, compared to 18.4 million tonnes of ore mined in 2009. Ore processing in 2010 equaled to 19.8 million tonnes, compared to 13.9 million tonnes in 2009. The increase in mining and processing was also related to the development of new mines and projects, primarily, the launch of the Blagodatnoye mine.

8 Including 110.5 thousand ounces produced by KazakhGold in the form of slimes, flotation and gravity concentrate, and other semi-products.


Olimpiada mine. Vostochny pit

Table 6.1
Refined gold production by the Group's production units

Refined gold production (in thousand ounces)	2010	2009	Change
Olimpiada mine	584	839	(30.4%)
Titimukhta	100	39	156.2%
Blagodatnoye mine	249	–	–
Kuranakh mine	120	135	(10.8%)
Zapadnoye mine[9]	19	24	(21.7%)
Pervenets pilot plant (Verninskoye and Pervenets ores)[10]	7	–	–
Alluvials	197	194	1.3%
Natalka pilot plant[11]	1	–	–
KazakhGold Group[12]	110	30	271.0%
TOTAL gold production	**1,386**	**1,261**	**9.9%**

Table 6.2
Mining operations and ore processing by the Group's production units

	2010	2009	Change
Total rock moved (in thousand m³)			
Krasnoyarsk Region			
Olimpiada mine	**22,053**	**24,055**	**(8.3%)**
including stripping	18,529	20,084	(7.7%)
Stripping ratio (m³/t)	1.95	1.89	3.2%
Titimukhta deposit	**8,073**	**5,003**	**61.4%**
including stripping	7,132	4,296	66.0%
Stripping ratio (m³/t)	3.04	2.66	14.3%
Blagodatnoye deposit	**11,148**	**7,740**	**44.0%**
including stripping	9,109	7,519	21.1%
Stripping ratio (m³/t)	1.64	12.64	(87.0%)

9 Includes only gold produced at the Zapadnoye mine from the Zapadnoye deposit ores.
10 Ores of the Verninskoye and Pervenets deposits processed at the Pervenets pilot plant and Zapadnoye mine. See New Project Development section for more details.
11 Doré gold produced in 2009 was refined in 2010.
12 Gold produced by KazakhGold Group in the form of sludge, flotation and gravity concentrates and other semi-products. In 2009, the Group consolidated KazakhGold Group's output for August-December.

	2010	2009	Change
Republic of Sakha (Yakutia)			
Kuranakh mine	**9,831**	**8,606**	**14.2%**
including stripping	7,859	6,589	19.3%
Stripping ratio (m^3/t)	2.26	1.83	23.5%
Irkutsk Region			
Zapadnoye mine	**2,462**	**1,733**	**42.1%**
including stripping	2,301	1,305	76.3%
Stripping ratio (m^3/t)	5.29	1.13	368.1%
Verninskoye mine	**2,043**	**1,340**	**52.5%**
including stripping	1,951	1,198	62.8%
Stripping ratio (m^3/t)	7.84	3.12	151.3%
Magadan Region			
Natalka deposit	**18**	**6**	**200.0%**
including stripping	7.2	–	–
Stripping ratio (m^3/t)	0.24	–	–
Republic of Kazakhstan			
KazakhGold Group	**1,264**	**153**	**726.4%**
including stripping[13]	764	46	1,560.4%
Stripping ratio (m^3/t)	0.58	0.17	750.0%
Total rock moved	**56,893**	**48,636**	**17.0%**
Ore mining (in thousand tonnes)			
Krasnoyarsk Region			
Olimpiada mine	**9,516**	**10,603**	**(10.3%)**
Average grade in ore mined (g/t)	3.19	3.03	5.3%
Titimukhta deposit	**2,345**	**1,618**	**44.9%**
Average grade in ore mined (g/t)	2.00	2.11	(5.2%)
Blagodatnoye mine	**5,563**	**595**	**834.9%**
Average grade in ore mined (g/t)	1.99	2.15	(7.4%)
Republic of Sakha (Yakutia)			
Kuranakh mine	**3,476**	**3,606**	**(3.6%)**
Average grade in ore mined (g/t)	1.33	1.39	(4.3%)
Irkutsk Region			
Zapadnoye mine	**435**	**1,155**	**(62.4%)**
Average grade in ore mined (g/t)	1.73	1.78	(2.8%)
Verninskoye deposit	**249**	**384**	**(35.2%)**
Average grade in ore mined (g/t)	2.32	2.71	(14.4%)
Magadan Region			
Natalka deposit	**30.0**	**6.2**	**383.9%**
Average grade in ore mined (g/t)	1.39	1.94	(28.4%)
Republic of Kazakhstan			
KazakhGold Group	**1,757**	**432**	**306.8%**
Average grade in ore mined (g/t)	2.65	2.89	(8.3%)
Total ore mining	**23,370**	**18,399**	**27.1%**

[13] Stripping for KazakhGold Group includes only data for open pit mining. Stripping ratio calculation uses ore mining data for open pits.

	2010	2009	Change
Ore processing (in thousand tonnes):			
Olimpiada mine, including:	**7,377**	**8,877**	**(16.9%)**
Olimpiada deposit	7,377	8,561	(13.8%)
Sulphide ore	7,354	7,398	(0.6%)
Mixed type ore	23	1,163	(98.0%)
Olenye deposit	–	316	
Average grade (g/t)			
Olimpiada deposit			
Sulphide ore	3.76	3.6	4.4%
Mixed type ore	6.05	6.24	(3.0%)
Olenye deposit	–	4.6	–
Recovery (%)			
Olimpiada deposit			
Sulphide ore	66.37	73.11	(9.2%)
Mixed type ore	76.71	79.71	(3.8%)
Olenye deposit	–	75.4	–
Titimukhta deposit			
Ore processing	1,557	602	158.7%
Average grade in ore (g/t)	2.36	2.84	(16.9%)
Recovery (%)	84.11	76.29	10.3%
Blagodatnoye mine			
Ore processing	5,363	–	–
Average grade (g/t)	1.98	–	–
Recovery (%)	76.73	–	–
Republic of Sakha (Yakutia)			
Kuranakh mine			
Ore processing	3,298	3,463	(4.8%)
Average grade (g/t)	1.34	1.4	(4.3%)
Recovery (%)	85.15	84.2	1.1%
Irkutsk Region			
Zapadnoye mine			
Total ore processing, including	555	505	9.9%
Zapadnoye deposit ore	449	505	(11.1%)
Average grade (g/t)	1.76	2.18	(19.3%)
Recovery (%)	69.7	69.09	0.9%
Verninskoye deposit ore	106.3	–	–
Average grade (g/t)	1.85	–	–
Recovery (%)	55.6	–	–

	2010	2009	Change
Pervenets pilot plant			
Total ore processing, including	80.1	–	–
Pervenets deposit ore	39	–	–
Average grade (g/t)	2.63	–	–
Recovery (%)	79.5	–	–
Verninskoye deposit ore	41.1	–	–
Average grade (g/t)	1.75	–	–
Recovery (%)	73.14	–	–
Magadan Region			
Natalka deposit — pilot plant	38	40	(5.0%)
Average grade in ore (g/t)	1.38	1.50	(8.0%)
Republic of Kazakhstan			
KazakhGold Group, including:	**1,574**	**392**	**301.5**
Processing at mill	757	233	224.9
Average grade (g/t)	3.73	3.69	1.1
Recovery (%)	83.4	75.2	10.9
Processing at heap leaching unit	818	159	414.5
Average grade (g/t)	1.19	1.01	17.8
Recovery (%)	43.9	38	15.5
Total ore processing	**19,834**	**13,879**	**42.9**
Sands washing (alluvials)			
Sands washed (million m^3)	8.89	9.00	(1.2%)
Average grade (g/m^3)	0.69	0.66	4.5%

Krasnoyarsk business unit

Olimpiada Mine (Mills No. 2 and No. 3), Titimukhta (Mill No. 1)

The Olimpiada mine is located in the Severo-Yeniseisk district of the Krasnoyarsk Region, 500 kilometers north of Krasnoyarsk. Currently two mills (No. 2 and No. 3) process sulphide ores of the Olimpiada deposit. Besides, there is Mill No. 1 at the Olimpiada mine, which was remodeled in 2009 to process Titimukhta deposit ores.

The refining of gold produced at the Olimpiada mine is performed by the Krasnoyarsk Non-Ferrous Metal Works.

The Olimpiada mine uses electricity both generated internally and supplied by OJSC Krasnoyarskenergo.

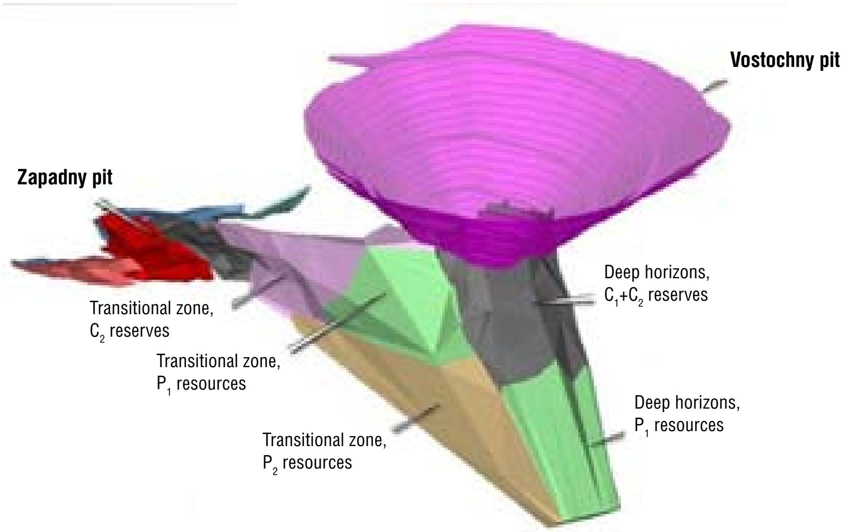
Characteristics of the deposits and the types of ores

Olimpiada deposit

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

Only one ore type — primary sulphide ore — remains at the deposit. Due to the depletion of oxidized ore reserves, mining and processing of oxidized ores has been terminated.

Olimpiada ore body



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

In the Vostochny pit the Group mines ore body No. 4, which contains the bulk of the ore and gold reserves.

In 2010, mining operations on primary ore at the Vostochny and Zapadny pits of the Olimpiada mine were conducted by Phase 3 of the Vostochny open pit. Ore was mined by benches of 10 meters height with selective transporting of ore and stripping to external dumps. A total of 9,516 thousand tonnes of primary ore with an average gold grade of 3.2 g/t and gold content of 30,334 kg was mined.

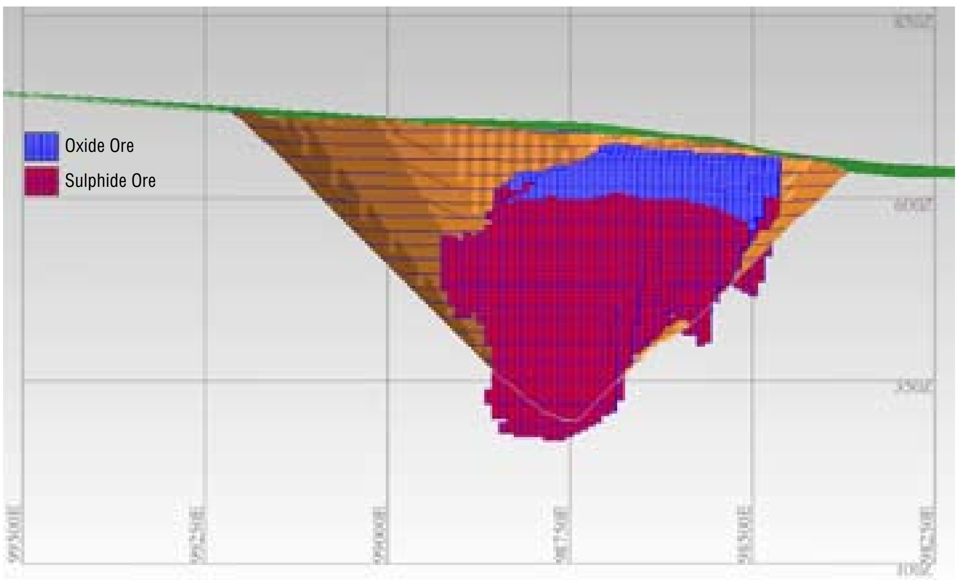
Titimukhta deposit

The Titimukhta gold ore deposit is located in the Severo-Yeniseisk District of the Krasnoyarsk Region, 9 km north-west of the Olimpiada deposit.

The deposit contains quartz vein and veinlet stockwork.

Ores are of the same technological type — free milling, without arsenic — and of two natural varieties — oxidized and sulphide (primary), which differ by physical and mechanical characteristics. The volumetric weight of the dry oxidized ore is 2.25 t/m^3 and of the sulphide ore — 2.75 t/m^3. Sulphide mineralization of ore amounts to 2–3% and is represented by bismuth minerals, pyrites, pyrrhotine. Gold is primary found in ores in free form (36%) and in intergrowths with bismuth minerals (48%). Ore contains bismuth and silver, in concentrations below commercial grade.

Titimukhta deposit cross-section



A total of 2,345 thousand tonnes of commercially viable ore were mined in the pit in 2010, with an average gold grade of 2.0 g/t and containing 4,682 kg of gold (150.5 thousand ounces). 1,019 thousand tonnes of off-balance ore were mined from the same horizons, with an average gold grade of 0.6 g/t.

Mining method

The Olimpiada mine operates as an open pit mine with surface stockpiling. Rock is removed from the pits by excavation and mining techniques. Benches are of 10 meters in height. Benches not in operation are 20 and 30 meters high in the extreme position. Slope angles for operating benches are 80–75° and for non-operating benches are 60–75°. The operating sites are from 30 meters to 80–100 meters in width.

Rock is excavated from the pits with advance stripping via drilling and blasting operations. Mined rock is loaded by EKG-10, EKG-5A, Komatsu PC1250-7, Liebherr R-994 excavators with a bucket capacity of 10 m^3 and 5 m^3 shovels. Rock is transported by Caterpillar CAT 777D, 777F trucks with a carrying capacity of 90 tonnes, Terex M3300 AC and CAT 785C trucks with a capacity of 136 tonnes; BelAZ-7540 and BelAZ-7548 trucks with a carrying capacity of 30 and 40 tonnes, respectively. Ore is transported to the blending stockpile, and waste rock to external dumps.

Drilling operations are performed with the use of SBSh 250, MNA 32, DML Ingersoll Rand, DML LP AtlasCopco, PV 275, and ROC L8 rock drills.Mix-pump trucks are used to charge the boreholes with VET emulsion explosives.

Sulphide (primary) ore processing at the Olimpiada mine

Sulphide ore is processed at two plants — Mill No. 2 and. 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 milling.

Currently, the ore is processed using the gravity and flotation method with subsequent bio-oxidation of the flotation concentrate and sorption leaching of bio-cakes in the CIL process.

Ore is milled in two stages on one production line. The first stage occurs on semiautogenous grinding mills, operating in an open cycle, the second stage is performed in ball mills, operating in a closed-loop cycle with hydrocyclones. The discharge from the hydrocyclones goes for sulphide flotation separation, the flotation tailings go into the tailings dump, and the flotation concentrate, after additional milling, goes to the bio-oxidation stage, where the sulphide oxidation and extraction processes are applied to prepare the gold bearing matter for sorption. Oxidized pulp goes to the sorption leaching stage.

In 2010, Mills No. 2 and No. 3 implemented the process of gravity gold separation from hydrocyclone sand; gravity concentrate, together with flotation concentrate is forwarded for additional grinding and to the bio-oxidation and sorption stages. After coal desorption, gold bearing solutions are subjected to electrolysis where cathode deposit is obtained, which is subsequently roasted and smelted into Doré gold. Sorption tailings undergo filtration which produces cake, stored in a special dump. After decontamination, the filtrate goes to the tailings dump.

Ore processing at the Titimukhta deposit

The process for the Titimukhta deposit gold ore concentration performed at Mill No. 1 is sorption based and includes the following key stages:

Two stage grinding on two parallel lines, with the first stage occurring on semiautogenous grinding mills operating in an open cycle. The second stage occurs in ball mills, operating in a closed-loop cycle, with automated hydrocyclone classification installations. Hydrocyclone discharge undergoes thickening, and then sorption leaching of the cyanided gold in the RIL process. After gold desorption from the ion-exchange resin, gold bearing solutions are subjected to electrolysis where cathode deposit is obtained, which is subsequently filtrated, roasted and smelted into Doré gold. Sorption tailings are decontaminated and stored.

Production at the Olimpiada mine in 2010

During the period the Group produced 584 thousand ounces of gold from sulphide ores of the Olimpiada deposit, compared to 839 thousand ounces in 2009. The decline in gold production resulted from the difficulties which arose due to the switching to deep horizon ores with higher pyrrhotine content. The Bio-oxidation process demonstrated high sensitivity to ore composition changes, which led to a significant drop in recovery rate.

The Olimpiada processing plants produced 100 thousand ounces of gold as part of the Titimukhta project, which is 2.5 times higher than the 2009 output, but somewhat lower than the target. The main reason of falling behind the target was lower gold grade of the ore supplied to the mill, the complexity of the ore body composition at the Titimukhta deposit and the continued fine-tuning of the process at the mill, which prevented the mill from achieving the target processing levels.

Improving primary ore processing efficiency at the Olimpiada mine

To adapt the process to the new type of ore and improve processing efficiency the Board of Directors of OJSC Polyus Gold approved a USD 29 million program aimed at improvement of processing of primary ore. The program includes 11 measures aimed at modernizing processing facilities at Mill No. 2 and Mill No. 3. The program is the first stage in a set of activities aimed at operating efficiency enhancement for the mills No. 2 and 3. The completion of the first stage creates the necessary prerequisites for the second stage which provides for bio-oxidation stage modernization, implementation of an automated transport flow management system, etc.

In 2010, the full set of construction and assembly work was performed as follows:

- A second cone crusher KSD 2200T installed;
- A fourth hydrocyclone installation for ground ore classification installed;
- Flotation concentrate stockpile;
- Reconstruction of pos. 167-19 reactor for bio-pulp thickener;
- Gravity concentration of 1/3 of hydrocyclone sands in the ore preparation cycle of Mill No. 2;
- Classification of neutralized bio-pulp before filtration in hydrocyclones;
- Achieving of the design oxidation and sorption leaching time for oxidized concentrates;

The total expenditure on the project in 2010 amounted to USD 15.4 million.

In the first half of 2011 construction and assembly work is expected to be completed for the following: production of the primary concentrate from gravity concentrate at Mills No. 2 and No. 3; installation of decanter centrifuges in Hydrometallurgical Unit No. 2 of Mill No. 3 to optimize sorption feed by volume and composition; and modernization of limestone roasting equipment, which will improve the quality of lime while reducing lime consumption rate. The completion of the full set of measures will provide for stabilization of the key technological performance indicators of the Olimpiada mine.

Blagodatnoye mine

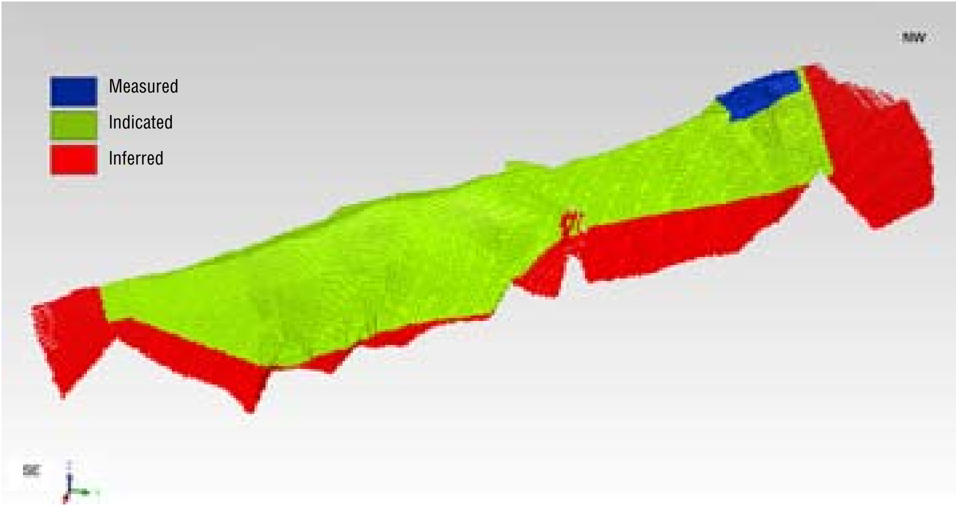
Characteristics of the deposit and the types of ores

The Blagodatnoye gold deposit is located in the Severo-Yeniseisk 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 with the share in ores of 2–5% are represented by pyrrhotine (1–3%), arsenopyrite (1–3%), pyrite and marcasite (0.5–5%), and lollingite (0.3%). There is also an inconsiderable admixture of chalcopyrite, galenite and sphalerite.

Gold is the only useful component of the ores which has commercial significance. The main forms of gold in ores are: free (70–80%), related to barren minerals (25–30%) and in aggregates (5–10%). Fine gold primary consists of granules of 70–750 µm (about 55%) and 10–70 µm (about 45%). Gold content in ore bodies is spread quite evenly.

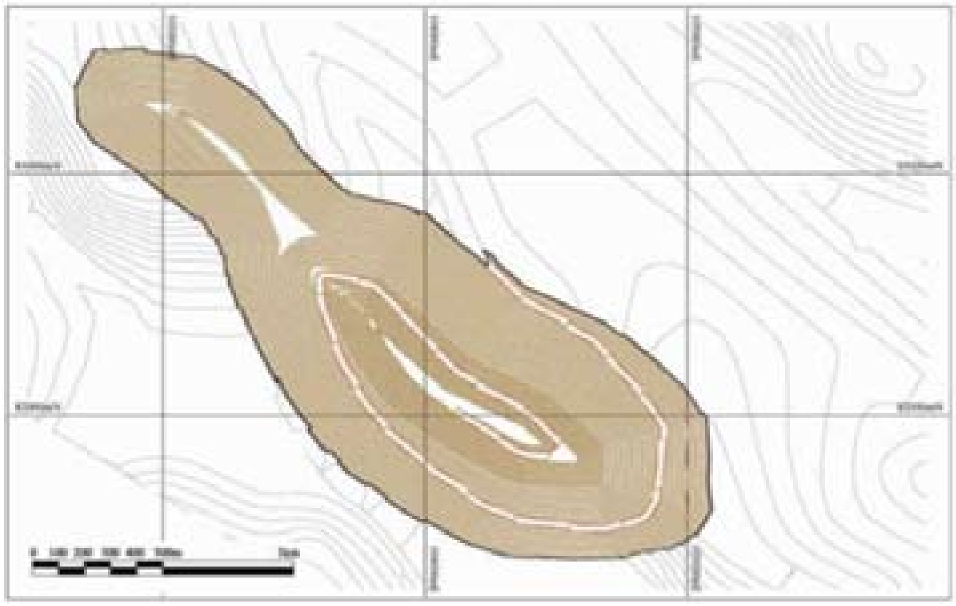
Blagodatnoye resources (in accordance with JORC Code)



Technology of mining operations

The Blagodatnoye mine operates as an open pit mine with surface stockpiling. For more details see page 27 (Mining method).

Blagodatnoye final open pit design



Ore processing at the Blagodatnoye mine

The Blagodatnoye mine processing is based on the gravitation, flotation and sorption and includes the following key stages:

Two stage grinding, with the first stage 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 hydrocyclone discharge goes into the sulphide flotation separation cycle, and after thickening the flotation concentrate undergoes sorption leaching on carbon (CIL). Flotation tailings are transported to the tailing dump.

Gravity gold separation cycle occurs on centrifugal concentrators, with gravity concentration feed coming from the secondary mills.

Gold is separated from the gravity concentrate using the ILR intensive leaching process. Gold bearing solutions are subjected to electrolysis where cathode cake is obtained, which is subsequently roasted and smelted into Doré gold.

Cyanided gold is separated at the sorption leaching stage using coal sorbent — CIL process. Two products are fed into the cycle: flotation concentrate and intensive cyanidation tailings. After coal desorption, gold bearing solutions are subjected to electrolysis where cathode cake is obtained, which is subsequently roasted and smelted into Doré gold.

After decontamination, thickening and ceramic filtration, sorption leaching tailings are stored in a dry waste dump.

Production at the Blagodatnoye mine in 2010

The Blagodatnoye mine, commissioned in July 2010, exceeded the planned mining, processing and gold output targets. A total of 249 thousand ounces of refined gold was produced from the Blagodatnoye deposit ore during the year.

All the ore produced was supplied for processing through the ore stockpile located near the plant. (For more details on the Blagodatnoye mine operations, see New Project Development section on page 13.)

Irkutsk hard rock business unit

The operations of the Irkutsk hard rock business unit were stable in 2010, with refined gold output increasing from 24 thousand ounces in 2009 to 26 thousand ounces in 2010. The key driver behind gold output growth was the commissioning of the Pervenets pilot plant at the Verninskoye deposit.

Zapadnoye mine

The Zapadnoye mine is located 4 km from Kropotkin, in Kropotkinsky municipal unit, Bodaibo district of the Irkutsk Region. The distance from Bodaibo, the district center, to Kropotkin is 140 km.

The Zapadnoye mine operates 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 0.8 million tonnes of ore per year.

The refinery of gold produced at the Zapadnoye mine is preformed by the Krasnoyarsk Non-Ferrous Metal Works.

Characteristics of the deposit and the types of ores

The Zapadnoye gold deposit is represented by three saddle-shaped bodies of ore. Ore concentrations are confined to the 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 2700 m. Dipping down towards 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% of sulphides. Similarly to the fields of Sukhoi Log and Verninskoye, gold is predominantly fine, but 85% of it is bigger 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.

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.

More than 90% of 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.

Ore processing technology

The Zapadnoye deposit uses gravity and sorption processing technology which includes the following key stages:

Three-stage grinding, hydrocyclone classification at each grinding stage and separation of the gravitated gold at centrifugal concentrators which also operate in two stages. To ensure as much additional recovery of gold as possible, dredge jolting machines are installed at the unloading point of each grinding stage mill. Gravity flotation tailings are stored at the tailing dump.

Gold is separated from the gravity concentrate using the ILR intensive cyanidation process. Gold bearing solutions of the ILR process are subjected to electrolysis where cathode deposit is obtained, which is subsequently roasted and smelted into Doré gold. After additional milling, intensive cyanidation tailings are cyanided with subsequent sorption on coal columns. Desorption of gold from coal, electrolysis of gold bearing solutions and cathode deposit roasting are performed at the Vysochaishy mine facilities on the basis of a tolling arrangement. The resulting roasted cathode deposit is melted into Doré gold at the Zapadnoye mine. After filtration, sorption tailings are decontaminated and stored at the hydrometallurgical unit's settler.

Production at the Zapadnoye mine in 2010

In 2010, the Zapadnoye mine mined 434.7 thousand tonnes of ore with an average grade of 1.73 g/t, compared to 1,155 thousand tonnes mined in 2009. The decline in the ore mining volume resulted from the depletion of the pit within the present boundary.

In 2010, the Zapadnoye mine processed 555.2 thousand tonnes of ore, including 448.9 thousand tonnes of ore of the Zapadnoye deposit and 106.3 thousand tonnes of ore of the Verninskoye deposit.

Currently, the Zapadnoye mine is the only Russian mining and metallurgical enterprise which developed an industrial-scale production process of extracting gold from ores similar to the ores of Sukhoi Log — the largest gold deposit in Russia.

The output of refined gold by the Zapadnoye mine went down from 24 thousand ounces in 2009 to 19 thousand ounces in 2010. The decline in the output volume is related to the decrease in the volume of mining.

Irkutsk alluvial gold business unit: alluvial deposits

Alluvial deposits in the Bodaibo District have been developed continuously since 1846, i.e. for more than 160 years. Polyus Gold is currently the largest gold producer from the alluvial deposits located in the Bodaibo District of the Irkutsk Region.

The alluvial deposits have the following characteristics:

- Genetically — exogenous alluvial;
- Geomorphologically — valley, thalweg, terrace, seam types;
- By depth of occurrence — deep-seated and shallow lying, by geological conditions — shallow lying, depth less than 10 m; medium depth, 10–20 m; and deep lying — up to 50 m and more; melted, permafrost, dry, watered, strongly and weakly bouldery.

Virtually all the operated deposits were developed earlier and are actually of anthropogenic type.

Gold mining and washing technology

The Group mines gold 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 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.

Ore extraction is performed by dredging, bulldozing and excavating.

When utilizing open cast mining techniques, gold-washing is performed by different types of jiggers. Gold recovery is performed by gravity separation without the use of chemical agents.

In order to increase the level of gold recovery, the jigging condensation technology is being implemented, which will enable the extraction of fine gold grains in different morphological forms.

The operations performed in 2010 confirmed the efficiency of using the jigging techniques.


Alluvial operations in Irkutsk region. Walking excavator

Production at the alluvial deposits in 2010

The total gold production from the alluvial deposits in 2010 amounted to 6.1 tonnes or 197 thousand ounces, compared to 6.0 tonnes or 194 thousand ounces in the previous year. In 2010, the average grade amounted to 0.688 g/m^3, including:

- Dredging — 0.34 g/m^3
- Quarrying — 1.129 g/m^3.

The main factors which influenced the growth of gold output in 2010 were as follows:

- Commissioning of new mining and transportation equipment (purchased as replacement for the worn out items);
- Start of the operation of the principal mining and transportation equipment earlier than planned and termination of the operation later due to favorable weather conditions (early spring, warm and extended autumn);
- Successful completion of the operational exploration program.

Yakutia business unit: Kuranakh mine

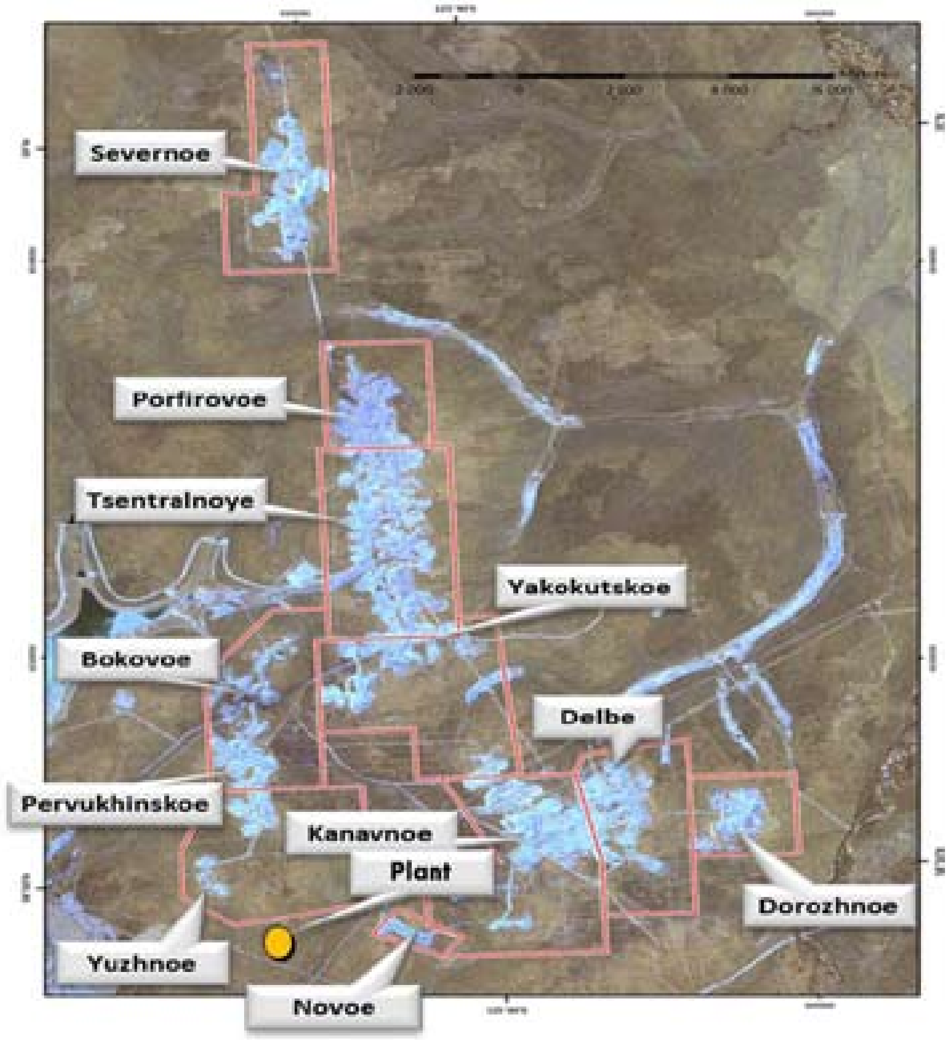
Description of production capacities

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 a production capacity of 3.6 million tonnes per year. Construction, assembly and startup operations involving modernization and extension of the mill's capacity were completed in 2010.

The refining of gold produced at the Kuranakh mine is carried out at the Prioksky Non-Ferrous Metals Plant (Ryazan Region).

Kuranakh ore field



Deposits and characteristics of ores

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

All the deposits of the Kuranakh ore field reveal common geological structures, morphologies and lithologies. The ores are of the quarts–pyrite type. The gold is represented by microscopic (0.05–0.001 mm) and submicroscopic (below 1 μm) particles. Gold is in an unbound state and is genetically related to sulphides, iron and quartz hydroxides.

Mining method

Mining at the Kuranakh ore deposits employs open cut, drilling and blasting operations. A downward layer-by-layer transport system is used in mining operations, with each horizontal 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 rock mass moving at the pits will be more than 10 million cubic meters after modernization, and the ore mining will constitute about 4.5 million tonnes.

Ore processing technology at the Kuranakh mine

Gold production at the moment is carried out at the gold concentrating plant with the aggregate production capacity of 3.6 million tonnes a year;

Ore milling is performed in three stages. The first stage is performed on semiautogenous grinding mills operating in an open cycle, and the second and third stages are performed in ball mills operating in a closed-loop cycle along with the hydraulic cyclones.

Ores at all the 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 (RIP).

Production at the Kuranakh mine in 2010

In 2010, the Kuranakh mine extracted 3,476 thousand tonnes of ore with an average gold grade of 1.33 g/t, compared to 3,606 thousand tonnes in 2009.

In 2010, the Kuranakh mine processed 3,298 thousand tonnes of ore, compared to 3,463 thousand tonnes in 2009. The average gold grade of ore dropped from 1.40 g/t last year to 1.34 g/t. Gold recovery rate for ores processed by the Kuranakh processing plant rose from 84.2% in 2009 to 85.1% in 2010.


Ore mining at Kuranakh

The production of refined gold at the Kuranakh mine in 2010 was 3.7 tonnes, or 120.4 thousand ounces, compared to 4.2 tonnes or 135 thousand ounces in 2009.

Kuranakh mine modernization

During 2010 the Group continued work on the modernization of the Kuranakh processing plant to increase capacity to 4.5 mtpa. A positive opinion of the state expertize of the design documentation was obtained; construction, assembly and startup work on the mill's facilities was completed; complex equipment tests were performed; and the necessary documents for the commissioning of the constructed facilities were prepared.

In 2010, investments in the Kuranakh processing plant modernization amounted to USD 2.3 million.

In order to achieve the design capacity, the Company plans to debug processing regimes and parameters in 2011.

Kazakhstan business unit: KazakhGold Group Limited entities

The Kazakhstan business unit was formed in 2009, after the Group's acquisition of a controlling stake in KazakhGold Group Limited. The Kazakhstan business unit includes operating facilities of KazakhGold Group Limited located in the Akmola Region of the Republic of Kazakhstan (Aksu, Bestobe, Zholymbet), the Akzhal deposit in the Eastern Kazakhstan Region, and a number of deposits at various stages of exploration in the north and east of Kazakhstan.

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.

Aksu

The Aksu mine is located 15 km 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 with a design capacity of 500 thousand tonnes. 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. The first stage product goes through jigging operations, and the concentrate is shipped to customers. The hydrocyclone discharge (pulp) is thickened and forwarded to the hydrometallurgical process where it goes through pre-cyanidation, gold sorption using coal, desorption, and electrolysis before it becomes cathode gold. After decontamination, the sorption tailings go to the tailings dump.

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

Production at the Aksu mine in 2010

In 2010, Aksu mine conducted mining operations in two shafts (No. 38-40 and 39-41) and the Pit zone. A total of 589.6 thousand tonnes of ore were mined, including 147.9 thousand tonnes from underground operations and 441.7 thousand tonnes from open-pit mining. 3,855 meters were excavated, including 1,368 meters of mining preparation work, and 2,488 meters of exploration workings. Stripping operations were performed on 161,884 thousand m^3. 1,173.14 kg of gold was mined in ore. 804.7 kg (25.9 thousand ounces) of gold were produced, including 494.8 kg (15.9 thousand ounces) of cathode gold (slime), 211.7 kg (6.8 thousand ounces) of gold in concentrate and 98.1 kg (3.2 thousand ounces) of gold in commodity (flux) ore. At the end of 2010, the heap leaching facility operation was terminated, due to the depletion of oxidized ore reserves.

Bestobe

The Bestobe mine is located 85 km east of Stepnogorsk. The mine was commissioned in 1932. Ores are mined by the underground method through three shafts: Zapadnaya, No. 2 and No. 50. The ore types are veins and mineralized zones. Oxidized ores in the Central zone are mined using the open pit method. High grade ores mined underground are processed by a gravity flotation mill with a design capacity of 250 thousand tonnes. 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, with control classification by hydrocyclones. The first stage product goes through jigging operations, and the gravity concentrate is amalgamated into schlich gold. The control classification hydrocyclone discharge is floated into sulphide gold bearing concentrate, which is then thickened in thickeners, vacuum filters and dryer drums, and shipped to customers. Flotation tailings are transported to the tailings dump.

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.

Production at the Bestobe mine in 2010

In 2010, a total of 546.4 thousand tonnes of ore were mined, including 140.6 thousand tonnes from underground operations and 405.8 thousand tonnes from open-pit mining. 4,054.1 meters were excavated, including 1,953.6 meters of mining preparation workings, and 2,100.5 meters of exploration workings. Stripping operations were performed on 54,182 thousand m^3. 1,523.05 kg of gold was mined in ore. 1,083.1 kg (34.8 thousand ounces) of gold were produced, including 95.0 kg of cathode gold (slime), 317.6 kg of gold in 211.7 kg (511.2 thousand ounces) of gold in schlichs, 511.2 kg of gold in concentrate and 159.3 kg of gold in commodity (flux) ore. At the end of 2010, the heap leaching facility operation was terminated, due to the depletion of oxidized ore reserves.

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 are veins and mineralized zones. Ores are mined using the underground (Central mine) and open pit methods. The ores mined are processed at the Zholymbet mill with a design capacity of 500 thousand tonnes.

The Zholymbet mill operates the gravity sorption process in accordance with the following scheme:ore mined underground is treated using a two 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. The first stage product goes through jigging operations, and the concentrate is shipped to customers. The hydrocyclone discharge (pulp) is thickened and forwarded to the hydrometallurgical process where it goes through pre-cyanidation, gold sorption using coal (CIP principle), desorption, and electrolysis before it becomes cathode gold. After decontamination, the sorption tailings go to the tailings dump.

Production at the Zolymbet mine in 2010

In 2010, a total of 307.7 thousand tonnes of ore were mined, including 157.0 thousand tonnes from underground operations and 150.7 thousand tonnes from open-pit mining. 2,824 meters were excavated, including 1,950.5 meters of mining preparation workings, and 873.5 meters of exploration workings. Stripping operations were performed on 215.6 thousand m^3. 1,527.8 kg of gold was mined in ore. 1,295.2 kg (41.6 thousand ounces) of gold were produced, including 773.1 kg of cathode gold (slime), 62.5 kg of gold in concentrate and 459.6 kg of gold in commodity (flux) ore.

Akzhal

In 2010 pilot ore mining started at the Akzhal deposit located in the east of the Republic of Kazakhstan. Pilot ore mining amounted to 313.6 thousand tonnes. 434.5 kg of gold were mined in ore. Stripping operations were performed on 332.1 m^3. 252.5 kg (8.1 thousand ounces) of Doré gold were produced. Ore is processed using the heap leaching facility, which was commissioned in April 2010. The heap leaching facility produces gold bearing solution — an auriferous resin, which is further processed at the Group's plant in Ust-Kamenogorsk to produce Doré gold (maximum mill output is up to 5 tonnes of ore or 160 thousand ounces of Doré gold per year). From April to December 2010, gold production from the Akzhal deposit ores amounted to 252.5 kg (8.1 thousand ounces).

Factors which influenced the operating results of the Kazakhstan business unit in 2010 were as follows:

"Measures to stabilize production facilities and enhance output" were developed in September to December 2009 and started to be realized in early 2010. These measures and the investment program helped to stop output drop, stabilize and grow gold production by 52%.

Zholymbet mine. Open pit

At the same time, due to a shareholder conflict, the financing of the investment program was considerably reduced since August 2010, which prevented this program from being completed in full. Equipment at mining and processing facilities remains highly worn out and there are no reserves prepared for excavation. Furthermore, reserves of oxidized ores at the Aksu and Bestobe deposits have been depleted, for which reason heap leaching facilities had to be halted. The entity's infrastructure facilities are in a poor state.

The investment program developed for 2011 is aimed at achieving the goals envisaged by the KazakhGold Group strategy for 2010–2020, and provides for capital construction of mining infrastructure facilities, modernization of processing facilities and maintenance of the ongoing operations, conduct of geological exploration work at the Central and Eastern Kazakhstan deposits in order to strengthen the mineral resource base of the existing mining entities, and replacement of the worn out machines and equipment.

7. Results of geological exploration

In 2010 the Company continued realization of its Exploration Program for 2006-2010, which was approved by the Board of Directors of OJSC Polyus Gold immediately after the incorporation of the Company in 2006.

In 2010, the Group's exploration team worked at 28 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). Geological exploration work continued in Kazakhstan at the Aksu, Bestobe, Zholymbet and other deposits.

In 2010, licenses for the Vangash and Verkhnekadrinskaya areas (Krasnoyarsk Region); for the Smezhny site and six licenses for placer gold (Irkutsk Region); for the Burgakhchan, Gus and Erguneisky sites (Chukotka Autonomous District) were acquired through auctions.

In 2010, the Group's overall geological exploration costs across the Russian Federation amounted to USD 32.3 million, compared to USD 32.5 million in 2009. The total drilling amounted to 155.6 thousand meters. The completion of the exploration work in 2010 resulted in an increase in reserves under categories $B+C_1+C_2$ by 12.0 tonnes. This included:

- Zapadnoye deposit — 8.9 tonnes;
- Alluvial deposits — 3.1 tonnes.

The low growth is due to the fact that the submission to and approval by the GKZ of the reports for the Verninskoye, Kuranakh, Panimba, Poputninskoye, Degdekan deposits has been transferred into 2011.

The 2010 geological exploration costs for the Republic of Kazakhstan amounted to USD 11.9 million. The total drilling in 2010 amounted to 31.8 thousand meters. The reserves will be added to the state reserve balance and the growth estimation is expected by the end of 2011. Estimates in accordance with JORC standards, will be reflected in Wardell Armstrong report in the 1st quarter 2011.

The completion of operational exploration in 2010 resulted in the increase of the $B+C_1+C_2$ reserves by 5.4 tonnes.[14]

Krasnoyarsk Region

In 2010, the Company carried out exploration activities across four projects in the Krasnoyarsk Region: the Olimpiada (deep horizons) and Poputninskoye deposits, and the Panimbinskaya and Razdolinskaya ore fields. Design work was underway on the Vangash and Verkhnekadrinskaya areas purchased through auctions in 2010.

Panimbinskaya area

Exploration on the Panimbinskoye deposit was completed in the reporting year. The feasibility study of permanent exploration conditions is being developed, and a report with reserve estimate is being prepared.

Prospecting work was completed on the flanks of the deposit (Tavlik, Mikhailovsky and Shalokit sites). Prognostic resources under categories P_1 and P_2 amount to 18 tonnes.

Razdolinskaya area

Prospecting and evaluation work was completed on the Razdolinskaya area. As a result, a pre-feasibility study was prepared; C_2 category reserves were estimated at 11.5 tonnes (Zmeinoe ore occurrence) and P_1 category resources at 24 tonnes (Zmeinoye, Svetloye, Antoninovskoye ore occurrences).

[14] Kazakhstan uses Russian reserve classification system.

Poputninskoye deposit

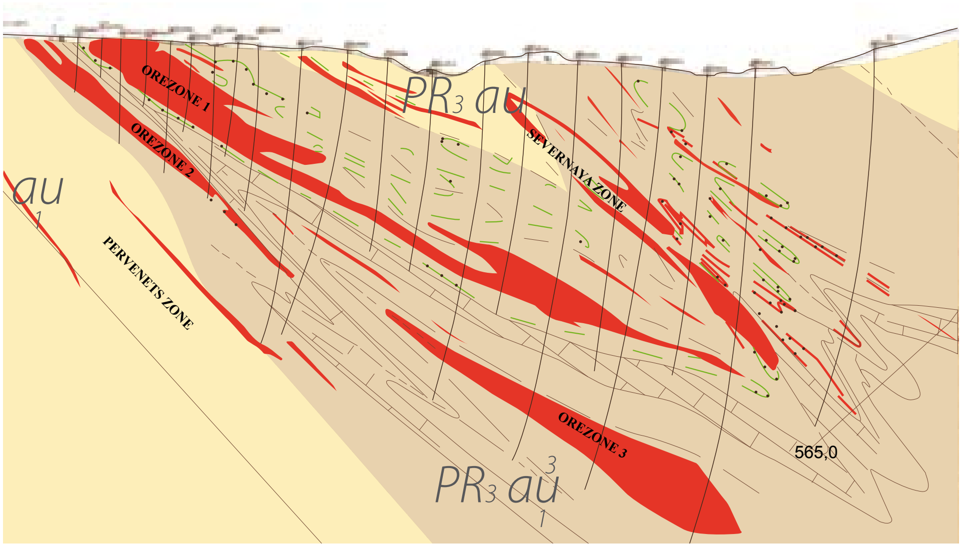
Exploration work on the deposit was completed, and process guide developed. Work on the feasibility study and reserve estimation report is being completed. The Poputninskoye deposit reserves are expected to be at least 75 tonnes (2.5 million ounces) under categories C_1+C_2.

Irkutsk Region (hard-rock)

In 2009 exploration work in the Irkutsk Region was carried out at the following units: the Verninskoye, Pervenets and Zapadnoye deposits.

Verninskoye, Pervenets deposits

North-South cross section



In 2010, the feasibility study was completed, and a report with reserve estimate was prepared. At the decision of the Investment Committee, the materials submitted to the GKZ were recalled, the feasibility study was adjusted with the cut-off grade changed from 0.75 to 1.0 g/t, and the adjusted study was re-submitted to the GKZ. It is expected that, following the approval by the GKZ, the balance reserves will amount to 148 tonnes (4.7 million ounces) under categories C_1+C_2, with a cut-off grade of 1.0 g/t. The increase in reserves will amount to 100 tonnes (3.2 million ounces). The increase of the cut-off grade will decrease the reserves, but will enable the deposit to be developed with higher economic efficiency.

Zapadnoye deposit

In 2010, supplementary exploration of the Zapadnoye deposit was completed, and gold reserves of 14 tonnes (0.4 million ounces) were added to the balance, under categories C_1+C_2. As a result of supplementary exploration, reserves grew by 7.8 tonnes (0.2 million ounces).

Smezhny site

In 2010, a license for subsoil use was purchased at an auction, the geological exploration project passed state expert examination and obtained all necessary approvals. Prospecting work started on the flank of the Verninskoye deposit. The total potential reserve growth for the license is in the range of 60 tonnes (1.9 Moz) of commercial reserve categories.

Irkutsk Region (alluvial deposits)

In 2010 the Company continued geological exploration at placer deposits in the Irkutsk Region. Prospect evaluation and exploration activities were carried out in 23 areas while operational exploration was carried out in 11 areas.

In 2010, the current growth of reserves under category C_1+C_2 as a result of prospective exploration and evaluation work amounted to 3.1 tonnes (0.1 million ounces).

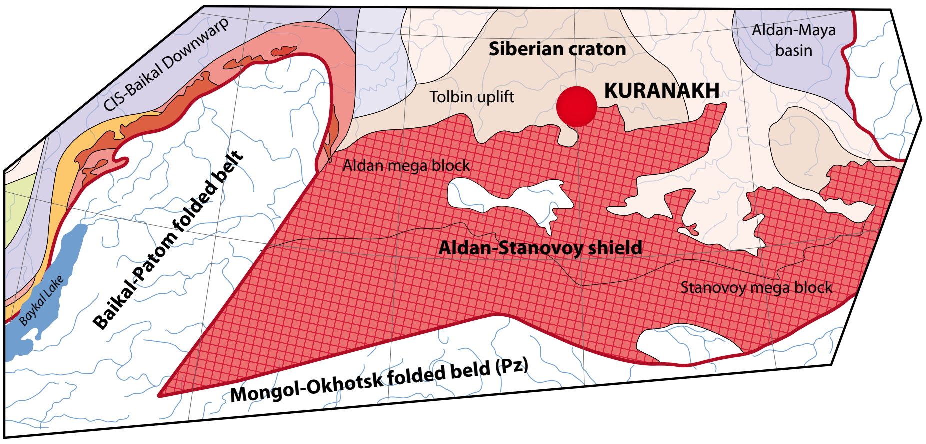
According to the Territorial Reserves Committee's expert examination, 4.2 tonnes (0.1 million ounces) of gold were listed on the balance, including 3.0 tonnes for newly explored properties.

Republic of Sakha (Yakutia)

Kuranakh

A feasibility study of permanent conditions and a report with reserves recalculation were prepared for the Kuranakh ore field deposits in 2010 due to revision of the conditions. The feasibility study and the report were submitted to the Yakutia Subsoil Use Department for consideration.

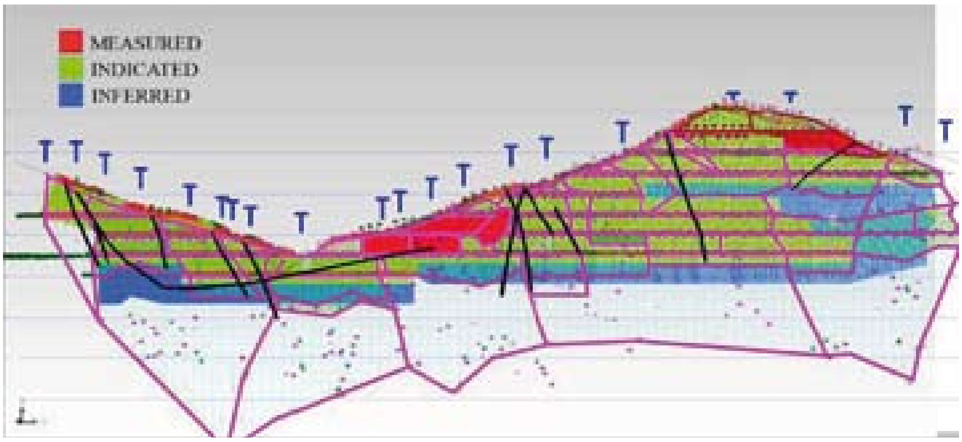
Geological map of the Kuranakh region



Nezhdaninskoye deposit

As part of a technical alliance with Kinross Gold Corporation, prototype tests of Nezhdaninskoye ore concentrate processing by SGS Canada were performed. The development of a comprehensive process guide is at the completion stage.

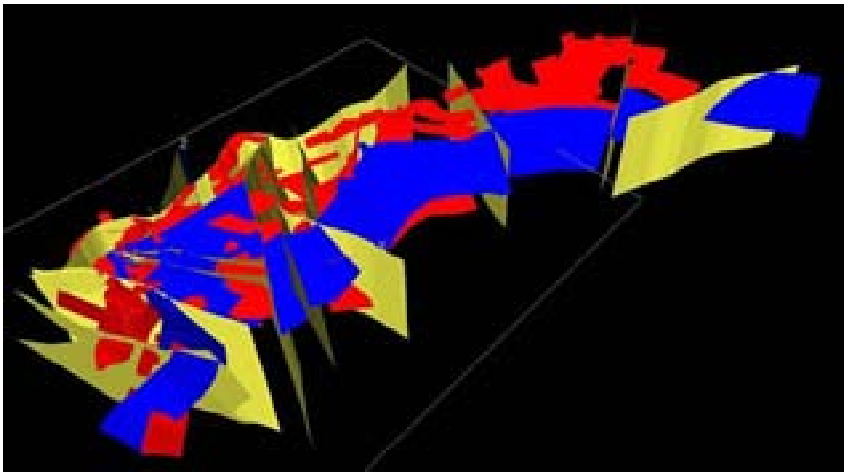
Nezhdaninskoye resources (in accordance with JORC Code)



Amur Region

In the Amur Region, only one project was underway — revision and evaluation work at the Bamskoye deposit. The Company is waiting for the government's permit to be issued for mineral resource exploration and production.

3D wireframe model. Ore bodies in red



Magadan Region

The Company holds licenses for geological exploration work on 2 projects in the Magadan region.

Degdekanskoye ore field

As part of a technical alliance with Kinross Gold, the exploration of the Verny site was completed, and the prospect evaluation survey at the Zhilny site was completed. A report on the prospect evaluation stage of the geological exploration was prepared, and an estimate of reserves and resources of the C_2–P_1 categories. According to the current estimation, the geological reserves under categories C_1+C_2 amount to 92 tonnes (2.9 million ounces) with the cut-off grade of 0.6 g/t, including 37 tonnes (1.1 million ounces) in the pit perimeter, with the average grade of 2.26 g/t.

Chai-Yuryinskaya prospective area

Test survey was performed at the Chai-Yuryinskaya prospective area, which will provide the basis for the prospecting and exploration work methodology adjustment.

Kazakhstan

In 2010, the Company continued geological exploration work aimed at evaluating the reserves for open-pit mining at the following deposits in the Republic of Kazakhstan: Aksu, Bestobe, Zholymbet, Yuzhnoye Karaul-Tyube, Akzhal, Kasbulakh.

The total exploratory drilling in 2010 amounted to 31.8 thousand meters, and operational exploratory drillingof 6.6 thousand meters.

Akmolin region

Aksu deposit

In 2010, geological exploration and detailed operational exploration work continued, with drilled amounted of 16.5 thousand meters. As a result of the work, 0.76 tonnes of gold under category C_1 were added to the balance in the Pit zone, with an average gold grade of 1.11 g/t. Reserves of 7.7 tonnes of gold under categories C_1+C_2 were added to the balance for tailings, with an average gold grade of 1.04 g/t. Total balance reserves for the Aksu and Quartzite Hills deposits amounted to 47.0 tonnes of gold under categories $A+B_1+C_1+C_2$, as at 1 January 2011.

Bestobe

Validation and prospect evaluation activities were performed within the Central zone of the deposit. The footage drilled amounted to 3.4 thousand meters. Per current estimation, C_1+C_2 reserves amounted to 20 tonnes of gold down to the depth of 150 m, with an average gold grade of 1.68 g/t. For tailings 7.5 tonnes of gold in the C_1+C_2 categories were added to the balance, with the average gold grade of 0.96 g/t (including C_1 — 7.2 tonnes, average grade 0.94 g/t). A total of 35.7 tonnes of gold under categories $A+B_1+C_1+C_2$ were included in the balance as at 1 January 2011.

Zholymbet deposit

Validation and prospect evaluation activities were performed on the Central, Artemievsky and Yurievsky sites, and exploration work at Pit No. 5 site. The footage drilled amounted to 5.8 thousand meters. According to current estimations, the Central site reserves (Pit No. 5) down to the depth of 200 m amount to 5 tonnes of gold under categories C_1+C_2. A total of 47,594 kg of gold under categories $A+B_1+C_1+C_2$ were included in the balance as at 1 January 2011.

Yuzhnoye Karaul-Tyube

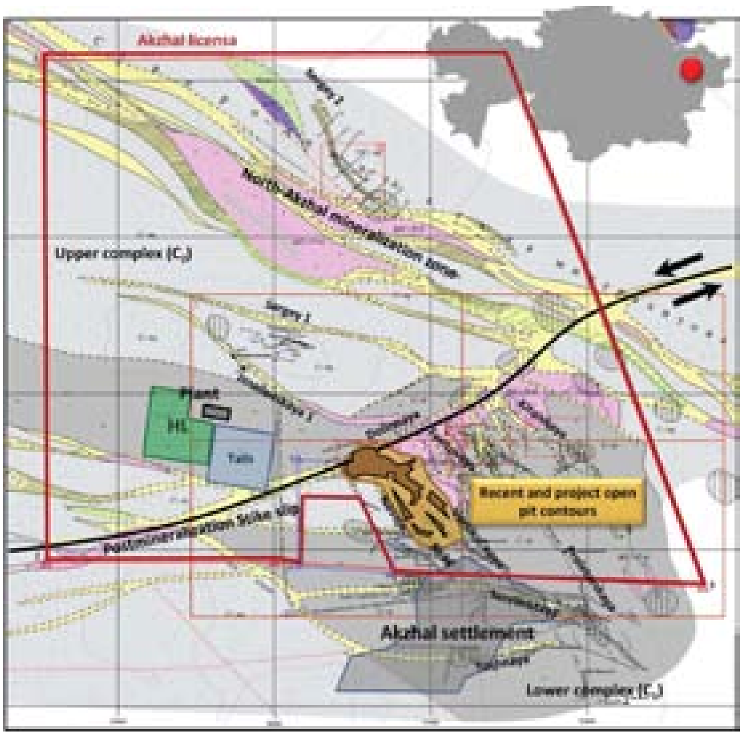
Prospect evaluation drilling on the Yuzhny and Promezhutochny sites was completed in the amount of 2.97 thousand meters. According to current estimates, oxidized ore reserves in the Yuzhny site down to the depth of 60 m amount to 3.3 tonnes of gold under categories C_1+C_2 with an average gold grade of 1.5 g/t.

East Kazakhstan region

Akzhal deposit

Exploratory work on oxidized ores and evaluation work on primary ores continued. The drilling volume was 8.1 thousand meters. According to current estimations, primary ore reserves amount to 1.5 tonnes of gold under categories C_1+C_2. A total of 0.9 tonnes of gold under categories C_1+C_2 were included in the balance as at 1 January 2011.

Geological map of Akzhal deposit



Kaskabulak deposit

Geological exploration work continued for the Osnovnaya and Stockwork zones including drilling of 2.0 thousand meters. According to current estimates, oxidized ore reserves amount to 0.5 tonnes of gold under categories C_1+C_2, and primary ore reserves amounted to 2.0 tonnes of gold under categories C_1+C_2.

7.1. Mineral resources base at 31 December 2010

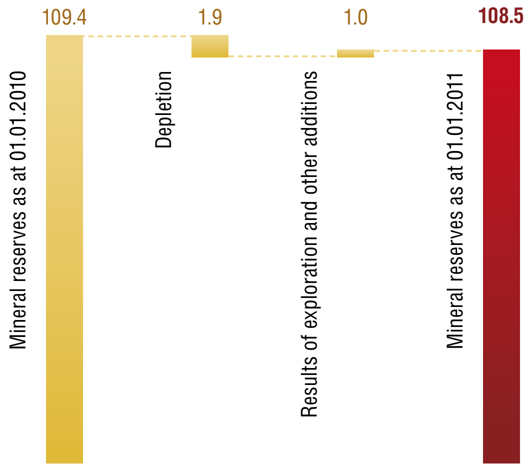
Table 7.1

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	**546,668**	**17.58**	**726,417**	**23.36**
Olimpiada	225,719	7.26	353,493	11.37
Titimukhta	57,314	1.84	74,545	2.40
Blagodatnoye	263,635	8.48	298,379	9.59
Magadan Region	**1,263,304**	**40.62**	**1,450,340**	**46.63**
Natalka	1,262,723	40.60	1,449,390	46.60
Vostochnaya area (Boets-Vodoley)	296	0.01	665	0.02
Degdekanskoye	285	0.01	285	0.01
Irkutsk Region	**127,200**	**4.09**	**156,192**	**5.02**
Zapadnoye	11,834	0.38	16,334	0.53
Verninskoye, Pervenets	39,147	1.26	49,251	1.58
Chertovo Koryto	76,219	2.45	87,198	2.80
Mukodekskoye	–	–	3,409	0.11
Republic of Sakha (Yakutia)	**369,860**	**11.89**	**744,228**	**23.93**
Kuranakh Group	90,943	2.92	100,496	3.23
Nezhdaninskoye	278,917	8.97	628,636	20.21
Piniginskoye	–	–	15,096	0.49
Amur Region (Bamskoye)	**17,911**	**0.58**	**108,038**	**3.47**
Bamskoye	17,911	0.58	108,038	3.47
Kazakhstan	**54,691**	**1.76**	**131,279**	**4.22**
Akzhal, Aksu, Bestobe, Zholymbet, Quartzite Hills, tailings	54,691	1.76	131,279	4.22
Total ore gold	**2,379,634**	**76.51**	**3,316,494**	**106.63**
Alluvial deposits				
Irkutsk Region	44,885	1.44	58,528	1.88
Total alluvial gold	**44,885**	**1.44**	**58,528**	**1.88**
Total ore and alluvial gold	**2,424,519**	**77.95**	**3,375,022**	**108.51**

[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 of the 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 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 the State balance of mineral resources of the Russian Federation. The Company has been having its mineral and raw material resources audited 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 performed by SRK Consulting in 2005. The audit included the analysis of a number of deposits in the Krasnoyarsk, Magadan and Irkutsk Regions. Since then, the Company has had its fields audited 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.

In 2010, the Company had the Verninskoye deposit audited according to the international standards. The Company's total proved and probable reserves (P&P) amounted to 78.2 million ounces, and the total measured and indicated (M&I) mineral resources amounted to 84.8 million ounces.

Table 7.2
Mineral resources of the Company according to JORC
7.2.1. Measured, indicated and inferred resources

Deposits	Measured			Indicated			Total measured and indicated. 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]	19.3	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[7]	0.22[8]	237[9]	169.8	0.42	2,091	2,328
Titimukhta[3]	9.7	3.10	950	17.6	3.10	1,750	2,700
Blagodatnoye[5]	3.4	2.50	271	132.8	2.40	10,230	10,501
Total	**66.6**	**2.20**	**4,712**	**566.0**	**1.69**	**30,676**	**35,388**
Projects							
Natalka[2]	163.9	1.74	9,166	626.9	1.52	30,543	39,709
Verninskoye[6]	2.0	3.00	200	72.9	2.70	6,434	6,634
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	**170.0**	**1.76**	**9,613**	**746.6**	**1.24**	**39,719**	**49,432**
Total	**236.6**	**1.88**	**14,325**	**1,312.6**	**1.67**	**70,395**	**84,820**

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[7]	0.62[8]	520[9]
Titimukhta[3]	3.6	2.40	270
Blagodatnoye[5]	36.1	2.20	2,555
Total	**79.0**	**1.96**	**7,538**
Projects			
Natalka[2]	472.4	1.42	21,538
Verninskoye[6]	52.1	1.80	2,953
Olenye[1]	0.7	6.90	150
Chertovo Koryto[4]	2.1	1.64	109
Total projects	**527.3**	**1.46**	**24,750**
Total	**642.4**	**1.57**	**32,288**

[1] Audited in October 2006 by Micon International Co. Limited.
[2] Audited in July 2007 by Micon International Co. Limited.
[3] Audited in June 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] Audited in December 2010 by Micon International Co. Limited.
[7] Thousand cubic meters (m^3).
[8] Grams per cubic meter (g/m^3).
[9] Conversion of sands was based on the ratio of 2 metric tonnes per 1 cubic meter.

7.2.2. 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[7]	0.32[8]	128[9]	104.8	0.52	1,603	1,731
Titimukhta[3]	7.7	3.30	817	13.4	3.30	1,422	2,239
Blagodatnoye[5]	3.1	2.30	226	132.1	2.27	9,633	9,859
Total	**42.3**	**3.07**	**4,176**	**373.6**	**2.06**	**24,739**	**28,915**
Projects							
Natalka[2]	242.3	1.30	10,291	883.1	1.10	30,550	40,841
Verninskoye[6]	2.1	2.90	200	63.3	2.70	5,555	5,755
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	**248.2**	**1.34**	**10,709**	**986.7**	**1.22.**	**38,556**	**49,265**
Total	**290.5**	**1.57**	**14,885**	**1,360.3**	**1.46**	**63,295**	**78,180**

[1] Audited in October 2006 by Micon International Co. Limited.
[2] Audited in July 2007 by Micon International Co. Limited.
[3] Audited in June 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] Audited in December 2010 by Micon International Co. Limited.
[7] Thousand cubic meters (m^3).
[8] Grams per cubic meter (g/m^3).
[9] Conversion of sands was based on the ratio of 2 metric tonnes per 1 cubic meter.

7.2.3. Mineral reserves and resources of the Company according to JORC

Classification	Category	Ore (million tonnes)	Grade (g/t)	Gold (thousand ounces)
Resources	Measured	236.6	1.88	14,325
	Indicated	1,312.6	1.67	70,395
	Total measured and indicated	**1,549.2**	**1.70**	**84,820**
	Inferred	642.4	1.57	32,288
	Total measured, indicated and inferred	**2,191.6**	**1.66**	**117,108**
Reserves	Proved	290.5	1.57	14,885
	Probable	1,360.3	1.46	63,295

8. Innovations

Development of its R&D potential is a strategic priority of the Polyus Group. 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 design center at Krasnoyarsk. Furthermore, the Polyus Group works in cooperation with the leading research and engineering companies to design and implement new enabling technologies.

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 2010

A special focus was made on technological process improvements and cost-cutting at the existing facilities. The main efforts were focused on the implementation of enhancements to the flotation concentrate bio-leaching process to enable design processing targets to be achieved for refractory sulphide ores of the Olimpiada deposit at Mill No. 3 and for Titimukhta ores at Mill No. 1 of the Olimpiada mine.

Main results of R&D activities performed at the Olimpiada mine (Krasnoyarsk Region):

1. Gravity gold recovery process using centrifugal concentrators at the ore pre-treatment department of Mills No. 2 and No. 3 has been developed and implemented. To reduce pulp and optimize pulp composition after bio-oxidation and before hydrometallurgical treatment, it was determined practical to hydrocyclone the neutralized bio-pulp before filtration, and implementation of several decanter centrifuges was suggested.
2. A lab performed research into gravity concentration of cleaner flotation magnetics at Mill No. 3.
3. Work was continued to improve the efficiency of the day-to-day control over bio-oxidation process at the Olimpiada deposit on the basis of an analysis of the biological and electrochemical properties of the current process, taking into account the chemical and mineralogical composition of the flotation concentrate.
4. Lab tests performed of final autoclave oxidation in acid and alkaline media of sulphide and elementary sulfur contained in bio-cake, which resulted in gold recovery rate increase to 95–98% and sodium cyanide consumption decrease; pilot tests of bio-cake final autoclave oxidation are planned for 2011.
5. To reduce the refining losses, cathode deposit roasting process started to be implemented at Mill No. 3.
6. The following has been implemented and adapted to the current process at the plant of the Blagodatnoye mine:
   - Tailing pulp decontamination process using metabisulfate has been fine-tuned;
   - Industrial tests of costly Leachaid reagent replacement with oxygen have been completed;
   - Gravity gold recovery technology for the second stage mills.

At the Kuranakh mine, preparatory work was completed for pilot tests of gold sorption from the thickener discharge on ion-exchange resin, and a pilot gold sorption installation was built.

At the alluvial deposits in the Irkutsk Region, the jigging technology was implemented and equipment to improve the efficiency of anthropogenic alluvial deposits operation was installed, which allowed for increased gold production in 2010.

Tests were performed to validate the design ore processing scheme at the Natalka deposit, the Magadan Region. The pilot plant was used to test and validate processing enterprise design criteria for the Natalka deposit. In 2010, research was conducted on the subject of "Development of input data for feasibility studies of the ore concentration process options for the Natalka deposit, with and without the use of photometric separation (PMS)." The preliminary results of the research demonstrate that an industrial PMS installation may be used at the pilot plant to obtain input data for adjusting the process guide for ore processing at the Natalka deposit.

Pilot tests were performed at the Nezhdaninskoye deposit in the Republic of Sakha (Yakutia) of gravity and flotation concentrate bio-oxidation, input data were prepared for the ore processing process guide.

At the Zholymbet plant, the Republic of Kazakhstan, the operation of oxygen supply to the head sorption cyanidation tank was added to the process. This improves oxygen uptake by the pulp and accelerates cyanidation, which increases recovery rate of the sorption process.

Intellectual property

In 2010, the Polyus Group approved an Intellectual Property Management Policy which sets out the key goals and priorities of the Group in the area of intellectual property creation and legal protection; the principles of intellectual property management, and the conditions for managing the relations with intellectual property authors.

In the year, the Company held intellectual property rights to 57 technological innovation elements, including:

- 28 patents for inventions;
- 23 patents for useful models;
- 3 certificates for software applications;
- 1 database certificate;
- 2 certificates for trademarks.

In 2010, the Company registered rights to 9 technical solutions, including:

- 6 patents for inventions;
- 2 patents for useful models;
- 1 certificate for software application.

The documents protect the Company's priority with respect to technical solutions in the following areas:

Hydrometallurgy	A method to clean gold bearing cyanic solution; A method to process sulphide gold bearing concentrates; A method to recover antimony and arsenic from the gold bearing concentrate bio-leaching solution; A method to recover antimony from sulfuric solutions.
Pyrometallurgy	A method to process sulphide gold bearing arsenic-antimony concentrates and ores;
Regeneration and conditioning	A method to treat reusable water from tailings;
Ore preparation	Unloading unit for the drum mill; Three component hydrocyclone; Automated ongoing integral control of loose material quantity for belt conveyor transportation.

In 2010 the Company also filed 2 applications for state registration of exclusive rights:

Hydrometallurgy	A method of bio-pulp dehydration after sulphide gold bearing flotation concentrate bio-oxidation aimed at reducing the losses of gold bearing bio-cake, consumption of reagents and time of subsequent cyanidation.
Power engineering	Power transformation unit at the Titimukhta deposit.

9. Capital market activities

Share capital

As at 31 December 2010 the authorized share capital of OJSC Polyus Gold comprised 190,627,747 ordinary shares with a par value of RUB 1 each. Of these, 10,776,161 ordinary shares (or 5.65% 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 traded on the leading Russian stock exchanges (Quotation list B) under the PLZL ticker:

- CJSC MICEX Stock Exchange
- OJSC RTS Exchange

As at 31 December 2010, Polyus Gold's market capitalization amounted to USD 13.8 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 Mellon 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's 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 2010, 133,439,422 American Depository Receipts had been issued, which is 34.99% of the Company's share capital resulting in full implementation of the ADR program. As at the end of 2010, the total capitalization of OJSC Polyus Gold's ADR program amounted to USD 4.8 billion.

American Depository Receipts for the Company's shares are traded 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 below).

Table 9.1
Stock indices which include the Company's quotations

	Index
RTS	RTS Index
	RTS Standard Index
	RTS Metals & Mining Index
MICEX	MICEX Index
	MICEX Metals & Mining Index
	MICEX Standard Cap Index
FTSE	FTSE Goldmines Index
	FTSE Global Equity Index Series:
	FTSE Global All Cap Index
	FTSE Global All Cap Russia Index
	FTSE Global All Cap Emerging Index
	FTSE Global All Cap Secondary Emerging Index
	FTSE All-World Large Cap Index
	FTSE All-World Large Cap Russia Index
	FTSE All-World Index
	FTSE All-World Russia Index
	FTSE BRIC Index
	FTSE EMEA Index
	FTSE World Index
	FTSE RAFI All-World 3000 Index
MSCI	MSCI AC World Index Series
	MSCI AC Europe Index Series
	MSCI AC Europe & Middle East Index Series
	MSCI BRIC Index Series
	MSCI Emerging Markets Index Series
	MSCI Emerging and Frontier Markets Index Series
	MSCI Russia Large Cap Index
	MSCI Russia Standard Index
Dow Jones	Dow Jones Global Index
	Dow Jones Emerging Markets Index
	Dow Jones Global Total Stock Market Index
	Dow Jones Emerging Markets Total Stock Market Index
	Dow Jones Europe Total Stock Market Index
	Dow Jones Russia Total Stock Market 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 OJSC Polyus Gold's Regulation on Dividend Policy, which was approved by the Board of Directors on 3 April 2007.

In 2010, the Company paid dividends for 2009 and the first half of 2010.

On 21 May 2010, the annual general meeting of the shareholders of OJSC Polyus Gold declared dividends on OJSC Polyus Gold's shares for 2009 of 15.83 rubles per 1 ordinary share of OJSC Polyus Gold. Taking into account the interim dividends paid in 2009 for the first half of 2009 of 6.55 rubles per 1 ordinary share, the final dividend distribution was approved in the amount of 9.28 rubles per 1 ordinary share and it was resolved that dividends should be paid within 60 days from the decision. The total amount of dividends accrued in 2010 for 2009 was RUB 1,769,025,492.16. As at 31 December 2010, the Company distributed dividends totaling RUB 1,763,326,991.38.

On 24 August 2010, an extraordinary general meeting of the shareholders of OJSC Polyus Gold resolved to distribute RUB 1,624,148,404.44 as dividends, to declare dividends based on the results of OJSC Polyus Gold's activities in the first half of 2010 in the amount of RUB 8.52 per 1 ordinary share of OJSC Polyus Gold, and to establish that dividends should be paid within 60 days from the decision. As at 31 December 2010, the Company paid dividends in the amount of RUB 1,623,108,838.88.

Reverse takeover transaction and increased shareholding in KazakhGold Group Limited

In July 2009 the Partial Offer — a transaction involving the purchase of 50.15% of issued and issuable shares of KazakhGold Group Limited (including shares presented by GDR) by Jenington International Inc., a 100% subsidiary of OJSC Polyus — was completed. One of the goals of the acquisition was the reverse takeover transaction (RTO) — swap of shares and ADRs of OJSC Polyus Gold for shares and GDRs of KazakhGold.

The Company planned to complete the RTO with KazakhGold Group Limited in 2010. For this purpose, on 30 June 2010 Polyus announced the proposed combination (terms and stages of share swap for different shareholder groups, and further plans). On 1 July 2010 KazakhGold Group issued additional 51,194,922 shares and 15,471,745 shares in the form of GDRs at USD 1.50 per share. Jenington subscribed to 51,194,922 ordinary shares of the new issue. As a result, Jenington International increased its holding from 50.15% to 65%.

However, due to the conflict between Polyus Gold and KazakhGold on the one side and former principal shareholders and managers of KazakhGold (the Asaubaev family) on the other, the subsequent suits initiated in the High Court of London; and the withdrawals of the approvals for the transactions with KazakhGold's shares and waivers of the preemptive rights to purchase KazakhGold's shares issued by the Kazakhstan Government, the RTO was postponed two times and was finally cancelled in October 2010.

In December 2010, KazakhGold entered into a binding agreement with AltynGroup, a limited liability partnership controlled by the Assaubayev family, to sell its operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan. According to the agreement Assaubaevs had to pay USD 509 million in two tranches.

Unfortunately, on 11 March 2011 the conditions of the agreement had been violated and neither AltynGroup nor representatives of AltynGroup notified KazakhGold about the willingness to make the payments on the first tranche. On 14 March KazakhGold announced that it has terminated the agreement with AltynGroup as the first tranche completion was not achieved by the first tranche cut-off date. KazakhGold noted that AltynGroup did not manage to rise the required financing prior to the first tranche cut-off date.

On 8 April 2010 KazakhGold and AltynGroup signed Restated and Amended Principal Agreement (RAPA) for the sale of KazakhGold's operating assets as well as a Settlement Deed in respect of the claims initiated in relation to the Assaubayev family. In accordance with RAPA, the sale of KazakhGold's assets shall be implemented in two tranches. Within the first tranche, KazakhGold shall transfer to AltynGroup 51% stakes in operating subsidiaries for the total amount of USD 259,590,000, part of that consideration to be satisfied by KazakhGold's loan (plus interest accrued thereon) to the Gold Lion (company controlled by Assaubayev).

On or prior to the First tranche completion, AltynGroup will provide an irrevocable unconditional guarantee or stand-by letter of credit in respect of 51% of all sums payable under the Senior Notes; such guarantee shall be increased proportionally to the number of shares acquired further by AltynGroup. Liabilities under loan agreements concluded by KazakhGold's former management shall also be transferred to AltynGroup.

The parties also agreed that the first tranche can be implemented only in case of receipt and effectiveness of all required governmental approvals and consents in relation to the reverse take-over transaction (RTO); reinstatement of all previously granted waivers on the pre-emptive right for KazakhGold share purchase by the government of Kazakhstan in relation to the partial offer and in relation to the USD 100 million share placing; as well as issuing to KazakhGold a letter of credit for USD 100,000,000. On 16 May the parties announced that the letter of credit had been issued, as well as all the required governmental approvals received.

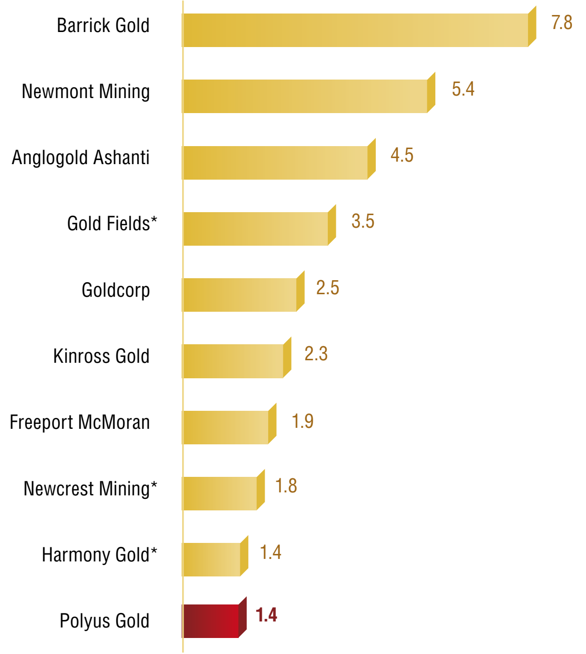
In case the first tranche is not implemented by 12 September 2011, AltynGroup will be able to acquire the shares of KazakhGold, the quantity to be calculated using a formula defined by the agreement. In that case, in accordance with preliminary estimation, AltynGroup's ownership of KazakhGold will amount to 15.89%.

The second tranche presumes finalization of the agreement, with two possible options for AltynGroup to choose: either to buy out the outstanding 49% stake in operating subsidiaries, or 100% of the off-shore companies of KazakhGold for the total consideration of USD 249,410,000. Prior to or at First tranche completion, AltynGroup is required to provide KazakhGold with guarantees of payment for the Second tranche. By the completion of the Second tranche AltynGroup shall provide guarantees of payment for 100% of any sums to be paid under Senior Notes.

At the date of publication of this report the Company retains control over KazakhGold Group Limited and intends to complete the reverse takeover transaction.

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

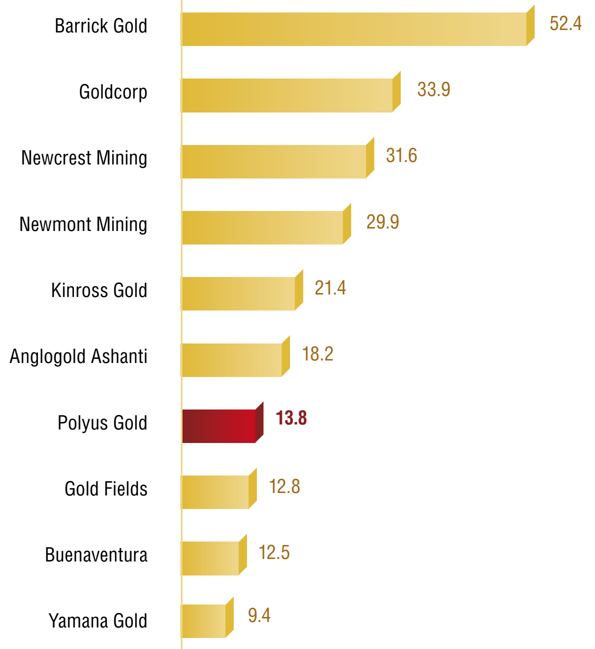
The world's largest gold producers, gold output in 2010, m oz



* Gold production for the year ended 30 June 2010.
Source: Companies' official web-sites.

In 2010, Polyus Gold increased gold output by 10%, which brought it to the 10th position globally by production. Since 2009, the Company has been increasing production, as envisaged by its Strategy aimed at strengthening the position of Polyus Gold among the world's leading gold producers.

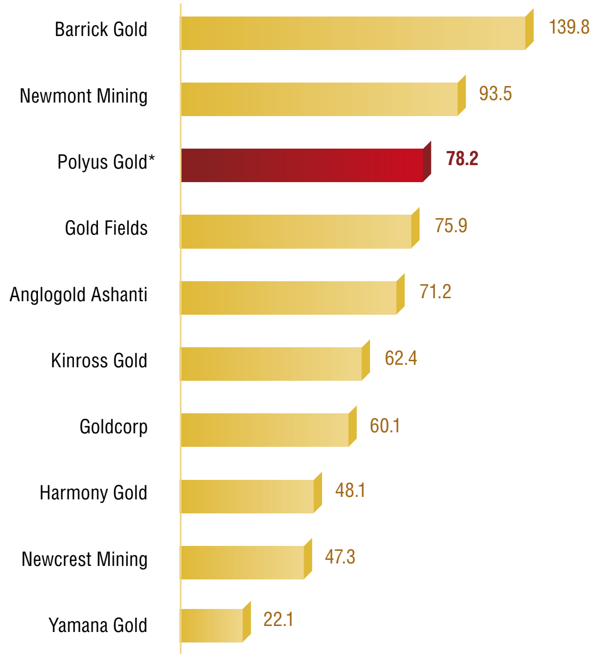
The largest global gold mining companies, based on market capitalization (as at 31 December 2010), USD bln



Source: Bloomberg.

In 2010, Polyus Gold's shares showed comparable profitability as the shares of global gold mining leaders and the p.m. Gold fixing price on the London bullion market. The Company remained number seven among the largest gold mining companies in terms of market capitalization. At 31 December 2010, the Company's capitalization amounted to USD 13.8 billion, as compared to USD 10.1 billion as at 31 December 2009.

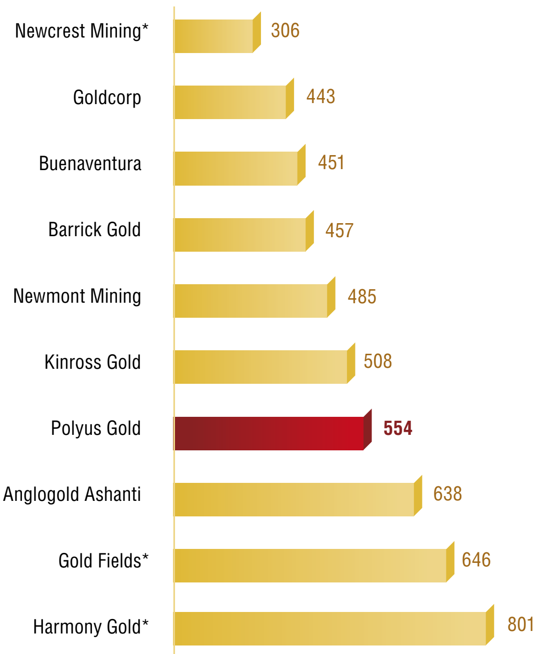
The largest global gold mining companies, based on reserves (P&P, JORC) at the end of 2010, m oz



* OJSC Polyus Gold's reserves as at 14 February 2011.
Source: Companies' official web-sites.

In 2010, OJSC Polyus Gold increased its gold reserves from 74.1 million ounces to 78.2 million ounces and moved from the fourth to the third position globally by proved and probable reserves. For more detailed information on the development of the Company's mineral resources base, see Section 7 "Results of geological exploration".

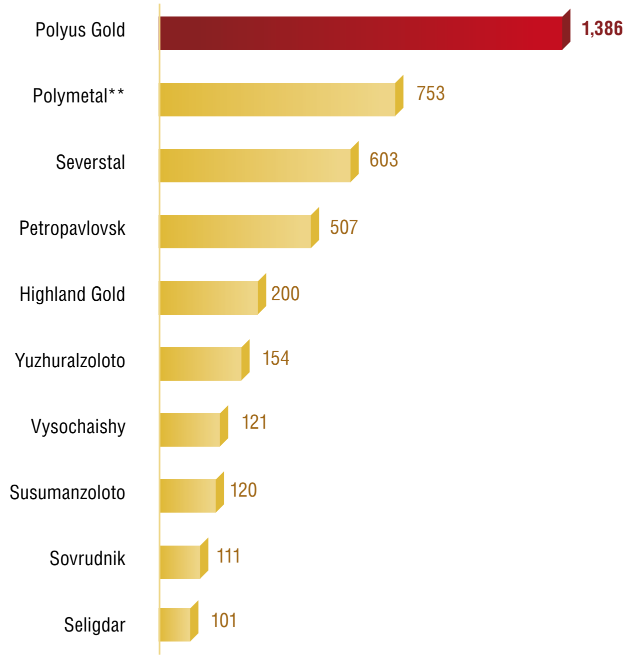
The world's leading gold producers, total cash costs in 2010, USD/oz



* Financial year ended on 30 June 2010.
Source: Companies' official web-sites.

In 2010, total cash costs of OJSC Polyus Gold per one troy ounce of gold increased by 41.7% to USD 554 USD. The main reason for the increase is the reduced output of the Olimpiada mine due to the switch to processing of the ore from deep horizons which contains higher level of pyrrhotine. However, the Company is taking a number of steps to stabilize the operation of its production facilities.

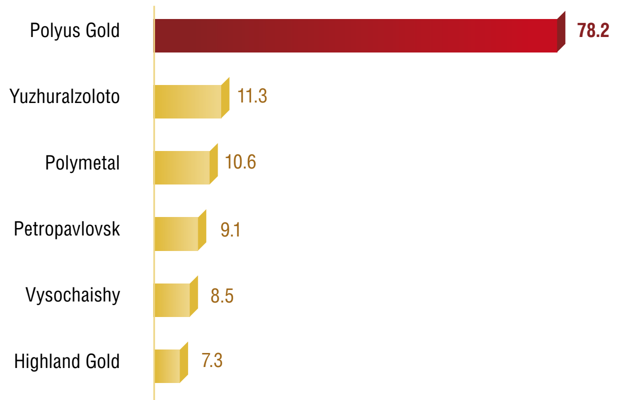
Russia's leading gold producers, gold output in 2010, k oz*



* Including gold, produced in the Republic of Kazakhstan
** Gold equivalent ounces.
Source: Companies' official web-sites, Report of the Russian Union of Gold Miners (2010).

Based on its performance in 2010, OJSC Polyus Gold remained the undisputed leader among Russian gold producers, in terms of volumes of gold produced.

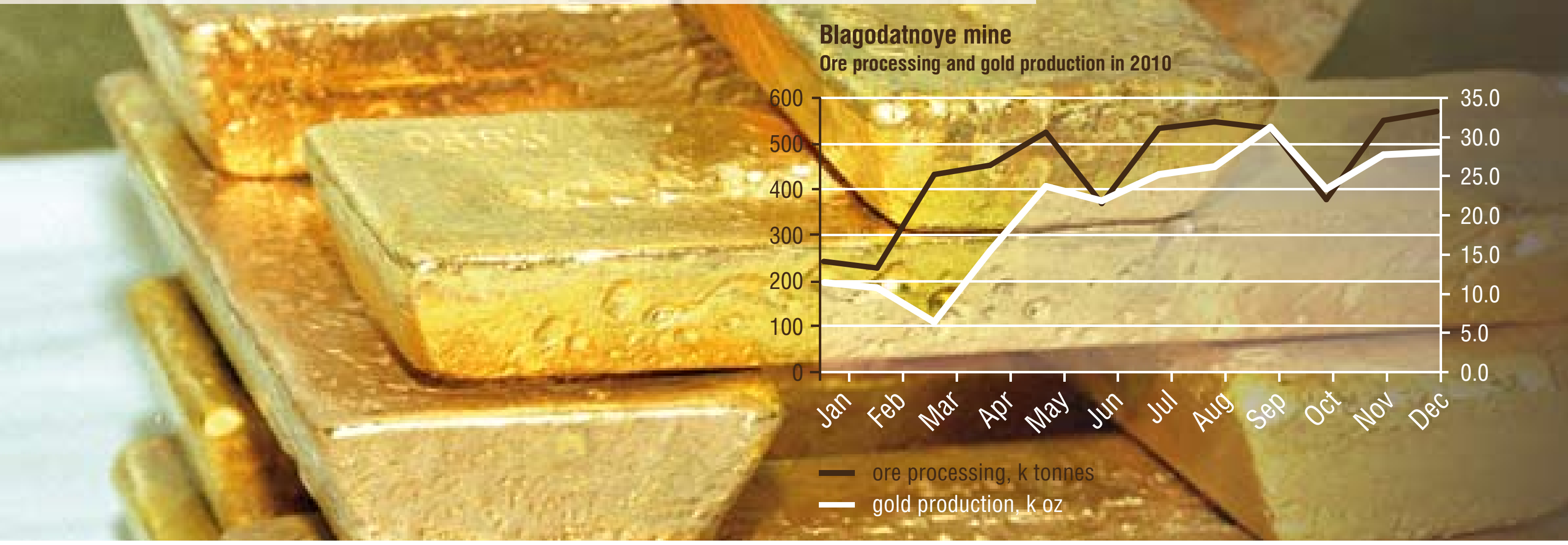
Russia's leading gold producers, proven and probable reserves, m oz*



* Proved and probable (P&P) reserves in accordance with the international system of classification (JORC) for Polyus Gold, Polymetal, Petropavlovsk, Highland Gold; and $B+C_1+C_2$ reserves in accordance with the Russian system of classification for Yuzhuralzoloto and Vysochaishy. For Polyus Gold, Polymetal, Petropavlovsk the data are as at 1 January 2011; for Highland Gold, Yuzhuralzoloto and Vysochaishy, as at 1 January 2010.
Source: Companies' official web-sites.

The Company also has the largest mineral resources base among Russian gold mining companies.

In 2010, Blagodatnoye mine produced 249 k oz of gold, exceeding its production target



11. Gold market in 2010

Jewellery is the traditional and by far the most important market for gold. Gold is also widely used in electronics and pharmacology. However, recently there has been an upsurge of interest to gold from investors as a medium of saving and growing their capital. Since 2008, demand for gold has been at record highs. In 2010, investment accounted for 43% of the global demand for gold.

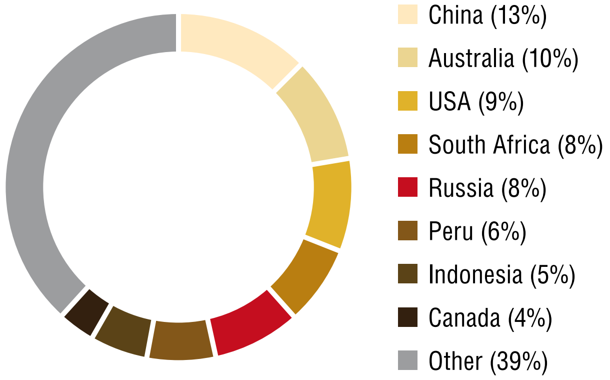
Global gold market trends in 2010

Supply

In 2010, global gold supply amounted to 4,108 tonnes, which is only 2% higher than in 2009. The rise comes from the increase in new metal production.

The global gold production in 2010, according to the World Gold Council, grew by 3% from 2009 to 2,659 tonnes. Australia accounted for most of the global gold production increase, due to enhanced capacity of the Boddington mine; followed by Argentina, due to production growth at Veladero; USA, due to the start of operations on the new Cortez Hills deposit; and China. China kept the top position in the world by gold production in 2010, having increased output by 8% to 351 tonnes.

Largest gold producing countries in 2010



Source: World Gold Council

In 2010, gold production suffered the hardest drop in Indonesia, due to reduced operations of the world's largest mine — Grasberg, and in Peru, mainly due to a drop in production at the Yanacocha deposit.

In 2010, Russia remained one of the world's top five gold mining industry leaders. According to the data of the Russian Union of Gold Miners, gold production from subsoil remained approximately at the 2009 level, or 203 tonnes.

Reduced use of de-hedging — repurchases by producers of gold that they had previously hedged in response to growing gold prices — increased the supply by 136 tonnes.

Another important source of the world's gold supply is scrap. As a result of record high gold prices, supply of gold from scrap has increased considerably during the last two years. In 2010, supply of scrap metal amounted to 1,653 tonnes and continues to grow, mainly, on the western markets.

The central banks and the International Monetary Fund have been another traditional source of gold supply in the global market. However, recently purchases of gold by the official sector have surpassed sales. European banks sold 136 tonnes of gold in 2010 as part of the Central Bank Gold Agreement, whereas the limit allowed for sale was 400 tonnes. 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 other 18 European nations. The principal seller of gold bullion in 2010 was the IMF, which completed the sale of 403 tonnes of gold in 2010, of which 222 tonnes were sold to the central banks of India, Sri-Lanka, Bangladesh and Mauritius and 181 tonnes were sold in the market.

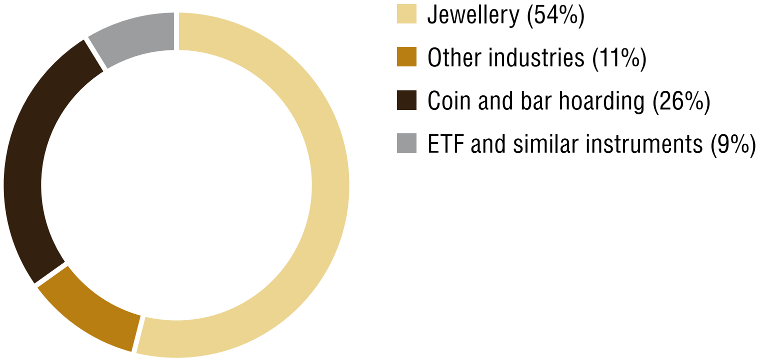
Demand

In 2010, demand for gold hit a 10 year maximum and amounted to 3,812 tonnes, despite the average gold price rising by 26% over the year.

Jewellery is the largest consumer of gold in the global market. After a record plunge in 2009, purchases of gold by jewellery manufacturers in 2010 rose by 17% to 2,060 tonnes. The highest demand comes from jewellery manufacturers in India and China.

According to the World Gold Council, the growth of demand for jewellery in India resulted, in addition to the traditional festival season at year end, from expectations of further growth of gold prices. In 2010, the markets in both countries were characterized by a trend of growing demand for jewellery made of pure, high karat gold. This certifies to investment motives being at play when people from these countries purchase golden jewellery. The largest consumers in other regions of the world, notably the EU and US, demonstrated a drop in the jewellery demand in response to the metal price growth, and due to the hard economic situation in the countries.

Global gold consumption in 2010



Source: World Gold Council

Demand for gold from other industry sectors increased in 2010 by 12%, compared to 2009, to 420 tonnes, mainly due to the rebound of the demand from the electronics industry to the pre-crisis level. The most significant growth of demand was observed in the markets of China, Singapore and Germany.

Growth of demand also comes from the official sector. According to the World Gold Council, in 2010 metal purchases for replenishment of state reserves surpassed sales by 87 tonnes, creating additional demand on the gold market. The largest purchases of gold were made by the Bank of Russia, and the Central Banks of Thailand, Bangladesh, Venezuela and Philippines.

Investment demand[15]

The investment demand for gold includes the demand for gold bullion, coins, medals and "gold" financial instruments (exchange traded funds — ETFs, etc.). In 2010, investment demand was extraordinarily high for a second consecutive year — at 1,629 tonnes, which is 14% below the previous year data. Gold bullion and coins enjoyed especial popularity in 2010. According to the World Gold Council, investments in these assets increased by 34% and amounted to 995 tonnes. The demand was the most active in India, same as in the jewellery sector. In 2010, China demonstrated an unprecedented 70% growth of investment demand and became the largest market of investments in gold, beating the US and Germany. The motivation behind investments in gold included public concerns about inflation, low yield on alternative investments (negative real interest rate on deposits, slow growth of the stock market); and expectations of further price growth. Among the western countries, the highest demand was demonstrated by the USD due to inflationary expectations as a result of relaxation of the FRS monetary policy, and the largest European consumers — Germany and Switzerland, which reflects investor concerns over the issue of the EU countries sovereign debt and uncertainty about the future economic growth of these countries.

However, demand from ETFs and other financial instruments linked to gold price dropped significantly from 617 tonnes in 2009 to 388 tonnes in 2010. Despite the fact that the aggregate gold reserves of these funds achieved a maximum in 2010, the growth rate of investments in ETF and similar funds slowed down significantly. At the year end, investors started to take their profits and investments flew out from ETFs.

Gold price

In 2010, the gold price continued to grow for the ninth consecutive year, reaching new records. Average PM London fixing amounted to USD 1,224.5 per ounce, showing a 26% increase, compared to the previous year's average fixing. Major growth factors were: investment demand that, though declined compared to 2009, remained high, as well as recuperating jewellery demand.

In 2010, two sessions of gold rally were recorded: the first one — beginning in February and lasting till the end of June, and the second one — beginning in August and lasting till Novebmer. In the first half of the year the major driver of the growth in gold price was sovereign debt crisis in the Eurozone countries, as well as inflation worries relating to the easing of the moneraty policy in the USA and doubts concerning the stability of the stock market. "Quantitative easing" policy of the FRS of the USA provoked dollar devaluation in the second half of the year. In addition to that, easing of the monetary policy in Japan, as well as Irish debt crisis also contributed to the growing attention towards the precious metal as an investment target. Growing demand from the official sector — central banks and IMF — also played an important part in stimulating the gold price growth.

The gold price on the London market (PM fixing) reached its highest level on 9 November 2010 and amounted to USD 1,421, exceeding the 2009 peak by 17%.

[15] Source: World Gold Council. Gold demand trends FY 2010.

Blagodatnoye mine was constructed by Polyus Stroy — the Group's own construction entity

12. The Structure of Polyus Group as at 31 December 2010

Changes in the corporate structure in 2010

In March 2010, CJSC Lenskaya GPK, a subsidiary of CJSC Svetly, was liquidated.

In April 2010, CJSC Nadezhdinskoye, a subsidiary of CJSC ZDK Lenzoloto, was liquidated.

In May 2010, the annual general meeting of the shareholders of OJSC SVMC resolved to increase its share capital by RUB 1,500,000 through the placement of 15,000 shares.

In June 2010, LLC LZRK, as the only shareholder of CJSC GRK Sukhoi Log, resolved to increase its share capital by RUB 80,000 through the placement of 80 shares.

In July 2010, KazakhGold Group Limited issued additional shares, as a result of which the issued capital of the company increased from 52,941,666 to 119,608,333 shares. Jenington International Inc. purchased 51,194,922 shares of the new issue. The number of KazakhGold Group Limited' shares held by Jenington International Inc. increased to 77,745,417, or 65% of the share capital of KazakhGold Group Limited.

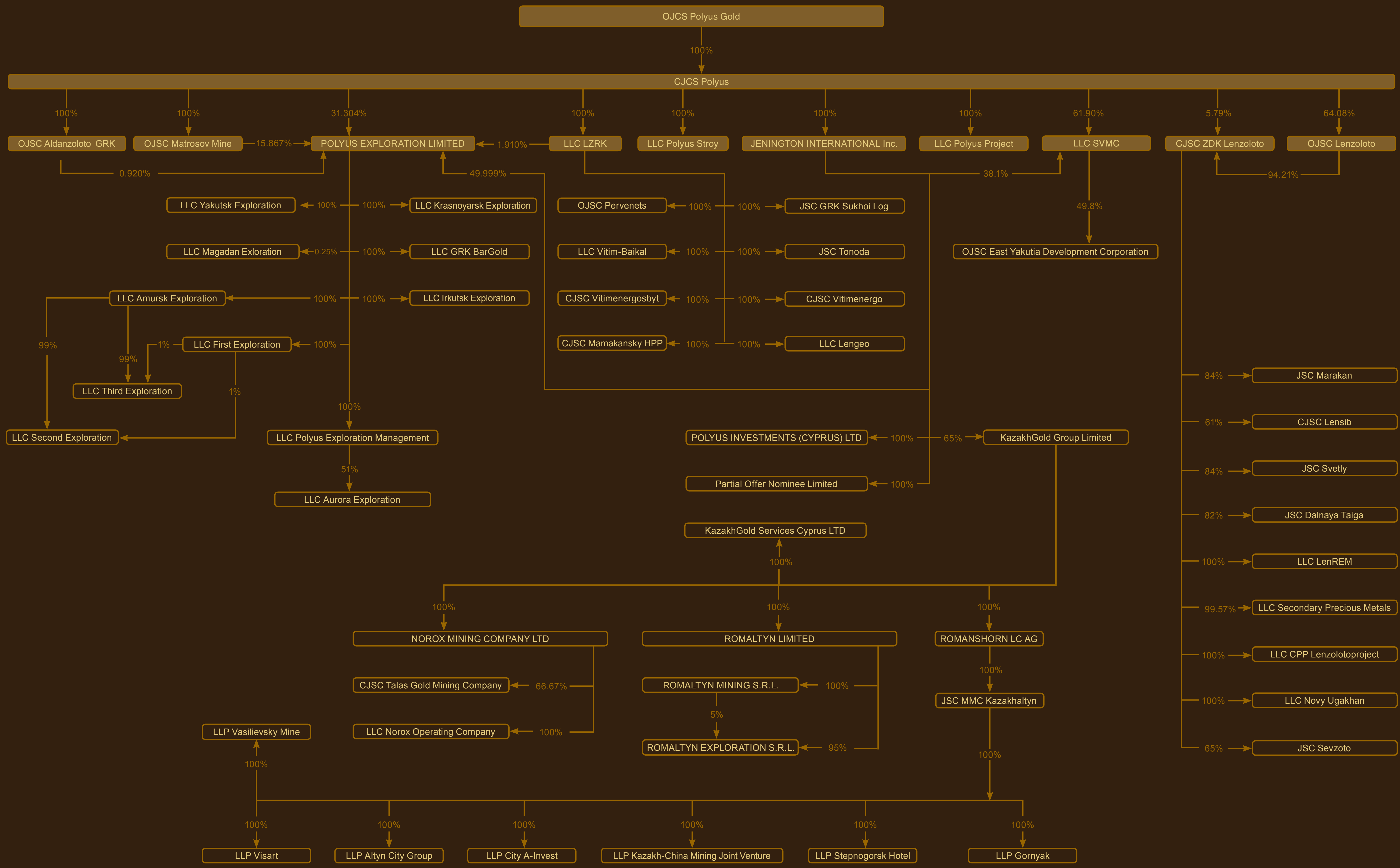
Also in July 2010, LLC NPC Perspektiva, a subsidiary of CJSC ZDK Lenzoloto, was liquidated.

Besides, in July a new company, LLC Aurora Geologorazvedka, was incorporated. LLC UK Polyus Geologorazvedka holds 51% in the share capital of LLC Aurora Geologorazvedka with the par value of RUB 35,700,000.

In August 2010, LLC Polyus Project was incorporated, of which 100% with the par value of RUB 100,000 is held by CJSC Polyus.

In August CJSC Polyus purchased 15,000 shares of OJSC SVMC placed through an additional issue. The interest of CJSC Polyus in the share capital of OJSC SVMC increased from 61.14% to 61.9%, and the interest of Jenington International Inc. in the share capital of OJSC SVMC decreased from 38.86% to 38.1%.

Also in August, the share capital of LLC Krasnoyarskoye GRP was increased from RUB 406,375,976 to RUB 656,375,976.


OJCS Polyus Gold
100%
CJCS Polyus
100%
100%
31.304%
100%
100%
100%
100%
61.90%
5.79%
64.08%
OJSC Aldanzoloto GRK
OJSC Matrosov Mine
15.867%
POLYUS EXPLORATION LIMITED
1.910%
LLC LZRK
LLC Polyus Stroy
JENINGTON INTERNATIONAL Inc.
LLC Polyus Project
LLC SVMC
CJSC ZDK Lenzoloto
OJSC Lenzoloto
0.920%
49.999%
38.1%
94.21%
LLC Yakutsk Exploration
100%
100%
LLC Krasnoyarsk Exploration
OJSC Pervenets
100%
100%
JSC GRK Sukhoi Log
49.8%
LLC Magadan Exloration
0.25%
100%
LLC GRK BarGold
LLC Vitim-Baikal
100%
100%
JSC Tonoda
OJSC East Yakutia Development Corporation
LLC Amursk Exploration
100%
100%
LLC Irkutsk Exploration
CJSC Vitimenergosbyt
100%
100%
CJSC Vitimenergo
99%
1%
LLC First Exploration
100%
CJSC Mamakansky HPP
100%
100%
LLC Lengeo
99%
LLC Third Exploration
1%
84%
JSC Marakan
100%
61%
CJSC Lensib
LLC Second Exploration
LLC Polyus Exploration Management
POLYUS INVESTMENTS (CYPRUS) LTD
100%
65%
KazakhGold Group Limited
84%
JSC Svetly
51%
Partial Offer Nominee Limited
100%
LLC Aurora Exploration
82%
JSC Dalnaya Taiga
KazakhGold Services Cyprus LTD
100%
100%
LLC LenREM
100%
100%
100%
99.57%
LLC Secondary Precious Metals
NOROX MINING COMPANY LTD
ROMALTYN LIMITED
ROMANSHORN LC AG
100%
LLC CPP Lenzolotoproject
100%
CJSC Talas Gold Mining Company
66.67%
ROMALTYN MINING S.R.L.
100%
JSC MMC Kazakhaltyn
100%
LLC Novy Ugakhan
5%
LLP Vasilievsky Mine
LLC Norox Operating Company
100%
ROMALTYN EXPLORATION S.R.L.
95%
65%
JSC Sevzoto
100%
100%
100%
100%
100%
100%
100%
100%
LLP Visart
LLP Altyn City Group
LLP City A-Invest
LLP Kazakh-China Mining Joint Venture
LLP Stepnogorsk Hotel
LLP Gornyak

In addition, the report on the additional issue of 15,000 shares of OJSC SVMC was registered. Thus, the share capital of OJSC SVMC is divided into 767,612 shares and equals RUB 76,761,200.

In October 2010, LLC Angarsky Uchastok, a subsidiary of CJSC Sevzoto, was liquidated.

In November 2010, a new company, LLC Vtoroye GRP, was incorporated. The share capital of LLC Vtoroye GRP is RUB 10,000,000. LLC Amurskoye GRP holds 99%, and LLC Pervoye GRP holds 1% of the share capital of LLC Vtoroye GRP.

LLC Tretie GRP was also incorporated. The share capital of LLC Tretie GRP is RUB 10,000,000. LLC Amurskoye GRP holds 99%, and LLC Pervoye GRP holds 1% of the share capital of LLC Tretie GRP.

In November 2010, CJSC GRK Sukhoi Log placed 80 additional shares. The total number of shares of CJSC GRK Sukhoi Log held by LLC LZRK comprised 764 with a par value of RUB 764,000.

In December 2010, CJSC Polyus purchased 0.01% in the share capital of LLC LZRK from OJSC Matrosov Mine. CJSC Polyus holds 100% in the share capital of LLC LZRK with the par value of RUB 1,790,000,000.

Also in December, LLC Amurskoye GRP sold 99% and LLC Yakutskoye GRP sold 1% of the share capital of LLC Pervoye GRP to Polyus Exploration Limited. As a result, Polyus Exploration Limited consolidated 100% in LLC Pervoye GRP with a par value of RUB 10,000,000.

13. Corporate governance report

Becoming more attractive for investors, growing capitalization and improving strategic oversight are among OJSC Polyus Gold's priorities. The Company continuously works to improve operating efficiencies, and consistently develops its corporate governance framework in accordance with the best Russian and international practices.

Corporate governance enhancement is aimed at achieving protection of all the statutory shareholder rights, productive collaboration and harmonization of interests of majority and minority shareholders, effective operation of the management and control bodies, timeliness, fairness and completeness of disclosures on the Company's activities.

Information disclosure

OJSC Polyus Gold strives to improve the level of transparency and maintain its reputation as a reliable partner and investment target. Disclosure of reliable information mitigates risks for investors, and, hence, has a positive effect on the Company's capitalization.

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 persons, securities-related data, etc.

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 Code of Corporate Conduct, the requirements of the Federal Service for Financial Markets of the Russian Federation, the requirements of the UK Financial Services Authority and the listing requirements of the Russian and foreign stock exchanges, including OJSC Stock Exchange Russian Trade System, CJSC MICEX Stock Exchange and London Stock Exchange.

The Company also regularly issues social reports prepared in accordance with the Global Reporting Initiative standards.

Board of Directors

The Board of Directors of OJSC Polyus Gold exercises broad powers, which are specified in the Company's Articles of Association and implemented practically, ensuring the Board's oversight over the Company management.

The Board of Directors determines the development strategy of the Company, assesses possible risks, and designates, motivates and controls its management. 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 of OJSC Polyus Gold operates in accordance with the Federal Law "On Joint Stock Companies", the Company's Articles of Association and 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 2010 elected the following people to the Board of Directors:

- Ekaterina Mikhailovna Salnikova;
- Mikhail Dmitrievich Prokhorov;
- Pavel Sergeevich Grachev;
- Evgeny Ivanovich Ivanov;
- The Earl of Clanwilliam;
- Anna Alekseevna Kolonchina;
- Alexander Ilyich Mossionzhik;
- Zumrud Khandadashevna Rustamova;
- Maxim Valeriyevich Finsky.

Eight members of the Board were re-elected from 2009 (two of them were re-elected with the new role), which demonstrates the continuity of the Board and stability in the management of the Company. Ms. A.A. Kolonchina is a newly elected director. Mr. A.M. Rodionov was not re-elected.

The meeting held on 3 June 2010 elected Mikhail D. Prokhorov, the President of Onexim Group, as Chairman of the Board of Directors of OJSC Polyus Gold. Mr. A.I. Mossionzhik was elected deputy Chairman of the Board of Directors.

The meeting of the Board of Directors of 9 December 2010 dismissed Mikhail D. Prokhorov as the Chairman of the Board, simultaneously electing him the General Director of OJSC Polyus Gold, and elected E.M. Salnikova as Chairman of the Board of Directors.

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

15 May 2009	21 May 2010
M.D. Prokhorov, Chairman	E.M. Salnikova, Chairman[16]
P.S. Grachev	P.S. Grachev
E.I. Ivanov	E.I. Ivanov
Lord Patrick D. Gillford	The Earl of Clanwilliam[17]
A.I. Mossionzhik	A.I. Mossionzhik
A.M. Rodionov	A.A.Kolonchina
Z.Kh. Rustamova	Z.Kh. Rustamova
E.M. Salnikova	M.D. Prokhorov
M.V. Finsky	M.V. Finsky

Composition of the Board of Directors of OJSC Polyus Gold

Ekaterina Mikhailovna Salnikova

Chairman of the Board of Directors

Date of birth: 14 July 1957

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

- 2000–2007 — Member of the Board of Directors of Silovye Mashiny.
- 2001–2008 — Member of the Board of Directors of OJSC MMC Norilsk Nickel.

[16] Ms. E.M. Salnikova has been Chair of the Board of Directors since 9 December 2010. In the period from 3 March 2006 to 9 December 2010 the Chairman of the Board of Directors was M.D. Prokhorov.

[17] The new title and name of Lord Patrick Gillford.

- 2003–2007, December 2008 – present — Member of the Board of Directors of OJSC Open Investments.
- 2004–2006 — Member of the Board of Directors of OJSC AKB Rosbank
- 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 Company
- 2008 – present — Member of the Board of Directors of OJSC Kvadra
- 2008 – present — Member of the Board of Directors of OJSC AKB International Financial Club
- 2010 – present — Member of the Board of Directors of OJSC RBC-TV Moscow

Mikhail Dmitrievich Prokhorov

General Director

Date of birth: 3 May 1965

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

- 2001–2007 — General Director of OJSC MMC Norilsk Nickel
- 2003–2007, and June – December 2008 — Member of the Board of Directors of OJSC MMC Norilsk Nickel
- 2006 – present — Member of the Board of Directors of OJSC Polyus Gold
- 2006 – December 2010 — 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 modernization and technological development of the Russian economy
- 2009 – present — Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs
- 2009 – present — Member of the Board of Directors of OJSC Sheremetyevo International Airport
- 2010 – present — Member of the Board of Directors of OJSC AKB International Financial Club
- 2010 – present — Chairman of the Board of Directors of LLC SK Soglasie
- 2010 – present — General Director of OJSC Polyus Gold
- 2010 – present — General Director of CJSC Polyus

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 General Director is determined by the Board of Directors.

Pavel Sergeevich Grachev

Date of birth: 21 January 1973

Education: University of Trieste (Italy), Law; Saint Petersburg State University, Law

- 2002–2006 — Managing partner of the Russian practice of LLC Pavia and 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

- 2010 – present — Chairman of the Board of Directors of OJSC PIK Group
- 2010 – present — President, General Director, Chairman of the Management Board of OJSC Uralkali

Evgeniy Ivanovich Ivanov

Date of birth: 29 September 1966

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

- 2003–2007 — Member of the Board of Directors of OJSC AKB Rosbank
- 2004–2007; February – October 2008 — President of CJSC Polyus
- December 2007 – February 2008, October 2008 – December 2010 — General Director of CJSC Polyus
- 2004 – present — Member of the Board of Directors of CJSC Polyus
- 2005–2007, 2008 – present — Member of the Board of Directors of OJSC Matrosov Mine
- 2005 – present — Member of the Board of Directors of OJSC Lenzoloto
- 2005–2007 — Member of the Board of Directors of OJSC Aldanzoloto GRK
- 2005–2007 — Member of the Board of Directors of OJSC SVMC
- 2005–2008 — Chairman of the Board of Directors of OJSC YaGK
- 2005–2008 — Deputy Chairman of the Board of Directors of Rosbank (Switzerland) S.A.
- 2006 – present — Chairman of the Board of Directors of CJSC ZDK Lenzoloto
- 2006 – May 2007, October 2007 – 2010 — General Director of CJSC Polyus Gold
- 2006 – present — Member of the Board of Directors of OJSC Polyus Gold
- 2007–2009 — General Director, member of the Board of Directors of OJSC Polyus Geologorazvedka
- 2008 – present — Member of the Board of Directors of OJSC Eastern Yakutia Development Corporation
- 2008 – present — Member of the Board of Directors of LLC LZRK
- 2009 – present — Chairman of the Board of Directors and Chief Executive Officer of KazakhGold Group Ltd.
- 2010 – present — Chairman of Board of Directors of OJSC Matrosov Mine
- January 2011 – present — Chairman of the Board of Directors of CJSC Polyus

The Earl of Clanwilliam

Date of birth: 28 December 1960

Education: Eton College (UK); Royal Military Academy Sandhurst

- 2000–2004 — Chairman of the Board of Directors of Cleveland Bridge UK Ltd, without executive responsibilities
- 2005 – present — Director of Ukrainian British City Club
- 2006 – present — Member of the Board of Directors of OJSC Polyus Gold
- 2007 – present — Chairman of the Board of Directors of Eurasia Drilling Company

Anna Alekseevna Kolonchina

Date of birth: 16 February 1972

Education: RF Government Financial Academy, specializing in Accounting and Audit.

- 2001–2008 — Director of Deutsche Bank AG, London
- 2008 — Managing Director of Wainbridge Limited
- 2008–2010 — Vice-President of Economics and Finance of OJSC PIK Group
- 2010 – present — Managing Director of the Moscow Representative Office of Nafta Moscow (Cyprus) Limited (the Republic of Cyprus).
- 2010 – present — Member of the Board of Directors of OJSC Polyus Gold
- 2010 – present — Member of the Board of Directors of OJSC Uralkali
- 2010 – present — Member of the Board of Directors of OJSC AKB International Financial Club

Alexander Ilyich Mossionzhik

Date of birth: 14 November 1961

Education: Tula Polytechnic Institute, diploma in Engineering / Mathematics; Candidate of Science

- 2001–2006 — General Director of Nafta Moscow
- 2005–2008 — Member of the Board of Directors of OJSC Polymetal
- 2006 – present — Chairman of Board of Directors of Nafta Moscow
- 2009 – present — Member of the Board of Directors of OJSC PIK Group
- 2009 – present — Member of the Board of Directors, and Deputy Chairman of the Board of Directors of OJSC Polyus Gold
- 2010 – present — Member of the Board of Directors of OJSC AKB International Financial Club
- 2010 – present — Deputy Chairman of the Board of Directors of OJSC Uralkali

Zumrud Khandadashevna Rustamova

Date of birth: 21 September 1970

Education: Moscow Economics and Statistics Institute, specializing in Economics

- 2004–2006 — Deputy General Director, Vice-President of CJSC SUEK
- 2006 — Deputy Chairman of the Management Board, Member of the Management Board of OJSC Russian Bank for Development
- 2006–2008 — Director of Corporate Development (joint appointment) of LLC Nafta Moscow
- 2006 – present — Deputy General Director (joint appointment) 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 — Deputy General Director 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

Maxim Valeriyevich Finsky

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 – Deputy Chairman of the Management Board of OJSC MMC Norilsk Nickel
- 2001–2010 — General Director of LLC Intergeo management company
- 2009 – present — Member of the Board of Directors of OJSC Polyus Gold
- 2010 – present — President of LLC Intergeo management company

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 Code of Corporate Conduct, regulations and guidelines produced by the RF Federal Service for 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 on the issues at hand. The independent directors facilitate greater efficiency with regard to the performance of the Board of Directors, which has a positive impact on the Company's overall performance.

In 2010, independent members of the Board of Directors included Ms. Z.Kh. Rustamova and the Earl of Clanwilliam.

Remuneration of Members of the Board of Directors

In 2010, members of the Board of Directors of Polyus Gold Ms. Z.Kh. Rustamova and the Earl of Clanwilliam were paid quarterly compensation of RUB 937,500 each, and reimbursement of documented expenses they incurred while serving on the Board of OJSC Polyus Gold, in the amount of up to RUB 2,000,000 per year each, net of taxes.

Moreover, as independent directors, the Earl of Clanwilliam, 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, were paid additional remuneration of RUB 468,750.

The compensation amounts paid in the period from 1 January 2010 to 21 May 2010 were approved by the annual General Meeting of the shareholders of OJSC Polyus Gold on 15 May 2009.

The compensation amounts paid in the period from 20 May 2010 to the end of the reporting period were approved by the annual General Meeting of the shareholders of OJSC Polyus Gold on 21 May 2010.

In 2010, 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 2010

In 2010, the Board of Directors of OJSC Polyus Gold held 11 meetings, nine of which were held face-to-face.

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

- Approval of the Company's business plan and budget for 2010;
- Reviewing the results of the Company's operations;
- The Company's geological exploration program;
- New conditions to be used in scenario analysis of the Company's investment projects;
- The Company's international projects;
- Progress of the development project of the Natalka deposit;
- The results of the audit of the Company's IFRS consolidated financial statements (for the year ended 31 December 2009 and 6 months ended 30 June 2010);
- Approval of the interested and related party transactions.

Committees of the Board of Directors of OJSC Polyus Gold

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

- 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 task 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 interaction 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 2010, the Audit Committee held five meetings, four of which were held face-to-face and one 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 Company's financial statements and annual report, as well as considering the independent auditor's opinion issued by LLC RosExpertiza for 2009, and the candidacy for auditor for the 2010 financial statements.

The Audit Committee oversaw the process of audit of the Company's IFRS consolidated financial statements, holding regular meetings with CJSC Deloitte & Touche CIS, the Company's auditor.

Looking at the performance for 2010, members of the Committee expressed a high opinion of the Committee's productivity and close collaboration with the Company's auditor in terms of receiving maximally objective information on the Company's activity and its development prospects.

The Committee active until 21 May 2010

- The Earl of Clanwilliam — Chairman of the Committee, Independent Director
- Mr. A.M. Rodionov
- Ms. E.M. Salnikova

The Committee elected on 3 June 2010 (Minutes of the Meeting of the Board of Directors of the Company No. 06-09/SD)

- The Earl of Clanwilliam — Chairman of the Committee, Independent Director
- Ms. A.A. Kolonchina
- Ms. 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, for preparing recommendations for the Board of Directors of OJSC Polyus Gold and the General Director, and for implementing decisions made by the Board of Directors on the issues within the Committee's competence.

In 2010, the Personnel and Remuneration Committee held one meeting to discuss remuneration of the Company's staff based on 2009 performance.

The Committee active before 21 May 2010 and elected on 3 June 2010 (Minutes of the Meeting of the Board of Directors of the Company No. 06-10/SD)

- Ms. Z.Kh. Rustamova — Chairman of the Committee, Independent Director
- Mr. P.S. Grachev
- Ms. E.M. Salnikova

Strategy Committee of the Board of Directors

The Strategy Committee is responsible for the considering, analyzing and developing of 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 before 21 May 2010 and elected on 3 June 2010 (Minutes of the Meeting of the Board of Directors of the Company No. 06-09/SD)

- Mr. M.D. Prokhorov — Chairman of the Committee
- Mr. E.I. Ivanov;
- Mr. A.I. Mossionzhik

In 2010, The Strategy Committee held 1 meeting to consider the JSC MMC Kazakhaltyn development strategy.

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 provisions 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 2010, the powers of the Secretary of OJSC Polyus Gold and the Secretary of the Board of Directors were vested in Ms. Anna Olegovna Solotova.

Management of OJSC Polyus Gold

The Group is managed by a management team headed by Mr. M.D. Prokhorov, General Director of Polyus Gold. The managers responsible for the Company's main lines of business 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:

Mikhail Dmitrievich Prokhorov

General Director of OJSC Polyus Gold

Mr. Prokhorov's biography is presented in the "Board of Directors" section.

Evgeny Ivanovich Ivanov

Chairman of the Board of Directors of CJSC Polyus

Mr. Ivanov's biography 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 Academy of Public Administration, Diploma in Economics.

- 1994–1995 — Head of the CJSC MOSEXPO project
- 1995–1997 — General Director of CJSC Palamos
- 1994–1998 — General Director of OJSC Central Company of the Eurozoloto Financial and Industrial Group
- 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 Polyus
- 2007 – present — Deputy General Director for Strategy and Corporate Development of CJSC Polyus Gold

Oleg Valeryevich Ignatov

Deputy General Director for Economics and Finance

Does not own shares in OJSC Polyus Gold

Date of birth: 2 November 1969

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

- 1998–2003 — Head of the Regional Relationship Development department; Deputy head of client relationships at the department; Vice-president and Senior vice-president of OJSC AKB ROSBANK.
- 2002 — 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 Division of OJSC MMC Norilsk Nickel
- 2008 – present — Deputy General Director for Economics and Finance of OJSC Polyus Gold

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 Enrichment, Candidate of science.

- 1977–1985, 1992–1999 — Norilsk concentrator: Mill Operator; Foreman; Senior Foreman of the crushing and flotation shop at the main production site; deputy head, and then head of the crushing and flotation shop
- 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

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 of 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 — Onexim Bank: 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
- 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

Elena Evgenievna Bulavskaya

Deputy General Director of Corporate Affairs

Does not own shares in OJSC Polyus Gold

Date of birth: 13 November 1966

Education: Moscow Financial Institute, specializing in Finance and Credit

- 1990–1994 — Economist in the Joint Stock Insurance Company Ingosstrakh
- 1994–2000 — Advisor to the Chairman of the Management Board of the United Export and Import Bank
- 2000–2000 — Advisor to the President of OJSC AKB ROSBANK
- 2002–2007 — Advisor to the General Director, head of staff of the General Director of OJSC MMC Norilsk Nickel
- 2007–2010 — Head of staff of the President of Onexim group
- December 2010 – present — Deputy General Director of Corporate Affairs of OJSC Polyus Gold

Vladimir Kushukovich Sovmen

President of CJSC Polyus, Head of the Krasnoyarsk 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, specializing in Open Cast Mining, Candidate of Science

- 1983–1995 — Head of the construction site for Polyus Prospecting Team
- 1995–1996 — Vice-president for general affairs for the Krasnoyarsk AOZT AS Polyus
- 1996–2002 — General Director – First Vice-President of the Krasnoyarsk AOZT AS Polyus
- 2002–2004 — General Director of CJSC Polyus
- 2002–2007 — First Vice-president – Executive director of CJSC ZDK Polyus
- 2008 – present — President of CJSC Polyus, Head of the Krasnoyarsk Business Unit

Vyacheslav Leonidovich Sokolov

General Director of OJSC Matrosov Mine, Head of the Magadan Business Unit

Does not own shares in OJSC Polyus Gold

Date of birth: 17 July 1966

Education: Novocherkassk Polytechnic Institute, specializing in Mining Electrical Engineering

- 2005–2007 — Deputy Head of the Prospective Development and Construction Department of the geology division of the Polar Division of OJSC MMC Norilsk Nickel
- 2007 — First Deputy Director of Design – Chief Engineer of Norilskproject Institute, the Norilsk branch of LLC Institute Gipronickel
- 2007–2009 — Director of Norilskproject Institute, the Norilsk branch of LLC Institute Gipronickel
- 2009–2010 — First Deputy General Director of OJSC Matrosov Mine, and simultaneously Director for the Natalka gold deposit development project of CJSC Polyus
- July 2010 – present — General Director of OJSC Matrosov Mine.

Valery Fedorovich Konstantinov

General Director of OJSC Lenzoloto, Head of the Irkutsk Business Unit

Does not own shares in OJSC Polyus Gold

Date of birth: 17 December 1954

Education: Irkutsk Polytechnic Institute, specializing in Mining Mechanical Engineering

- 1977–1988 — Marakan gold mine 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 Operations of the Lenzoloto Production Association; Mining Operations 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
- 2011 — General Director of LLC LZRK

Igor Yuryevich Sukhobaevsky

General Director of OJSC Aldanzoloto GRK, Head of the Yakutia Kuranakh Business Unit

Does not own shares in OJSC Polyus Gold

Date of birth: 5 January 1972

Education: Norilsk Industrial Institute, specializing in Metallurgical Engineering and Economics, Ph.D. in Economics

- 1992– 999 — 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 Division of OJSC Norilsk Mining Company
- 2001–2007 — Head of the Smelting Shop, Chief Engineer of the nickel plant at Polar Division of MMC Norilsk Nickel
- 2007–2008 — Chief Engineer of the B.I. Kolesnikov Nadezhda Metallurgical Plant at the Polar Division of MMC Norilsk Nickel
- 2008 – present — General Director of OJSC Aldanzoloto GRK

Alexey Leonidovich Teksler

General Director of OJSC MMC Kazakhaltyn, Head of the Kazakhstan Business Unit

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 in the Economic Unit, Deputy Head of the Tax Planning Department, and Head of the Tax Planning Department of OJSC A.P.Zavenyagin Norilsk Mining and Metallurgical Smelting Works
- 2000–2001 — First deputy head of the Finance Department, and Head of Tax and Duties Department of OJSC Norilsk Mining Company
- 2001–2007 — Chief Accountant, Deputy Director of the Polar Division of OJSC MMC Norilsk Nickel, Head of Multi-Industry Supplies Directorate
- 2001–2008 — General Director of LLC Norilskiy Obespechivayushchiy Kompleks (Norilsk Supply Group)
- 2008–2009 — Head of the Norilsk City 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

Shareholders of OJSC Polyus Gold

Largest (more than 5%) holders included in the shareholder register of OJSC Polyus Gold as at 31 December 2010:

Name of shareholder	Number of shares held million	Percentage of total shares, %
ING Bank (Eurasia) ZAO (nominal holder), including	73.9	38.8%
The Bank of New York International Nominees, as a depositary bank under the ADR program (nominal holder)	66.7	34.9%
Closed joint-stock company Depository Clearing Company (nominal holder)	45.5	23.9%
BRISTACO HOLDINGS CO. LIMITED	17.0	8.9%
Non-banking credit organization closed joint-stock company National Settlement Depositary (nominal holder)	16.0	8.4%
COVERICO HOLDINGS CO. LIMITED	15.5	8.1%
Jenington International Inc.	10.8	5.7%
Other	11.9	6.2%
Total	**190.6**	**100.0%**

Share capital structure

The share capital structure of OJSC Polyus Gold as at 1 March 2011 is as follows:

At 1 March 2011	Shares and ADRs as % of share capital	Shares and ADRs	Shares	ADRs*
Shares and ADRs beneficially held by entities, where the beneficiary owner is Mr. Suleiman A. Kerimov	37.86%	72,169,445	58,297,520	13,871,925
Shares and ADRs beneficially held by entities, where the beneficiary owner is Mr. Mikhail D. Prokhorov	36.28%	69,161,349	36,865,122	32,296,227
Shares and ADRs in the free float	20.21%	38,520,792	17,969,232	20,551,560
Shares and ADRs held by Jenington International	5.65%	10,776,161	10,776,161	0
Total	**100.00%**	**190,627,747**	**123,908,035**	**66,719,712**

* Number of ADRs represented in number of ordinary shares.

14. Sustainable Development

Since its inception, the Company's operations have been based on sustainable development principles that include the following focus areas: ensuring environmental and industrial security; creating safe labor conditions; training staff to detect and prevent dangers and hazards at workplaces; encouraging professional growth of Company's specialists; taking care of employees' social conditions and supporting local communities in the regions where the Group's entities operate. In 2010 the Polyus Group issued the third Sustainable report under GRI (Global Reporting Initiative) standards covering the period of 2008–2009.

Environmental protection and environmental production safety

The Group's management views measures ensuring environmental production safety and environmental protection as an integral part of sustainable development. In 2010, the Groupimplemented a range of environmental protection programs aimed at reducing the negative impact on the environment and ensuring the prudent use of natural resources following the requirements of the Russian legislation.

Efficiency of the environmental activities is evaluated based on the results of environmental industrial control involving regular air pollution monitoring as well as monitoring of surface and ground water basins and soils located within the territory of land plots assigned to the enterprises and on the borders of the sanitary protection zones. State control over environmental impact was performed by the Federal Service for Environmental, Technological and Atomic Supervision.

In the year, environment management systems under ISO 14001:2004 International Standards were implemented at the Olimpiada, Kuranakh, and Zapadnoye mines. These systems regulate the procedure and steps in identifying solutions to ecological problems through task-oriented allocation of resources, distribution of responsibilities and timing of the scheduled actions. The environmental management systems (EMS) at the Olimpiada mine, Zapadnoye mine and Kuranakh mine are certified and attested to comply with the corresponding international standards. Efficient and certified EMS is an evidence of Company's commitment to environmental protection.

The Group regularly makes environmental payments and finances environmental activities in the form of operating and capital repairs expenses for environmental objects and equipment.

Table 14.1
Environmental payments in 2010

Business unit	Environmental payments, '000 RUR			
	Payments for allowable emissions, wastewater, waste disposal	Payments for emissions, wastewater, waste disposal above permitted limits	Claims, fines, penalties	Total
Krasnoyarsk	7,983.9	3,539.6	0.0	11,523.5
Irkutsk (ore)	800.1	615.8	0.0	1,415.9
Irkutsk (alluvial)	457.0	1,460.3	354.0	2,271.3
Yakutia (Kuranakh)	2,234.4	154.1	0.0	2,388.6
Magadan	635.7	1,345.7	0.0	1,981.4
Yakutia (Nezhdaninskoe)	17.3	1.5	120.0	138.8
Kazakhstan	5,374.7	0.0	126.0	5,500.7
Total	**17,503.1**	**7,117.0**	**600.0**	**25,220.2**

Production operations of the Group's entities involve negative impact on environment including air pollution due to extraction of gold-bearing ore and coal, blasting operations, ore transportation, stripping works and crushing of ore. To reduce the dust level, open pits and roads as well as excavators / bulldozer operation areas are watered during the summertime. Equipping engines with exhaust gas catalysts along with the proper adjustment of engines fuel system enables reduction of air pollution by quarry machinery. Various gas purification systems are used to control pollutant emissions at gold mills, steam power plants and boiler houses. The Company's sanitary industrial lab and authorized subdivisions of state supervisory agencies control the efficiency of gas purification systems and quantitative emission limits for each source of emissions.

All of the Company's enterprises have implemented planned environmental actions aimed at the effective use of water resources and their protection from pollution. Utility and drinking water as well as water for industrial needs were collected from surface water bodies and underground sources. The Group strives to effectively use the water resources and create recycling water supply systems for the main production processes.

An important aspect of water disposal is complying with the maximum allowable discharge standards and reducing the amount of water discharged to surface water bodies. The Group's enterprises perform industrial environmental monitoring over each drain that includes sample collection to determine the presence of pollutants in water.

Reduction of negative environmental impact is a key line in the Group's environmental protection activities. Over 90% of all waste generated at Company's enterprises in 2010 are non-hazardous wastes of mining and concentration operations (IV, V hazard class) — solid and stripping rocks, waste generated from the washout of sand, concentration tailings and coal combustion waste. Industrial environmental monitoring is carried out at all the waste disposal facilities while waste storage techniques allow for minimizing the negative environmental impact. Collection and disposal of I, II and III hazard class waste (quick-silver bearing waste, waste technical oils and other oil products) is performed by external agencies on a contractual basis.

Industrial and labor safety

The Polyus Group pays special attention to compliance with OHS (occupational health and safety) requirements of both the Russian and Kazakhstan legislation and harmonized international regulations related to occupational health and safety. The Company's OHS activities are organized in accordance with the requirements of the Russian Federal Laws on industrial safety for hazardous facilities and on licensing of certain types of activity, the Russian Labor Code, directives, the Group's regulations including harmonized international regulations related to occupational health and safety. Health and safety management at all of the Group's enterprises is performed with participation of the Corporate Centre.

All of the Group's enterprises have established commissions performing industrial control over OHS at hazardous facilities. In their work the commissions rely on the "Regulations on production control over the compliance with OHS requirements at the hazardous production facilities" developed in each business unit.

To improve the existing system of health and safety management according to OHSAS 18001:2007 the Company has developed and implemented an internal standard "Regulations for reporting on industrial and labor safety".

Incidents, accidents and emergencies at the Company

In 2010 there were 3 emergency situations at the Company's facilities, including accidents in the Yakutia (Kuranakh) business unit and at Mamakan HPP.

7 incidents occurred at the Group's entities in 2010.

Appropriate measures were developed and implemented with regard to all the accidents and incidents to eliminate violations and prevent occurrence of such incidents in future.

During 2010 the Group's entities registered 40 accidents, including 7 fatal accidents.

Table 14.2
Accidents in the Group's business units in 2008 and 2009

Business unit	Number of accidents		Number of casualties		Incl. fatal cases		Incl. severe casualties	
	2009	2010	2009	2010	2009	2010	2009	2010
Krasnoyarsk	12	11	12	11	1	2	3	0
Irkutsk (ore)	10	5	10	5	0	0	0	0
Irkutsk (alluvial)	21	16	21	17	1	3	1	2
Yakutia (Kuranakh)	1	7	1	7	0	1	0	1
Magadan	0	0	0	0	0	0	0	0
Yakutia (Nezhdaninskoe)	0	0	0	0	0	0	0	0
Companies in the KazakhGoldGroup	5	1	5	1	3	1	1	0
Total	**49**	**40**	**49**	**41**	**5**	**7**	**5**	**3**

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

In 2010, the units of the Group operated 232 hazardous production facilities, an increase of 25 from 2009. The increase was due to Blagodatnoye mine in the Krasnoyarsk Region, which was commissioned and registered in the State Register of Hazardous Facilities.

Table 14.3
The number and type of hazardous production facilities of the Group

Business unit	Number of hazardous production facilities		Incl.						
	2009	2010	Mineral mining and exploration sites	Explosive storage	Craned facilities	Fuel and lubricant storage	Trans-portation facilities	Hazardous production facilities at mills	Other
Krasnoyarsk	32	54	9	3	2	4	8	13	15
Irkutsk (ore)	37	39	11	1	10	4	7	5	1
Irkutsk (alluvial)	71	71	52	3	3	2	8	–	3
Yakutia (Kuranakh)	26	27	7	1	6	1	2	6	4
Magadan	11	7	1	1	–	–	2	3	–
Yakutia (Nezhdaninskoe)	9	9	1	1	1	1	2	2	1
Companies in the KazakhGoldGroup	21	21	10	3	–	–	–	6	2
Total	**207**	**232**	**88**	**13**	**22**	**13**	**28**	**27**	**16**

In 2010, each unit within the Group developed and implemented industrial and labor safety initiatives. In 2010, the total expenditure on industrial and labor safety was RUB 212.4 million, compared with RUB 128.5 million in 2009.

All of the Company's entities have health service facilities and 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.

Industrial and labor safety training

All units of the Company have introduced training programs aimed at detecting and preventing dangers and hazards at workplaces. New hires undergo safety induction and are appointed a mentor for the duration of their training. All units of the Company conduct regular appraisals of the managers and staff working in industrial and labor safety. In 2010 the Company completed appraisals of 1,925 managers, specialists and white-collar workers, and 13,457 blue-collar workers.

Social responsibility and charity

Polyus Gold strives to establish relations with individuals and legal entities at the regional and federal level, to create new projects, to expand the scope of cooperation and use more efficient approaches to achieving social and economic goals faced by the Company and the society.

The Group's social investments in sustainable development are highly appreciated by the society. Two charity programs of the Group were named as winners of the survey carried out by Vedomosti, Donors Forum and PricewaterhouseCoopers.

In the category established by the RF Ministry of Economic Development "Best Program supporting development of local communities and promoting social climate in the region where the company operates" the award went to the Company's "Polyus Gold Grant Competition — CAF" started in 2007.

An assistance program designed to support children which is a joint project with the RF Chamber of Commerce and Industry's charity fund Orphan Support Center won the award in the category "Best program revealing the ideas of corporative charity and principles of social investments" announced by the Russian Union of Industrialists and Entrepreneurs. 14 orphanages in the Krasnoyarsk Region, the Irkutsk Region, Yakutia and the Magadan Region received support from this program in 2010.

Polyus Gold believes sponsorship is an effective way of promoting Russian culture and sport.

In 2010 the Polyus Group for the third time served as the primary sponsor of the Basketball Championships of the Russian Students Basketball Association. Other memorable projects for the regional sport included support of Indigenous Sports Competition "Manchaary Games", an annual event organized by the National Fund "Bargaryy" under the President of the Republic of Sakha (Yakutia) and sponsorship of a wrestling tournament held by the Yakutia Wrestling Federation.

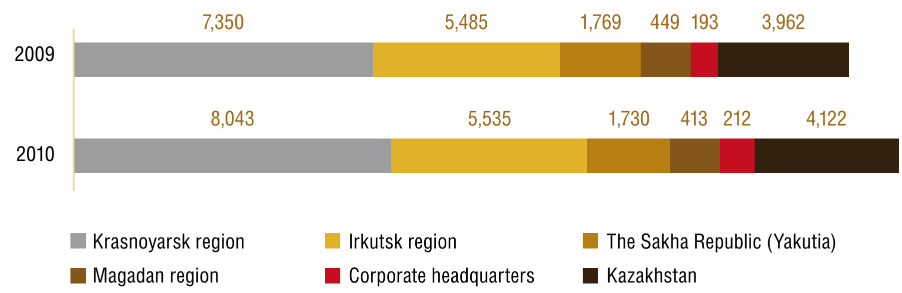
In 2010 the Polyus Gold sponsored one of the most remarkable cultural events in Moscow — International military music festival "Spasskaya Tower".

Personnel Management

The actual headcount[18] in the Group was 20,054 people, an increase of 846 people (or 4.5 percent) on the average headcount in 2009.

The personnel structure remained generally unchanged as compared to the previous reporting periods. As at the end of 2010, the average production personnel headcount amounted to 18,346 people. The share of blue-collar workers was 80% out of total and the share of managers, clerks and specialists was 20% out of total. The gender structure of employment is dominated by men (82.3% of the average headcount, as at the end of the year). The number of retirees employed across the Group increased by 0.6 percent compared to 2009 and amounted to 10.5 %, with female retirees making up 4.7% of total personnel. The average age across the Group is 41.4.

Employment breakdown by region (average head-count)



[18] This figure reflects an average number of staff consisting of the average headcount, the number of external secondary job holders and external employees employed during the year under civil-law contracts.

Motivation and talent development

According to Group's social standard and Collective Agreement the Company offers its employees social benefits exceeding those stipulated by the legislation.

The Company promotes healthy lifestyle. Employees who quit smoking receive a special encouraging healthy lifestyle bonus.

The Group maintains various health support programs for its employees. In 2010 over 80% of Company's employees were covered by voluntary medical insurance programs and over one thousand employees benefitted from a sanatorium and resort treatment. The employees could also undergo flu and tick-borne encephalitis vaccination. Vaccination is voluntary and free of charge for the Company's employees.

The Company provides financial assistance for its employees in the following situations:

- financial support to relatives of deceased employees including financial aid to cover education expenses on children's studies in universities and colleges;
- payments related to marriage;
- payments upon a child's birth;
- financial aid in case of severe illness etc.

The financial incentives are based on KPIs, both team and individual, annual and monthly KPI reviews, and KPI-based bonuses. Last year the Company completed a project to implement KPI systems in the operational business units and in 2010 introduced changes to the system of annual KPI-based bonuses and to the goals for participants in investment activities — Magadan and Yakutia (Nezhdaninskoye) business units.

Identifying and rewarding excellence in employees is the most important tool to boost motivation. In 2010, 14 workers received the Excellent Worker Award while 15 employees were conferred Excellent Specialist titles and 7 managers received the honorary title of Excellent Managers. 15 employees were awarded with honor certificates. 6 employees of the Irkutsk alluvial business unit were awarded with Industry awards of the Russian Ministry of Industry and Trade.

Verninskoye mine camp residential buildings and auxiliary facilities

In 2010, the Group carried out a corporate-wide employee survey designed to improve the existing motivation system. The survey covered all business units, and a total of 3530 questionnaires were processed. Survey results are submitted to Company's executives and based on them the executives developed recommendations to be used by the managers to improve management efficiency including personnel management and to take a more active use of psychological incentives.

Managers were evaluated using a 360-degree performance appraisal system. The appraisal was focused on identifying strengths and qualities to work on, as well as forecasting employee's future professional growth.

The Company's human resource policies are aimed at providing its entities with effective and socially stable personnel, capable of performing current and prospective tasks in accordance with the Company's development strategy.

In 2010, approximately 40% of Company's employees took part in training. Most of professional training programs — around 90% — were completed using the Company's own facilities.

Growing requirements to knowledge, skills and competences make the in-house training system one of the most efficient tools for employee professional training. The Company holds annual corporate-wide seminars aimed at coordinating activities, developing universal approaches to achieving business objectives and creating agreed competences for Company's managers and staff. In 2010 the Group held 13 corporate-wide seminars attended by over 270 managers and specialists of the Polyus Group.

Moreover, in 2010 the Group's management organized 9 internal seminars that have become an integral part of the Company's corporate culture. These seminars are designed to develop internal communications and improve efficiency with regard to decision-making on cross-functional issues.

In 2010 the Group continued to actively use remote training and education. A new hire adaptation program, "Gold is Our Work", has been developed based on a set of educational and instructional materials, and is now being successfully implemented. Remote education packages are available to all employees of the Group.

The Company purchased remote education learning packages "Basics of industrial safety" and "Labor safety for management and specialists" to improve the qualification of specialists in industrial and labor safety and their further attestation and certification. Business unit employees completed these courses and passed internal certification.

The new course "Anti-money laundering and counteraction of financing of terrorism for organizations performing transactions with cash and other assets" was developed to train employees and check their awareness according to the "Regulations on requirements to preparation and training of staff in organizations performing transactions with cash and other assets with regard to anti-money laundering and counteraction of financing of terrorism" adopted by the Federal Financial Monitoring Service.

Keeping in mind the Group's development prospects — development of the major deposits and construction of new mining and concentrating facilities — the Company's HR department actively cooperates with students. Since 2008 the Company has been implemented a corporate program entitled "Learn the Price of Gold!" aimed at enhancing collaboration with higher educational 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.

During this 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 internship in their practical fields and enables them to adapt to the corporate culture with a view of their future employment. Mutually beneficial cooperation with universities is one of the most important components of the program, as it includes 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. Within this program students have a chance to get acquainted with the work in a major company, improve their skills and get their first work experience in the field.

In 2010, over 300 students underwent practical training at the Group's enterprises in Krasnoyarsk, Irkutsk, Magadan and Yakutia. Since the start of the program 190 students have received regular positions.

In 2010 the Polyus Group was named among the best companies in the rating made by the Russian Rectors' Union that performed "Business and Education-2009" monitoring in December 2009 – March 2010. 400 leading Russian and international companies and 820 higher education institutes were invited to participate in the monitoring. 96 companies and 207 universities provided information on their cooperation in students' professional adaptation, support to talented students and young teachers as well as joint research and development projects.

Since management quality is directly connected with the qualification of managers, the Company is focused on their professional development. To ensure succession and minimize adaptation period of the newly appointed managers, the Company has formed a succession pool and started to implement its development programs.

For the second year in a row the Polyus Group held a strategic session for the heads of the Group's entities who are part of the Company's senior management reserve. The session brought together managers from all the main business units — Krasnoyarsk, Irkutsk alluvial, Yakutia, Magadan and Kazakhstan — and was aimed at improving their management skills. The program featured business games, business simulations, training and individual interviews.

In 2010 the Group continued to implement the corporate educational program launched in 2009 for managers in the middle management reserve. The program is based on educational and instructional materials developed by the International Institute of Management LINK and 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). In 2010 the employees of the Yakutia alluvial business unit benefitted from the program.

With the Group's units located in areas that are remote from educational and cultural centers, the Company organizes leisure activities for its people, including corporate parties, on-site performances, and various creativity contests for employees and their families.

2010 saw the sixth corporate photo contest "Golden Life Moments" that involved employees from all the business units. The submitted works were published on the corporate website giving the opportunity to all Company's employees to see all works and vote for the best. In total over 1000 works were submitted to the contest.

For the second year in a row the Group organized a children drawing contest to celebrate the International Children's Day. The topic for 2010 contest was "Childhood is the Time for Sports". Over 130 works by 114 kids of Company's employees were submitted to the contest.

To create favorable psychological environment in its units and promote health activities among its people the Group's management pays special attention to physical culture and sports programs.

The Company has multiple leisure and sports facilities. The Group organizes annual Games for labor teams in various sports: hockey, tennis, billiard, volleyball, free-style wrestling, chess, family competitions etc. The Company's sports teams actively participate in district and regional competitions.

For the first time in the Company's history a corporate mini-football competition featuring 9 teams representing all business units of the Group was held in 2010.

Blagodatnoye mine construction was implemented in accordance with the schedule

15. Director’s responsibility statement

Mr Mikhail D. Prokhorov, General Director of OJSC Polyus Gold confirms on behalf of the Board of Directors that:

(a) the consolidated financial statements for 2010, 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 2010 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.

Mikhail D. Prokhorov
General Director

26 April 2011

16. Management report for 2010 (Management's discussion and analysis of financial condition and results of operations)

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, prepared in accordance with International Financial Report Standards ("IFRS"), 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 1.4 million troy ounces of gold in 2010.

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 2010, 31 December 2009 and 31 December 2008;
- results of operations for the years ended 31 December 2010, 31 December 2009 and 31 December 2008;
- 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.

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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 the most significant factor influencing the profitability and operating cash flow generation of the Polyus Gold Group. The global gold price is subject to volatile movements over short periods of time. In 2010 the gold price volatility remained high, with the price ranging from the lowest level of USD 1,058 per troy ounce (London p.m. fixing) in February and the highest of USD 1,421 per ounce in November. In 2010 the average gold p.m. fixing price in London was USD 1,224.5 per ounce, an increase of 26% over the 2009 average price of USD 972.4 per ounce. For the whole year, the global price of gold increased by 25% from USD 1,121.5 on January, 4 to USD 1,405.5 per ounce on 30 December, the first and the last business days in 2010, 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 2010 the average RUB exchange rate decreased by 4% to RUB 30.36 per USD (2009: 31.72), leading to higher costs in USD. The closing rate was RUB 30.47 per USD (2009: 30.24). 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. During 2010, the KZT exchange rate didn't change materially. The average rate for 2010 was KZT 147.35 per USD (2009: 147.51). By the end of the year, the KZT slightly appreciated, closing at KZT 147.40 per USD (2009: 148.36).

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 commodities were increasing in 2010, creating significant cost pressure for the Polyus Group. Oil prices showed a 29% year-on-year increase, steel prices grew by 10%. Average rates for key external market factors are:

Average price/rate	2010	2009	2008
Average London p.m. gold fixing price (USD per troy ounce)[1]	1,224.5	972.4	872.0
Oil (Brent brand) (USD per barrel)[2]	80.3	62.4	98.7
Steel (hot rolled) (USD per tonne)[3]	641	582	955
Average USD/RUB rate[4]	30.36	31.72	24.86
Period end USD/RUB rate	30.47	30.24	29.38
Average USD/KZT rate[5]	147.35	147.51	n/a
Period end USD/KZT rate	147.40	148.36	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 2010, 2009 and 2008 related to financial statements:

USD'000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009(1)	2008	%	%
Gold sales	**1,711,298**	**1,199,088**	**1,062,331**	**42.7**	**12.9**
Other sales	37,506	26,136	24,987	43.5	4.6
Cost of gold sales	(895,555)	(573,501)	(558,118)	56.2	2.8
Cost of other sales	(33,424)	(25,541)	(25,061)	30.9	1.9
Gross profit, including	**819,825**	**626,182**	**504,139**	**30.9**	**24.2**
Gross profit on gold sales	**815,743**	**625,587**	**504,213**	**30.4**	**24.1**
Gross profit margin	**46.9%**	**51.1%**	**46.4%**	**–**	**–**
Selling, general and administrative expenses	(194,549)	(155,012)	(134,960)	25.5	14.9
Finance costs	(42,717)	(18,870)	**(4,417)**	126.4	327.2
Profit before income tax	**481,337**	**295,445**	**122,471**	**62.9**	**141.2**
Pre-tax margin	**27.5%**	**24.1%**	**11.3%**	**–**	**–**
Income tax expense	(124,840)	(108,810)	(62,110)	14.7	75.2
Profit for the year	356,497	186,635	60,361	91.0	209.2
Net profit/(loss) attributable to minority interest	24,328	2,057	8,854	–	(76.8)
Net profit attributable to shareholders of the parent company	**332,169**	**184,578**	**51,507**	**80.0**	**258.4**
Net profit margin	**20.4%**	**15.2%**	**5.6%**	**–**	**–**
Earnings per share – basic and diluted (USD)	**1.85**	**1.03**	**0.29**	**79.6**	**255.2**

The following table shows the summary of performance results of the Polyus Group's operations in 2010, 2009 and 2008 related to non-GAAP financial measures:

USD'000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009(1)	2008	%	%
Operating profit(2)	547,000	436,950	347,164	25.2	25.9
Operating profit margin	31.3%	35.7%	31.9%	–	–
EBITDA(3)	716,655	548,624	436,470	30.6	25.7
EBITDA margin	41.0%	44.8%	40.1%	–	–

1. The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting. Refer to Note 4 of consolidated financial statements for the year ended 31 December 2010.
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 of 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 2010, 2009 and 2008:

USD'000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Gold sales (USD thousands)(1)	1,711,298	1,199,088	1,062,331	42.7	12.9
Gold sales (thousand troy ounces)	1,377	1,238	1,226	8.4	4.1
In the domestic market (thousand troy ounces)(2)	1,273	1,207	1,226	5.9	(1.6)
In the domestic market (%)	92	97	100	–	–
For export (thousand troy ounces)	103	31	–	51.8	–
Weighted-average gold selling price (USD per troy ounce)	1,243.2	968.7	867.3	28.3	11.7
Average p.m. gold fixing price in London (USD per troy ounce)(3)	1,224.5	972.4	872	25.9	11.5
Excess/(deficit) of average selling price over/(under) average p.m. fixing price (USD per troy ounce)	18.7	(3.7)	(4.7)	–	–

1. For the purpose of financial reporting in accordance with IFRS standards sales in 2010 do not include 4.8 k oz of gold produced from the ores of the Verninskoye and Natalka deposits and sold in 2010.
2. Sales on the domestic market comprise of sales by the Polyus Group's Russia subsidiaries on the Russian market. Export sales comprise of sales by KazakhGold on the international market.
3. Source: London Bullion Market Association.

In 2010, the Polyus Group's revenue from gold sales showed a 43% year-on-year increase and reached USD 1,711,298 thousand.

The increase in gold sales revenue was primarily the result of growth of gold selling prices, and an increase in sales volumes on the back of enhanced gold production. In 2010 the Polyus Group sold 1,383 thousand troy ounces, including 103 thousand ounces sold by the Kazakhstan business unit. The comparable sales volume in 2009 was 1,238 thousand troy ounces.

In 2010, the Polyus Group produced 1,386 thousand troy ounces (43.1 tonnes) of refined gold, reflecting 10% growth over 2009 levels when it produced 1,261 thousand troy ounces (39.2 tonnes). The growth in production was achieved primarily due to launch of the Blagodatnoye mine in the Krasnoyarsk region in July 2010. A considerable contribution to production growth was also made by enhanced capacities of Titimukhta and Kazakhstan business unit, where the modernization of mining and processing facilities continued.

In the reporting period, the weighted-average gold selling price was USD 1,243.2 per troy ounce, as compared to USD 968.7 per troy ounce in 2009. The Group pursues its policy to sell gold at spot market prices. The weighted-average gold selling price for the Group was USD 18.7 per troy ounce higher than the average p.m. gold fixing price on the London market, even despite consolidation of the sale of semi-products by the Kazakhstan business unit at a considerable discount to the London fixing price. This excess is explained by the fact that the major portion of gold was produced and sold in the second half of the year, when the metal price was growing rapidly. The table below shows the change in the Polyus Group's weighted-average gold selling price during 2010:

	Six months ended 30 June 2010	Six months ended 31 December 2010
Gold sales (thousand troy ounces)	524	853
Weighted-average gold selling price (USD per troy ounce)	1,160.3	1,294.1

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 2010, 2009 and 2008:

USD '000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Cash operating costs[1]	847,201	581,249	587,332	45.8	(1.0)
Consumables and spares, out of which:	378,598	242,841	239,522	55.9	1.4
Materials and spares	276,925	163,583	150,503	69.3	8.7
Fuel	101,673	79,258	89,019	28.3	(11.0)
Labour	234,730	175,080	207,403	34.1	(15.6)
Tax on mining	130,230	90,080	72,588	44.6	24.1
Utilities, out of which:	46,043	25,386	26,646	81.4	(4.7)
Power	43,872	24,572	25,753	78.5	(4.6)
Other	2,171	814	893	166.7	(8.8)
Outsourced mining services	8,897	8,258	15,105	7.7	(45.3)
Refining costs	2,059	4,332	5,383	(52.5)	(19.5)
Sundry costs	46,644	35,272	20,685	32.2	70.5
Amortisation and depreciation of operating assets	118,559	93,402	98,999	26.9	(5.7)
Deferred stripping costs expensed/(capitalised)	44,412	50,736	(112,804)	(12.5)	(145.0)
Change in provision for land restoration	–	–	(8,530)	–	–
Increase in gold-in-process and refined gold	(114,617)	(151,886)	(6,879)	(24.5)	2,108.0
Cost of gold sales	895,555	573,501	558,118	56.2	2.8

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 2010, cost of gold sales increased by 56% or USD 322,054 thousand, to USD 895,555 thousand. The change resulted from enhanced mining and processing works throughout the Polyus Group, the effect of consolidation of KazakhGold for the full year 2010, the expensing of previously capitalised stripping costs, the increase in gold stock and appreciation of the RUB relative to the USD.

Cash operating costs

Cash operating costs make up the major part of cost of gold sales. In the reporting period, cash operating costs were USD 847,201 thousand compared to USD 581,249 thousand in the previous period.

Expenses for consumables and spares were the largest component of cash operating costs in 2010 (45% of cash operating costs). This item 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 in mining, concentration and smelting) and fuel.

The cost of materials and spare parts consumed in the reporting period represented 33% of the Polyus Group's cash operating costs and amounted to USD 276,925 thousand as compared to USD 163,583 thousand in 2009. This growth is attributable mainly to the Krasnoyarsk business unit, which in 2010 showed a 36% increase in the ore mining and 51% increase in the ore processing volumes. Consumption of pipes, rolled metal products, spare parts and chemical products increased, primarily due to commissioning of the Blagodatnoye mine and ramp-up of the Titimukhta capacities within the Krasnoyarsk business unit. Additional supplies of materials and chemicals were also required due to technical issues at the Olimpiada mine related to processing of sulphide ores from deep horizons of the deposit. During 2010 adjustment of bio-leaching technology at Mills Nos. 2 and 3 went on. The increase of sulphur and pyrrhotine content in the ore under processing resulted in higher consumption of chemicals, mainly cyanide, and standardized materials. The growth of purchase prices for materials and components also contributed to cost escalation. During the reporting year, prices for chemical agents and steel were steadily rising. Besides, the Polyus Group's expenses on materials and spares in 2010 included purchases by the Kazakhstan business unit in the amount of USD 18,419 thousand.

A significant portion of consumables and spares was fuel, including diesel oil and lubricants for trucks and excavators. In the period under review expenses on fuel accounted for 12% of the Polyus Group's cash operating costs. These expenses amounted to USD 101,673 thousand, as compared to USD 79,258 thousand in the previous period. The 28% increase resulted mainly from higher fuel purchase prices in line with the global trend of oil price growth, increased oil products consumption following launch of Blagodatnoye in the Krasnoyarsk region and addition of KazakhGold Group's fuel costs.

The second largest item included in cash operating costs in 2010 was labour expenses (28% of cash operating costs). Labour expenses for operational personnel were USD 234,730 thousand in the period under review, reflecting an increase of 34% over 2009 levels. The increase resulted from a combination of several factors, including:

1. An increase in the number of operational personnel in comparison to 2009 principally at the Krasnoyarsk business unit due to commissioning of Blagodatnoye;
2. The planned 10–12% indexation of salaries for operational personnel throughout the Polyus Group's mines. In addition, Irkutsk alluvial business unit paid out bonuses to operational personnel in honour of overfulfilment of the production plans in 2010;
3. The effect of consolidation of KazakhGold Group's payroll costs for the full year 2010 in the amount of USD 22,669 thousand. KazakhGold is the town-forming enterprise at its mines and a significant number of employees works under trade union agreements;
4. The growth of social insurance contributions as a result of change in taxation scheme since 1 January 2010;
5. Accrual of employee benefit obligation under collective agreements.

In 2010, the Polyus Group accrued USD 130,230 thousand in mining tax (15% of cash operating costs), compared to USD 90,080 thousand in 2009. The 45% increase reflected enhanced production volumes and higher realized gold prices. According to 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 of 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.

Mining tax charges for 2010 include USD 9,223 thousand attributable to the Kazakhstan business unit. 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 based on 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. Since 2009 the mining tax rate for gold is 5%.

Expenses on power and other utilities account for 5% of the Polyus Group's cash operating costs. In 2010 these expenses grew by 81% to USD 46,043 thousand mainly due to the increased electricity purchases by the Krasnoyarsk business unit following launch of the Blagodatnoye mine. The growth of electricity rates also contributed to the increase in power costs. In the reporting period, the rates for electricity sold to industrial enterprises in the regions of the Group's mining activity in Russia grew by 13-27%. The cost of electricity generated by Polyus' facilities in Krasnoyarsk and Irkutsk also increased due to growth in payroll and transportation costs, increased heating oil prices. Utilities costs in 2010 also included expenses of KazakhGold Group's subsidiaries in the amount of USD 6,880 thousand.

Appreciation of the RUB was another factor that negatively impacted the dynamics of cost of gold sales in 2010. The USD denominated part of cash operating costs is insignificant, thus, the costs are exposed to currency exchange movements. In the reporting period, the RUB/USD exchange rate declined by 4%, driving the Polyus Group's costs translated to presentation currency higher. The KZT/USD exchange rate didn't change significantly during 2010 and didn't have a material impact on the Kazakhstan subsidiary's costs.

Amortisation and depreciation of operating assets

Amortisation and depreciation of operating assets included in cost of sales increased by 27% from USD 93,402 thousand in 2009 to USD 118,559 thousand in 2010. This was mainly due to the commissioning of new property, plant and equipment at the Krasnoyarsk business unit within launch of the Blagodatnoye mine and addition of the Kazakhstan business unit's amortisation and depreciation charges for 2010.

Deferred stripping costs expensed/(capitalised)

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.

In 2009, the Polyus Group started to amortise previously capitalized stripping costs incurred on the extension of the Vostochny pit of Olimpiada (Krasnoyarsk business unit) in the transition of production from oxide to sulphide ores. In 2010, the stripping ratio at Olimpiada was lower than the average life-of-mine stripping ratio. As a result, deferred stripping costs in the amount of USD 44,412 thousand were expensed in the reporting period.

Change in gold-in-process and refined gold

In the reporting period the Polyus Group's gold inventories substantially increased throughout the Polyus Group's mines, with the highest growth shown at the Krasnoyarsk and Irkutsk ore business units. At the Olimpiada mine significant amounts of ore which is of different quality and physicochemical characteristics compared to the currently processed ore were stockpiled until the technological possibility to process this ore is obtained. Ore stocks also increased at Titimukhta, Blagodatnoye, Kuranakh and Kazakhstan business unit. These stocks of ore were recorded at net production cost, which rose significantly over the level of 2009. In addition, as at 31 December 2010 some stock of gold in the amount of 28 thousand troy ounces remained at the refinery and at the Kazakhstan business unit in the form of semi-products. Total gold-in-process and refined gold of USD 114,617 thousand increases 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 2010, 2009 and 2008:

USD '000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Salaries	103,811	76,918	73,742	35.0	4.3
Administrative overheads	30,719	36,476	25,797	(15.8)	41.4
Professional services	28,274	21,738	13,321	30.1	63.2
Taxes other than mining and income taxes	27,528	16,105	18,318	70.9	(12.1)
Depreciation	4,217	3,775	3,782	11.7	(0.2)
Total	**194,549**	**155,012**	**134,960**	**25.5**	**14.9**

In 2010, the Polyus Group's selling, general and administrative expenses increased by 26% from USD 155,012 thousand in 2009 to USD 194,549 thousand in 2010. This was largely driven by the growth of payroll expenses, taxes, other than mining and income taxes, and expenses on professional services. Kazakhstan business unit added USD 24,260 thousand to the Polyus Group's selling, general and administrative expenses in the reporting period. Administrative expenses were also negatively impacted by the exchange rate factor, as the average RUB exchange rate relative to the USD was stronger during 2010 compared to 2009.

Salaries

In the reporting period, the Polyus Group's administrative labour costs increased by 35% from USD 76,918 thousand in 2009 to USD 103,811 thousand in 2010. This was primarily a result of the increased number of administrative personnel at the Krasnoyarsk business unit following commissioning of the Blagodatnoye mine, the planned indexation of salaries at all the mines and consolidation of KazakhGold's full year 2010 payroll costs. In 2010, the Krasnoyarsk business unit also paid out bonuses for early commissioning of Blagodatnoye and compensation for unused leave in accordance with the prescription of the State Labour Inspection. The labour cost growth during 2010 was enhanced by the effect of the RUB strengthening.

Administrative overheads

Administrative overheads represent communication services, rent expenses, repair and maintenance costs and other expenses. In 2010, administrative overheads decreased by 16% primarily as a result of the reduction in advertising and transportation services costs.

The following table shows the components of administrative overheads for 2010, 2009 and 2008:

USD '000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Administrative overheads	30,719	36,476	25,797	(15.8)	41.4
Rent expenses	3,685	3,587	4,609	2.7	(22.2)
Repair and maintenance	1,170	1,030	1,541	13.6	(33.2)
Communication services	1,616	1,420	1,749	13.8	(18.8)
Other	24,248	30,439	17,898	(20.3)	70.1

Professional services

In 2010, expenses on professional services grew by 30%, from USD 21,738 thousand in 2009 to USD 28,274 thousand in 2010. The increase in professional services expenses was mainly due to legal and consulting services provided to Polyus Gold and KazakhGold on the Private Exchange Offer, USD 100 million equity placement by KazakhGold, investigation of activities of the previous management of KazakhGold, preparation for the proceedings against the Assaubayev family and negotiations with AltynGroup on the buy-back of KazakhGold's operating assets.

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) and other taxes. In 2010, the Polyus Group accrued USD 27,528 thousand in federal and regional taxes other than tax on mining and income tax, reflecting a 71% year-on-year increase. These included tax charges attributable to KazakhGold in the amount of USD 3,521 thousand.

Property tax accruals increased primarily due to enlargement of fixed asset base as a result of commissioning of Blagodatnoye, which was enhanced by the effect of the RUB appreciation. Other taxes charges experienced a multiple increase from USD 1,979 thousand in 2009 to USD 9,630 thousand in 2010, principally as a result of recalculation of income tax charges for the previous periods at the Krasnoyarsk business unit and liability to withhold tax on dividends accrued by the Irkutsk alluvial business unit as a tax agent.

The following table shows the components of taxes, other than mining and income taxes, for 2010, 2009 and 2008:

USD '000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Taxes, other than mining and income taxes	27,528	16,105	18,318	70.9	(12.1)
Property tax	16,463	11,478	11,561	43.4	(0.7)
VAT	1,435	2,648	3,100	(45.8)	(14.6)
Other taxes	9,630	1,979	3,657	386.6	(45.9)

16.1.5. Research expenses

In the reporting period, research expenses were USD 2,412 thousand, as compared to USD 1,265 thousand in 2009, the principal amounts being related to exploration and evaluation works carried out by the Krasnoyarsk and Irkutsk alluvial business units.

16.1.6. Other expenses, net

In 2010, other expenses were USD 75,864 thousand, while in 2009 these expenses totalled USD 32,955 thousand. In the reporting period the Group recognised impairment in respect of property, plant and equipment in the amount of USD 40,763 thousand, relating mainly to the Kazakhstan, Krasnoyarsk and Irkutsk ore business units (Refer to Note 9 to the Consolidated financial statements for the year ended 31 December 2010). Besides, in 2010 KazakhGold Group recalculated its VAT liabilities for the previous periods and as a result the company incurred additional tax charges totalling USD 8,600 thousand. The VAT was previously wrongly refunded out of the state budget by the former management of the company during 2007-2009 based on fictitious contracts. This was partly offset by the decrease in charity contributions by 51% and in some other operating expenses.

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 2010, 2009 and 2008:

USD' 000	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Finance costs	(42,717)	(18,870)	(4,417)	126.4	327.2
(Loss)/income from investments	(23,711)	14,197	(217,591)	–	–
Foreign exchange gain/(loss)	765	1,364	(2,685)	(43.9)	–

Finance costs

In 2010, the Polyus Group's finance cost totalled USD 42,717 thousand, compared to USD 18,870 thousand in 2009. The major part of finance costs was attributable to Kazakhstan business unit:

- interest on KazakhGold Group's USD 200 million 9.375% Senior Notes due November 2013 in the amount of USD 28,988 thousand. Following the acquisition of KazakhGold, the liability under the Senior Notes was reflected in the Polyus Group's statement of financial position at fair value at acquisition date and carried at amortized cost. Thus the interest accrued on the Senior Notes is calculated using the effective discount rate of 16% in order to amortize, in addition, the initial difference between nominal and fair value amount at the acquisition date;
- interest in respect of the loan from Gold Lion in the amount of USD 2,697 thousand;
- unwinding of discount on decommissioning obligations in the amount of USD 8,808 thousand;
- other obligations and finance expenses of in the amount of USD 2,224 thousand.

Income/(loss) from investments

In 2010, the Polyus Group incurred a net loss from investments of USD 23,711 thousand.

In connection with the 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"). The call options for convertible loans are classified as financial assets and carried at fair value through profit and loss (Refer to paragraph 16.4.1.1. "Assets — Non-current assets — Derivative"). At 31 December 2009, the fair value of call options was estimated at USD 109,911 thousand. The decline in the KazakhGold share price during 2010 resulted in a decrease in fair value of the instrument in the amount of USD 63,775 thousand, which was recognized in the consolidated income statement.

In the reporting period, the Polyus Group received income from investments in securities held for trading. These equity investments are carried at fair value through profit and loss. During 2010 the value of these investments increased by **USD 11,446 thousand**.

The Polyus Group also holds an investment share in the Management Company Rosfund which is accounted for as available-for-sale investments carried at fair value. In 2010, the Polyus Group disposed of USD 137,000 thousand of these investments with a gain of **USD 20,289 thousand,** which was recognized in the income statement. USD 33,340 thousand increase in fair value of available-for-sale investments during the year 2010 was recognized directly in equity within the investment revaluation reserve.

In 2010, interest income accrued on bank deposits amounted to **USD 8,329 thousand,** which is USD 6,359 thousand less than in 2009 due to the withdrawal of several bank deposits (Refer to paragraph 16.4.1.1. "Assets — Current assets — Investments in securities and other financial assets").

Foreign exchange gain/(loss)

In 2010, movements in the exchange rates of the national currencies of Russia and Kazakhstan resulted in a net foreign exchange gain of USD 765 thousand. In 2009, volatility in the RUB/USD and KZT/USD was more significant, which led to a net foreign exchange gain of USD 1,364 thousand.

16.1.8. Goodwill impairment

In the consolidated financial statements for the year ended 31 December 2009 acquisition of KazakhGold Group Limited was accounted for using provisional values. Upon final determination of the fair values of the identifiable assets and liabilities, and assessment of mineral rights, the excess purchase price was deemed as goodwill. Given that the assessed fair value was lower than the purchase price, management considers the excess as an overpayment, and accordingly have written off the calculated goodwill as of the acquisition date (Refer to Note 4 to the Consolidated financial statements for the year ended 31 December 2010).

16.1.9. Income tax

During 2010, the Polyus Group accrued USD 124,840 thousand in income tax, which was 15% more than in 2009. Higher income tax expense results from the increased income before taxation. The effective income tax rate (ratio of current and deferred tax expense to IFRS income before tax) in 2010 was 26% (2009: 37%), whereas the statutory income tax rate in Russia established during 2010 was 20%. The difference between the statutory and the effective tax rates was mainly because of a number of non-deductible items for tax purposes and other permanent differences.

16.1.10. Other sales and cost of other sales

Revenue from sale of products other than gold and services grew by 44% in 2010 from USD 26,136 thousand in 2009 to USD 37,506 thousand in 2010. This revenue includes sales of electricity, revenue from transportation, handling and storage services, rent services, as well as other sales. The increase in other sales revenue was driven primarily by the increased revenue from electricity sales. Sale of electricity to third parties by CJSC Vitimenergosbyt, the Polyus Group's subsidiary located in the Bodaibo district of the Irkutsk region, makes up the largest part of other revenues amounting to USD 13,497 thousand.

Cost of other sales was USD 33,424 thousand, which is 31% higher than in the comparative period. Cost of other sales included, in addition to electricity costs, payroll costs, expenses on fuel and materials, depreciation and some other costs related to non-mining activities. In 2010, revenue from other sales exceeded cost of their sales which resulted in a net gain from other sales in the amount of USD 4,082 thousand, compared to USD 595 thousand in 2009.

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 2010, 2009 and 2008:

USD'000	Years ended 31 December		
	2010	2009	2008
Profit for the year	356,497	186,635	60,361
+ Income tax charged	124,840	108,810	62,110
+ Depreciation and amortisation for the year	126,855	96,940	86,927
+ Goodwill impairment	–	138,196	–
+ Interest expense	42,717	18,870	4,417
– Interest income	(8,329)	(14,688)	(47,106)
+ Loss/(gain) on disposal of investments	(20,289)	34,232	(13,770)
+ Loss/(gain) from investments in listed companies held for trading	(11,446)	(13,702)	178,377
+ Impairment of available-for-sale investments	–	–	100,090
+ Foreign exchange (gain)/loss	(765)	(1,364)	2,685
+ Loss from disposal of property, plant and equipment and work-in-progress	2,037	3,875	548
+ Impairment of property, plant and equipment	40,763	10,859	1,831
+ Change in fair value of derivative	63,775	(20,039)	–
EBITDA	**716,655**	**548,624**	**436,470**

The Polyus Group's EBITDA in 2010 was USD 716,655 thousand, compared to USD 548,624 thousand in the previous year. 31% year-on-year increase is reflective of growth in gold selling prices and 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 2010, 2009 and 2008:

USD'000, unless otherwise indicated	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Cost of gold sales	895,555	573,501	558,118	56.2	2.8
– property, plant and equipment depreciation	(118,559)	(93,402)	(98,999)	26.9	(5.7)
– employee benefit obligations cost	(10,596)	–	–	–	–
– provision for annual vacation payment	(7,208)	(3,063)	(6,124)	135.3	(50.0)
– provision for land rehabilitation	–	(7,379)	8,530	–	–
+ non-monetary changes in inventories(1)	12,225	22,939	1,140	(46.7)	–
+ non-monetary changes in deferred stripping works(2)	(8,459)	(8,528)	17,490	(0.8)	–
TCC	762,958	484,068	480,155	57.6	0.8
Gold sales, thousand troy ounces	1,377	1,238	1,226	11.2	1.0
TCC (USD/oz)	**554**	**391**	**392**	**41.7**	**(0.3)**
TCC (RUB/oz)	16,833	12,404	9,737	35.7	27.4

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 the reporting period, TCC per troy ounce grew by 42% on a USD basis from USD 391 per ounce in 2009 to USD 554 per ounce in 2010. On a RUB basis the growth was 36%.

The growth of TCC resulted from the increase in cost of gold sales mainly due to increased material and fuel requirements on the back of enhanced mining and processing works throughout the Polyus Group, increased material and chemicals consumption due to technical issues at the Olimpiada mine, the effect of consolidation of KazakhGold for the full year 2010, increase in gold stock, the growth of labour costs and appreciation of the RUB relative to the USD (Refer to paragraph 16.1.3 "Cost of gold sales"). Effect of the RUB appreciation contributed USD 31 per ounce to the Polyus Group's TCC.

In 2010, production and sales volumes suffered from a decline in output at Olimpiada due to on-going challenges in achieving targeted recovery rates. The increase of sulphur and pyrrhotine content in the ore under processing led to the decrease in recovery rates. Recovery was also negatively impacted by the lack of oxygen during leaching. In the reporting period a series of measures were undertaken to raise operational efficiency of the processing. During 2010 the technological processes of bio-leaching and floatation were adjusted. Heat-eliminating and aeration mechanisms were tuned, upgrade and renovation of processing plant equipment was implemented.

The increase in gold sales volumes didn't align with note of cost growth, which resulted in a significant increase in the unit total cash costs.

Thanks to measures described above, in the 1Q2011 Polyus reached the recovery rate at Olimpiada mine of 70% (specifically in March the recovery rate reached 72%) versus FY2010 recovery rate at this mine of 66%. The Company believes that the stabilization of production will have positive influence on costs.

16.2.3. Analysis of profitability indicators

Adjusted net profit is defined as net profit attributable to shareholders of the parent company adjusted for investment losses/gains and impairment of investments, income on derivatives classified as held for trading and impairment of goodwill. 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 2010, 2009 and 2008:

USD'000, unless otherwise indicated	Years ended 31 December			2010 against 2009	2009 against 2008
	2010	2009	2008	%	%
Net profit attributable to shareholders of the parent company	332,169	184,578	51,507	80.0	258.4
+ Loss/(gain) on disposal of investments	(20,289)	34,232	(13,770)	–	–
+ Loss/(gain) from investments in listed companies held for trading	(11,446)	(13,702)	178,377	(16.5)	–
+ Impairment of available-for-sale investments	–	–	100,090	–	–
– Income on derivatives classified as held for trading	63,775	(20,039)	–	–	–
+ Goodwill impairment	–	138,196	–	–	–
Adjusted net profit	364,209	323,265	316,204	12.7	2.2
Assets (average for the year)	3,826,812	3,364,156	3,426,156	13.8	(1.8)
Equity attributable to shareholders of the parent (average for the year)	3,060,821	2,847,365	3,009,254	7.5	(5.4)
Non-current and current loans and borrowings (average for the year)	201,640	99,916	10,455	101.8	–
Adjusted return on assets	**9.52%**	**9.61%**	**9.23%**	**–**	**–**
Adjusted return on equity	**11.90%**	**11.35%**	**10.51%**	**–**	**–**
Adjusted return on invested capital	**11.16%**	**10.97%**	**10.47%**	**–**	**–**

In 2010, the Polyus Group's net profit adjusted for net gain from investments grew by 13%. At the same time, the average asset base increased by 14% primarily as a result of commissioning on new property, plant and equipment and significant increase in inventories. Thus, the Group's return on assets remained approximately and the level of 2009.

In 2009, the Group recorded loans and borrowing of KazakhGold Group, which led to the increase in the value of invested capital. The increase in retained earnings led to the increase in equity attributable to shareholders of the parent and the value of invested capital. Still, income growth rate was higher than the rate of increase in equity and invested capital, which contributed to the improvement of the Polyus Group's profitability 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 2010, 2009 and 2008:

	Years ended 31 December								
	2010			2009			2008		
	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	1,176,392	932	937	833,466	878	854	761,318	873	877
Irkutsk alluvial business unit	248,254	197	197	185,237	194	194	154,907	181	181
Yakutsk Kuranakh business unit[1]	149,597	120	120	129,789	135	135	124,640	144	144
Irkutsk ore business unit[2]	22,607	26	19	23,678	24	24	21,466	25	25
Kazakhstan business unit[3]	114,448	110	103	26,918	30	31	–	–	–
Group total[4]	**1,711,298**	**1,386**	**1,377**	**1,199,088**	**1,261**	**1,238**	**1,062,331**	**1,222**	**1,226**

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. For the purpose of financial reporting in accordance with IFRS standards sales in 2010 do not include 4.8 k oz of gold produced from the ores of the Verninskoye and Natalka deposits and sold in 2010.
3. Operating results of the Kazakhstan business unit in 2009 include amounts of gold produced and sold in August – December 2009 in the form of sludge, flotation and gravitation concentrates and other semi-products.
4. Totals may not add due to the rounding error.

16.3.1. Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta deposits)

USD'000, unless otherwise indicated	2010	2009
Gold sales	1,176,392	833,466
Segment profit/(loss)	398,359	421,517
Segment profit margin	34%	51%
TCC (USD/oz)	519	322

Source: Management accounting data.
For reconciliation of Segment profit/(loss) refer to Note 5 to the Consolidated financial statements for the year ended 31 December 2010.

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 Mills No.2 and 3 of the Olimpiada mine (which process the ores of the Olimpiada deposit) totaled 584 thousand ounces, compared to 839 thousand ounces in the previous year. The decline in output was largely driven by the decrease in recovery rates due to technical issues at the plant and reduced ore processing volumes. Refined gold output at Mill No.1 of the Olimpiada mine, which started to process the ores of the Titimukhta deposit in April 2009, was 100 thousand ounces (2009: 39 thousand ounces). The successful commissioning of the Blagodatnoye mine in July 2010 contributed another 249 thousand ounces to the Krasnoyarsk business unit's output in 2010.

In 2010, gold sales revenue of the Krasnoyarsk business unit were USD 1,176,392 thousand, as compared to USD 833,466 thousand in 2009. The sales volumes were 937 thousand troy ounces.

Following transition to the processing of sulphide ores of deep horizons of Olimpiada, the Polyus Group faced certain difficulties at bio-leaching and flotation stages of production process, resulting in lower gold recovery. This entailed additional consumption of materials and chemicals on the one hand, and decrease in production volumes, on the other. In addition, lower than expected gold grade in the ore of the Titimukhta deposit and continued adjustments of the technology at Mill No.1 impeded reaching the designed output at Titimukhta. The Blagodatnoye mine has been passing through a ramp-up period since July 2010 and seeking to achieve the designed recovery rate with 2010 operating results having exceeded the targets.

Combination of these factors led to a material increase of the Krasnoyarsk business unit's TCC indicator. Still, the business unit maintained solid level of profitability. The segment profit margin in 2010 was 34%.

The following sets forth the principal consumables and spares procured by the Krasnoyarsk business unit in 2010 and 2009:

	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and excavators		30,485		15,185
Grinding balls	15,527	14,597	17,876	16,633
Pipes for current operations	911	3,832		1,042
Spare parts for road-building machines		3,192		2,619
Rolled metal products for current operations		3,299		1,224
Summer diesel fuel	47,700	29,823	46,353	25,050
Winter diesel fuel	41,500	28,026	35,515	23,915
Ai-80 gasoline	240	149	351	235
Ai-92 gasoline	420	341	508	377
Explosives		14,187		11,576
Cyanides	22,102	74,142	16,950	47,108

16.3.2. Irkutsk alluvial business unit (Alluvial deposits)

USD'000, unless otherwise indicated	2010	2009
Gold sales	248,254	185,237
Segment profit/(loss)	90,283	33,999
Segment profit margin	36%	18%
TCC (USD/oz)	612	554

Source: Management accounting data.
For reconciliation of Segment profit/(loss) refer to Note 5 to the Consolidated financial statements for the year ended 31 December 2010.

In 2010, gold production and sales volumes at the alluvial deposits in the Irkutsk region was 197 thousand ounces (2009: 194 thousand ounces). The increase in gold sales volumes in the Irkutsk alluvial business unit was driven by the increase of the average gold grade in the sands washed which was achieved due to successful grade control drilling and additional exploration.

The positive gold price dynamics in 2010 resulted in a 34% increase in revenues over the 2009 levels to USD 248,254 thousand and a significant improvement in profitability. The segment profit margin was 36%.

Alluvial deposits' TCC amounted to USD 612 per troy ounce in the reporting period, compared to USD 554 per troy ounce in 2009. The main contributors to TCC growth were payroll costs (due to increased salaries and additional compensation payments during the year), fuel costs (mainly due to increased purchase prices for oil products) and mining tax expense.

The following sets forth the principal consumables and spares procured by the Irkutsk alluvial business unit in 2010 and 2009:

	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and excavators		2,051		2,531
Rolled metal products for current operations		1,527		1,479
Summer diesel fuel	16,884	11,558	19,167	12,694
Winter diesel fuel	6,403	4,938	6,713	4,719
Ai-80 gasoline	330	303	387	308
Ai-92 gasoline	270	259	302	263
Explosives		1,705		1,010

16.3.3. Yakutsk Kuranakh business unit (Kuranakh mine)

USD'000, unless otherwise indicated	2010	2009
Gold sales revenue	149,597	129,789
Segment profit/(loss)	38,923	9,751
Segment profit margin	26%	8%
TCC (USD/oz)	710	551

Source: Management accounting data.
For reconciliation of Segment profit/(loss) refer to Note 5 to the Consolidated financial statements for the year ended 31 December 2010.

In 2010, the Kuranakh mine in the Sakha Republic (Yakutia) produced 120 thousand ounces of refined gold, compared to 135 thousand troy ounces in 2009. The decline in production was due to continuing works on the plant's modernization and expansion of the mill's capacity and the decrease of the average gold grade in the ore under processing.

In the reporting period, the gold sales revenue of the Yakutsk business unit totaled USD 149,597 thousand, reflecting a 15% increase over 2009, due to the growth of realized gold prices offsetting the reduction in gold sales volumes. The segment profit margin equalled to 26%.

In 2010, the Kuranakh mine's TCC experienced a 29% increase to USD 710 per troy ounce, primarily as a result of growth in materials and chemicals costs, mining tax charges and transportation expenses.

The following sets forth the principal consumables and spares procured by the Yakutsk Kuranakh business unit in 2010 and 2009:

	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and excavators		2,718		2,695
Grinding balls	1,427	1,326	1,896	1,504
Pipes for current operations		119		149
Spare parts for road-building machines		745		1,031
Rolled metal products for current operations	255	396	423	354
Summer diesel fuel	2,979	2,198	2,848	1,782
Winter diesel fuel	5,824	4,814	7,219	5,112
Ai-80 gasoline	334	275	393	288
Ai-92 gasoline	119	115	164	144
Explosives		154		152
Cyanides	643	1,798	611	1,616

16.3.4. Irkutsk ore business unit (Zapadnoye mine)

USD'000, unless otherwise indicated	2010	2009
Gold sales revenue	22,607	23,678
Segment profit/(loss)	(4,191)	(1,016)
Segment profit margin	–	–
TCC (USD/oz)	1,045	709

Source: Management accounting data.
For reconciliation of Segment profit/(loss) refer to Note 5 to the Consolidated financial statements for the year ended 31 December 2010.

In 2010, the Zapadnoye mine produced and sold 19 thousand ounces of gold (2009: 24 thousand ounces), the reduction being related to the reserves depletion within the current pit outline.

Gold sales revenue amounted to USD 22,607 thousand.

The Zapadnoye mine's TCC surged to USD 1,045 per ounce in 2010, partially as a result of the decline in sales volumes. However, the mine's sales and TCC contributed only 1% and 3% to the total Group's output and TCC, respectively, in 2010.

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 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 following sets forth the principal consumables and spares procured by the Irkutsk ore business unit in 2010 and 2009:

	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and excavators	–	2,172	–	1,161
Grinding balls	611	561	275	229
Spare parts for road-building machines	–	1,077	–	1,538
Rolled metal products for current operations	–	718	–	332
Summer diesel fuel	3,264	1,837	2,795	1,397
Winter diesel fuel	3,662	2,626	2,069	1,306
Ai-80 gasoline	405	264	648	408
Ai-92 gasoline	688	514	499	324
Explosives	2,218	1,377	1,259	1,207
Cyanides				

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

USD'000, unless otherwise indicated	2010	2009
Gold sales revenue	114,448	26,918
Segment profit/(loss)	(55,943)	(32,890)
Segment profit margin	–	–
TCC (USD/oz)	585	542

In 2010 the Kazakhstan business unit produced 110 thousand ounces of gold in the form of sludge, flotation and gravitation concentrates and other semi-products. The comparative volumes for 2009 include gold produced in August – December 2009 in the amount of 30 thousand ounces. Gold sales for the reporting period were 103 thousand ounces.

Gold sales revenue in 2010 was USD 114,448 thousand.

From the date of acquisition of a controlling stake in KazakhGold by the Polyus Group in July 2009, modernization programme commenced. Renewal of underground and open pit mining fleet and processing equipment was implemented. Maintenance and repair works have been performed at the mills. Refurbishment of shafts was initiated. As a result of the ongoing production upgrades, KazakhGold's full year output increased by 52% year-on-year and profitability showed substantial improvement.

The following sets forth the principal consumables and spares procured by the Kazakhstan business unit in 2010 and 2009:

	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and excavators	–	268	–	n/a
Grinding balls	1,720	1,509	1,018	796
Pipes for current operations	179	153	n/a	n/a
Spare parts for road-building machines	–	4	–	n/a
Rolled metal products for current operations	286	444	n/a	n/a
Summer diesel fuel	1,784	1,035	1,384	946
Winter diesel fuel	1,058	761	849	396
Ai-80 gasoline	361	221	337	172

	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Ai-92 gasoline	67	47	71	42
Explosives	646	1,010	397	593
Cyanides	725	2,123	610	1,897

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 2010, 2009 and 2008:

USD '000	As at 31 December		
	2010	2009[1]	2008
ASSETS			
Non-current assets			
Property, plant and equipment	2,500,952	2,290,548	1,772,319
Investments in securities and other financial assets	50,273	114,792	4,095
Deferred stripping costs	61,023	106,088	163,988
Other non-current assets[2]	202,890	46,631	50,415
Total non-current assets	**2,815,138**	**2,558,059**	**1,990,817**
Current assets			
Inventories	455,144	415,238	233,001
Investments in securities and other financial assets	177,332	312,733	285,236
Cash and cash equivalents	326,905	173,360	398,826
Other current assets[3]	229,655	190,060	170,982
Total current assets	**1,189,036**	**1,091,391**	**1,088,045**
TOTAL ASSETS	**4,004,174**	**3,649,450**	**3,078,862**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	3,183,645	2,937,997	2,756,733
Non-controlling interest	56,886	59,874	37,808
TOTAL EQUITY	**3,240,531**	**2,997,871**	**2,794,541**
Total non-current liabilities	**368,710**	**315,098**	**182,623**
Current liabilities			
Short-term borrowings	173,762	173,437	–
Trade and other payables and accrued expenses	169,037	116,812	83,527
Other current liabilities[4]	52,134	46,232	18,171
Total current liabilities	**394,933**	**336,481**	**101,698**
TOTAL LIABILITIES	**763,643**	**651,579**	**284,321**
TOTAL EQUITY AND LIABILITIES	**4,004,174**	**3,649,450**	**3,078,862**

1. The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting. Refer to Note 4 of consolidated financial statements for the year ended 31 December 2010.
2. Other non-current assets consist of the long-term portion of reimbursable value added tax, inventories and other non-current assets.
3. Other current assets consist of reimbursable value added tax, accounts receivable, advances paid to suppliers, income tax receivable and other current assets.
4. 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 2010, 2009 and 2008:

USD '000	Years ended 31 December		
	2010	2009	2008
Exploration and evaluation assets	273,184	240,900	214,920
Mining assets	1,891,464	1,564,953	1,218,349
Non-mining assets	40,722	36,816	39,814
Capital construction-in-progress	295,582	447,879	299,236
Total property, plant and equipment	**2,500,952**	**2,290,548**	**1,772,319**

In 2010 the value of property, plant and equipment increased by 9% to USD 2,500,952 thousand.

Mining assets increased by 21% in the reporting period due to significant additions and transfers from capital construction-in-progress, which reflects primarily commissioning of the Blagodatnoye mine in the Krasnoyarsk region. The closing balance of the Polyus Group's mining assets at 31 December 2010 was USD 1,891,464 thousand. As at the end of 2010, mining assets included mineral rights of USD 537,435 thousand. Exploration and evaluation assets increased by 13% year-on-year and amounted to USD 273,184 thousand at the end of the reporting year. The major part of exploration works that were implemented during the period were in the Krasnoyarsk region at the Poputnenskoye deposit, Panimbinskaya and Razdolinskaya ore fields, in the Republic of Sakha (Yakutia) at the Nezhdaninskoye deposit, in the Irkutsk region at the Zapadnoye deposit. In addition, during the first half of 2010, exploration works were carried out at Aksu, Bestobe, Zholymbet, South Karaultube, Akzhal and Kaskabulak in the Republic of Kazakhstan. The value of non-mining assets increased by 11% and at the end of 2010 amounted to USD 40,722 thousand.

Non-current investments in securities and other financial assets

Non-current investments in securities and other financial assets consist mostly of derivative financial asset. As part of 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. 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. At 31 December 2009 the fair value of call options for convertible loans amounted to USD 109,911 thousand. As a result of the decline in the KazakhGold share price during 2010 the fair value of the instrument decreased to USD 46,136 thousand, which was recognized in the consolidated income statement.

Deferred stripping costs

In 2009 the Polyus Group started to expense previously capitalised deferred stripping costs, related to excessive stripping works implemented at the Krasnoyarsk business unit in order to access the sulphide ore body after the depletion of the oxide ores of Olimpiada. In 2010, the stripping ratio at the deposit was lower than the average life-of-mine stripping ratio. Thus, according to the Polyus Group's accounting policy, deferred stripping costs at Olimpiada were expensed in 2010, which more than offset capitalization of stripping costs at Titimukhta and Kuranakh mine. As a result, the item declined from USD 106,088 thousand at 31 December 2009 to USD 61,023 thousand at the end of 2010.

Inventories

In 2010 the Polyus Group recorded stocks of ore which is of different quality and physicochemical characteristics compared to the currently processed ore at the Krasnoyarsk business unit (6,637 thousand tonnes) and Irkutsk hard rock business unit (1,228 thousand tonnes) to long-term inventories, until the technical possibility to process this ore is obtained. This resulted in a multiple increase of the item in the statement of financial position. The closing balance at 31 December 2010 was USD 202,890 thousand, compared to USD 46,631 thousand at the same date of 2009.

Current assets

In 2010, the value of the Polyus Group's current assets increased by 9%, the major movements being reallocation of funds between cash and cash equivalents and investments in securities and other financial assets, and increase in inventories and reimbursable VAT.

Cash and cash equivalents

At 31 December 2010 the balance of cash and cash equivalents was USD 326,905 thousand, reflecting a 89% year-on-year increase. The source of the increase in cash was strong operating cash inflow during the period, as well as significant amounts of cash withdrawn from short-term investments.

Inventories

The value of gold-in-process decreased by 28% to USD 145,332 thousand at 31 December 2010. In 2010, some work-in-process at the Krasnoyarsk and Irkutsk hard rock business units was reclassified from short-term to long-term inventories. This was partly offset by an increase in gold-in-process at the newly launched Blagodatnoye mine, at Yakutsk Kuranakh and Kazakhstan business units and an increase in the net production cost at which the gold stock is reflected in the statement of financial position.

The cost of refined gold increased by 34% from USD 14,609 thousand at the end of 2009 to USD 19,523 thousand at the end of 2010. This was driven by an increased production cost of gold throughout the Group. At 31 December 2010, the residual balance of gold produced, but not sold during the year, amounted to 28 thousand troy ounces (31 December 2009: 30 thousand troy ounces), including gold contained in semi-products produced by KazakhGold Group.

In 2010, stores and materials increased by 47% to USD 290,289 thousand, due to growing material requirements relating to the Blagodatnoye mine launch, ramp-up of operations at Titimukhta, modernization at Olimpiada, and also refurbishment works at the Kazakhstan mines. The significant growth of purchase prices for materials and spare parts also contributed to the increase in the value of the item.

As a result of these movements, in 2010 the Group's inventories increased by 10% to USD 455,144 thousand.

Investments in securities and other financial assets

In the reporting period the short-term investments in securities and other financial assets declined from USD 312,733 thousand at the end of 2009 to USD 177,332 thousand at the end of 2010. These were represented 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 2010 are presented in the table below:

USD '000	Years ended 31 December		Movements
	2010	2009	
Available-for-sale investments	99,721	202,161	The Groups's available-for-sale investments are mainly represented by shares of Rosfund. During 2010, the Polyus Group disposed of 63% of shares for USD 137,000 thousand with a gain of USD 20,289 thousand, which was reflected in the consolidated income statement. In the reporting period, the fair value of available-for-sale investments grew by USD 33,340 thousand. This increase, net of gain on disposal of available-for-sale investments, was recognized directly in equity within the investment revaluation reserve.
Equity investments in listed companies held for trading	36,730	39,199	Investments in listed companies held for trading are represented by financial assets carried at fair value through profit and loss. During 2010, the Polyus Group disposed of USD 12,365 thousand of these investments. By the end of the year, the value of held for trading investments increased by USD 11,446 thousand, which was recognized as an investment income.
Bank deposits	39,351	70,158	In the reporting period, the Polyus Group withdrew cash from bank deposits in the total amount of USD 30,807 thousand. The released funds were partly reallocated to current bank accounts and partly used in investing and operating activity. The remaining RUB-denominated bank deposits are held at Rosselhozbank, VTB, Rosbank and Sberbank and bear annual interest rates of 3.45-6.5%.
Other	1,530	1,215	
Total investments in securities and other financial assets:	**177,332**	**312,733**	

16.4.1.2. Capital and liabilities

Share capital and reserves

As at 31 December 2010, share capital and reserves were USD 3,240,531 thousand compared to USD 2,997,871 thousand as at 31 December 2009. The increase resulted mainly from growth in retained earnings and investment revaluation reserve, partly offset by an increase in translation reserve.

In 2010, the Polyus Group' retained earnings increased by USD 260,849 thousand, reflecting a net profit attributable to the parent company of USD 332,169 thousand and an increase of ownership in subsidiaries of USD 33,023 thousand, relating to the Polyus Group's participation in KazakhGold's equity placement, less dividends accrued in respect of 2009 and the first half of 2010 results in the amount of USD 104,343 thousand.

Investment revaluation reserve increased by USD 13,051 thousand due to the increase in fair value of available-for-sale investments.

As a result of currency exchange rate movements, translation reserve increased by USD 28,252 thousand and at 31 December 2010 amounted to USD 119,736 thousand.

Non-controlling interest decreased by USD 2,988 thousand and was USD 56,886 thousand as at the end of 2010, reflecting profit for the year and other comprehensive income attributable to minorities in the amount of USD 19,777 thousand, which was partly offset by the effect of the increase of the Polyus Group's ownership in the Kazakhstan subsidiary (USD 11,068 thousand) and dividends declared to shareholders of non-controlling interest by OJSC Lenzoloto (Irkutsk alluvial business unit) in the amount of USD 11,697 thousand.

Non-current liabilities

In 2010 non-current liabilities increased by 17% to USD 368,710 thousand mainly on the account of environmental obligations and other non-current liabilities.

Long-term borrowing were obtained by the Polyus Group upon acquisition of KazakhGold Group in July 2009 and at the reporting date were represented by loans payable to Gold Lion, previously its major shareholder, due November 2014, and other USD-denominated loans held at KazakhGold.

At 31 December 2010, environmental obligations totalled USD 136,410 thousand, which is 51% higher than at the same date of 2009. The increase was mainly due to re-estimation of decommissioning assets and provision for land restoration as a result of the change in the applied discount and inflation rates.

Deferred tax liabilities at the end of 2010 were USD 182,948 thousand. During the reporting period USD 1,348 thousand were recognized through the income statement for the period.

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. During 2010, the Group repaid USD 4,718 thousand of its obligations on the guarantee. As a result, bank guarantee liability decreased to USD 6,296 thousand (including an amount of USD 5,996 thousand related to interests on bank guarantee which was presented within current liabilities). The historical costs liability relates to amounts owing for geological studies due to the Government of Kazakhstan. At 31 December 2010 the net present value of the liability totalled USD 5,053 thousand (including an amount of USD 895 thousand reclassified to current liabilities). In addition, in 2010 the Polyus Group accrued employee benefit obligations in the amount of USD 15,208 thousand.

Current liabilities

In 2010 current liabilities increased by 17% to USD 394,933 thousand.

Following acquisition of a controlling stake in KazakhGold, the Polyus Group recorded KazakhGold's outstanding Senior Notes at fair value. In connection with the acquisition of KazakhGold, Polyus Gold became a guarantor of the Senior Notes. The Senior Notes are carried at amortized cost and classified as a current liability, as a result of KazakhGold Group's default under certain terms of the Senior Notes. These defaults were waived in a consent subscription that was completed on 27 July 2010. At 31 December 2010, the fair value of the liability under the Senior Notes amounted to USD 173,762 thousand. Short-term bank loans obtained by KazakhGold's principal subsidiary, JSC "MMC KazakhAltyn", which were reflected on the Polyus Group's balance sheet at 31 December 2009, were repaid during the reporting period.

Trade, other payables and accrued expenses increased from USD 116,812 thousand at 31 December 2009 to USD 169,037 thousand at 31 December 2010. This resulted primarily from the increase in trade payables at the Krasnoyarsk and Irkutsk ore business unit (Verninskoye mine), relating to purchase of equipment and materials for the construction needs, and reclassification of interest on bank guarantee amount of USD 5,996 thousand from non-current liabilities. Increase in wages and salaries payable was due to the increased regular annual bonus accrual.

At the end of 2010, income tax payable amounted to USD 22,698 thousand, compared to USD 2,609 thousand at the end of 2009. Income tax for the fourth quarter is payable in advance based on the income before tax generated in the third quarter of the year. The final liability is settled quarterly. In the fourth quarter of 2010 the Group's profit before tax was higher than in the third quarter, therefore, at the reporting date the Polyus Group accrued significant income tax liability. Other taxes payable reduced from USD 43,623 thousand to USD 29,436 thousand primarily as a result of settlement of VAT obligations at KazakhGold.

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 2010, 2009 and 2008:

USD '000	Years ended 31 December		
	2010	2009[1]	2008
Operating activities			
Profit before income tax	**481,337**	**295,445**	**122,471**
Adjustments[2]	310,409	330,988	308,564
Operating profit before working capital changes	**791,746**	**626,433**	**431,035**
Changes in working capital	(234,888)	(172,706)	(145,947)
Cash flows from operations	**556,858**	**453,727**	**285,088**
Interest paid	(23,213)	(10,795)	(2,434)
Income tax paid	(88,338)	(99,832)	(90,421)
Net cash generated from operating activities	**445,307**	**343,100**	**192,233**
Investing activities			
Capital expenditures, acquisition of subsidiaries and deferred stripping costs[3]	(359,424)	(495,990)	(629,842)
Other investments spendings/proceeds[4]	188,310	(20,075)	700,728
Net cash (used in)/generated from investing activities	**(171,114)**	**(516,065)**	**70,886**
Net cash generated from/(used in) financing activities	**(110,983)**	**(56,698)**	**(43,588)**
Effect of translation to presentation currency	(9,665)	4,197	(46,879)
Net (decrease)/increase in cash and cash equivalents	**163,210**	**(229,663)**	**219,531**
Cash and cash equivalents at beginning of the year	**173,360**	**398,826**	**226,174**
Cash and cash equivalents at end of the year	**326,905**	**173,360**	**398,826**

1. The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting. Refer to Note 4 of consolidated financial statements for the year ended 31 December 2010.
2. Adjustments for non-cash items include: amortisation and depreciation, finance costs, expensed stripping costs, loss on disposal of property, plant and equipment, impairment of property, plant and equipment, change in provision for obsolete inventory, change in provision for land restoration, change in allowance for reimbursable value added tax, income/(loss) from investments, foreign exchange (gain)/loss, net, goodwill impairment and other items.
3. 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.
4. Other investments spendings/proceeds include repayment of consideration on acquisition of subsidiaries, interest received, purchase of promissory notes and other financial assets and proceeds from sale of promissory notes and other financial assets.

In 2010, the Polyus Group generated income before tax in the amount of USD 481,337 thousand. Operating profit before working capital changes amounted to USD 791,746 thousand, which was 26% more than in the previous year. In the reporting period working capital changes were 36% higher than in 2009 and were impacted primarily by an increase in reimbursable VAT and growth in metal inventories. In 2010, net cash generated from operating activities increased by USD 102,207 thousand to USD 445,307 thousand.

In the reporting period, the major investment spending was capital expenditures and deferred stripping costs totalling USD 359,424 thousand. In addition, in 2010 the Polyus Group deposited cash on current bank accounts, which resulted in a USD 64,996 thousand cash outflow. This was strongly offset by proceeds from disposal of financial assets in the amount of USD 244,955 thousand. During 2010 the Group closed a number of bank deposits, partly withdrew funds from available-for-sale investments and lesser amounts from held for trading investments. The Group also received USD 8,351 thousand of interest income. As a result, in 2010 the Polyus Group used USD 171,114 thousand in investment activities, compared to USD 516,065 thousand a year earlier.

Cash outflow from financing activities in the year ended 31 December 2010 totalled USD 110,983 thousand (2009: USD 56,698), the major outflows being dividend payments to OJSC Polyus Gold shareholders in respect of 2009 and the first half of 2010 results. Cash outflows also included payment of dividends to non-controlling shareholders by OJSC Lenzoloto (Irkutsk alluvial business unit) in the amount of USD 12,226 thousand and repayment of borrowings by KazakhGold Group for the total sum of USD 10,944 thousand. These outflows were partly offset by proceeds from issuance of shares by KazakhGold Group amounting to USD 21,955 thousand, which are reflected in the Polyus Group's consolidated cash flow statement net of costs incurred by Jenington International Inc. on the participation in the equity placing by KazakhGold. USD 100 million equity placing by KazakhGold at USD 1.50 per share took place in July 2010. Jenington subscribed for 51,194,922 shares of new issue, and as a result, increased its ownership in KazakhGold from 50.15% to 65%.

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 2010, 2009 and 2008:

USD'000	Years ended 31 December		
	2010	2009	2008
+ Purchase of property, plant and equipment	350,327	302,405	481,504
– Proceeds from sale of property, plant and equipment	(643)	(1,270)	(5,747)
Net capital expenditures	**349,684**	**301,135**	**475,757**
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
Acquisition of subsidiaries, net of adjustments above	**–**	**182,247**	**58,772**
+ Deferred stripping costs capitalised	9,740	12,608	95,313
Total capital expenditures, acquisition of subsidiaries and deferred stripping costs	**359,424**	**495,990**	**629,842**

In 2010, total capital expenditures, acquisition of subsidiaries and deferred stripping costs equalled USD 359,424 thousand, compared to USD 495,990 thousand in the previous year. The Polyus Group expended USD 350,327 thousand on property, plant and equipment, including equipment for mills under construction, mining and construction equipment and rolled metal products. The major part of investments was allocated to the construction of the Blagodatnoye and Verninskoye mines, modernization of productions facilities at Olimpiada aimed at raising the mine's operating efficiency after complete transition to refractory sulphide ores processing, and upgrading of operating assets of KazakhGold.

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 9,740 thousand, relating to Titimukhta and Kuranakh mines.

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

The Company pays a significant amount of taxes in the regions where it operates. 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 28 November 2001.

Accounting policy

The Company's accounting policy is approved by its management and is used to provide fair view of the Company's financial position and results of its financial and operating activities in the process of preparation of audited annual financial statements in accordance with IFRS. The accounting policy is revised annually to adopt 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 last competitive audit tender was in 2009 when ZAO “Deloitte and Touche CIS” was appointed by the Board on the recommendation of Audit Committee.

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 submits proposals from leading auditing companies for consideration of the Audit Committee. The Audit Committee reviews the proposals and makes recommendations to the Board in respect of the choice of the External Auditor and its remuneration..

Although the External Auditor does provide some non-audit services, the objectivity and independence of the External Auditor is safeguarded through certain limitations while providing such services.

Based on the results of the review, the Audit Committee confirms that the External Auditor is independent.

Blagodatnoye mine: project implemented in accordance with initially approved budget

17. Consolidated financial statements for the year ended 31 December 2010

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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 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 2010 were approved by management on 18 April 2011 by:

On behalf of the Management:

Prokhorov M. D.	Ignatov O. V.
General Director	Deputy General Director

Moscow, Russia

18 April 2011

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 as the "Group"), which are comprised of the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Moscow, Russia
18 April 2011

Consolidated Income Statement for the Year ended 31 December (in thousands of US Dollars, except for earnings per share data)

	Notes	2010	2009*
Gold sales	6	1,711,298	1,199,088
Other sales		37,506	26,136
Total revenue		**1,748,804**	**1,225,224**
Cost of gold sales	7	(895,555)	(573,501)
Cost of other sales		(33,424)	(25,541)
Gross profit		**819,825**	**626,182**
Selling, general and administrative expenses	8	(194,549)	(155,012)
Research expenses		(2,412)	(1,265)
Other expenses, net	9	(75,864)	(32,955)
Finance costs	10	(42,717)	(18,870)
(Loss)/income from investments	11	(23,711)	14,197
Foreign exchange gain		765	1,364
Goodwill impairment	4	-	(138,196)
Profit before income tax		**481,337**	**295,445**
Income tax	12	(124,840)	(108,810)
Profit for the year		**356,497**	**186,635**
Attributable to:			
Shareholders of the Company		332,169	184,578
Non-controlling interests		24,328	2,057
		356,497	**186,635**
Earnings per share			
Weighted average number of ordinary shares in issue during the year		179,851,586	178,803,493
Basic and diluted (US Cents)		185	103

The accompanying notes are an integral part of these consolidated financial statements.

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

Consolidated Statement of Comprehensive Income for the Year ended 31 December (in thousands of US Dollars)

	2010	2009*
Profit for the year	**356,497**	**186,635**
Other comprehensive income/(loss)		
Unrealised gain from change in fair value of available-for-sale investments (2010 and 2009: net of tax in the amount of USD nil)	33,340	18,201
Realised gain on disposal of available-for-sale investments (2010 and 2009: net of tax in the amount of USD nil)	(20,289)	(696)
Effect of translation to presentation currency	(32,803)	(46,091)
Other comprehensive loss for the year	**(19,752)**	**(28,586)**
Total comprehensive income for the year	**336,745**	**158,049**
Attributable to:		
Shareholders of the Company	316,968	156,057
Non-controlling interests	19,777	1,992
	336,745	**158,049**

The accompanying notes are an integral part of these consolidated financial statements.

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

Consolidated Statement of Financial Position at 31 December (in thousands of US Dollars)

	Notes	2010	2009*
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,500,952	2,290,548
Deferred stripping costs	14	61,023	106,088
Inventories	16	201,030	40,732
Investments in securities and other financial assets	15	50,273	114,792
Long-term portion of reimbursable value added tax		993	5,899
Other non-current assets		867	-
		2,815,138	**2,558,059**
Current assets			
Inventories	16	455,144	415,238
Reimbursable value added tax		154,422	103,688
Trade and other receivables	17	21,244	17,810
Advances paid to suppliers	18	22,968	20,773
Investments in securities and other financial assets	15	177,332	312,733
Income tax prepaid		9,347	27,152
Other current assets	19	21,674	20,637
Cash and cash equivalents	20	326,905	173,360
		1,189,036	**1,091,391**
TOTAL ASSETS		**4,004,174**	**3,649,450**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	6,871	6,871
Additional paid-in capital		2,081,626	2,081,626
Treasury shares		(626,313)	(626,313)
Investments revaluation reserve		30,556	17,505
Translation reserve		(119,736)	(91,484)
Retained earnings		1,810,641	1,549,792
Equity attributable to shareholders of the Company		**3,183,645**	**2,937,997**
Non-controlling interests		56,886	59,874
		3,240,531	**2,997,871**
Non-current liabilities			
Borrowings	24	29,686	26,394
Deferred tax liabilities	12	182,948	182,660
Environmental obligations	22	136,410	90,518
Other non-current liabilities	23	19,666	15,526
		368,710	**315,098**
Current liabilities			
Borrowings	24	173,762	173,437
Trade, other payables and accrued expenses	25	169,037	116,812
Income tax payable		22,698	2,609
Other taxes payable	26	29,436	43,623
		394,933	**336,481**
TOTAL LIABILITIES		**763,643**	**651,579**
TOTAL EQUITY AND LIABILITIES		**4,004,174**	**3,649,450**

The accompanying notes are an integral part of these consolidated financial statements.

* The comparative information as at 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

Consolidated Statement of Cash Flows for the Year ended 31 December (in thousands of US Dollars)

	Notes	2010	2009*
Operating activities			
Profit before income tax		**481,337**	**295,445**
Adjustments for:			
Amortisation and depreciation		126,855	96,940
Finance costs		42,717	18,870
Expensed stripping cost		54,152	65,847
Loss on disposal of property, plant and equipment		2,037	3,875
Impairment of property, plant and equipment		40,763	10,859
Change in provision for obsolete inventory		2,346	3,639
Change in provision for land restoration		–	7,379
Change in allowance for reimbursable value added tax		(294)	(171)
Loss/(income) from investments		23,711	(14,197)
Change in allowance for doubtful debts		2,496	(229)
Foreign exchange gain, net		(765)	(1,364)
Goodwill impairment		–	138,196
Other		16,391	1,344
		791,746	**626,433**
Movements in working capital			
Inventories		(206,079)	(176,327)
Trade and other receivables		(7,595)	1,562
Advances paid to suppliers		(718)	(5,456)
Other current assets and reimbursable value added tax		(47,679)	4,772
Trade and other payables and accrued expenses		24,412	5,085
Employee benefit obligations		15,208	-
Other taxes payable		(12,437)	(2,342)
Cash flows from operations		**556,858**	**453,727**
Interest paid		(23,213)	(10,795)
Income tax paid		(88,338)	(99,832)
Net cash generated from operating activities		**445,307**	**343,100**
Investing activities			
Acquisition of subsidiary, net of cash acquired	4	–	(182,247)
Purchases of property, plant and equipment		(350,327)	(302,405)
Payments for capitalised deferred stripping costs		(9,740)	(12,608)
Proceeds on sales of property, plant and equipment		643	1,270
Interest received		8,351	13,034
Purchases of promissory notes and other financial assets		(64,996)	(170,811)
Proceeds on sales of promissory notes and other financial assets		244,955	137,702
Net cash used in investing activities		**(171,114)**	**(516,065)**

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

Consolidated Statement of Cash Flows for the Year ended 31 December (in thousands of US Dollars)

	Notes	2010	2009*
Financing activities			
Repayments of borrowings		(10,944)	(13,760)
Repayments of finance lease obligations		-	(400)
Repayments of bank guarantee liability		(4,967)	-
Proceeds from issuance of the subsidiary's shares	4	21,955	-
Dividends paid to shareholders of the Company	21	(104,801)	(40,387)
Dividends paid to non-controlling shareholders		(12,226)	(2,151)
Net cash used in financing activities		**(110,983)**	**(56,698)**
Net increase/(decrease) in cash and cash equivalents		**163,210**	**(229,663)**
Cash and cash equivalents at beginning of the year		**173,360**	**398,826**
Effect of foreign exchange rate changes on cash and cash equivalents		(9,665)	4,197
Cash and cash equivalents at end of the year		**326,905**	**173,360**

Non-cash investing activities in 2009 also included issuance of treasury shares as consideration for the acquisition of KazakhGold Group Limited in the amount of USD 63,585 thousand (refer to note 4).

The accompanying notes are an integral part of these consolidated financial statements.

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

Consolidated Statement of Changes in Equity for the Year ended 31 December (in thousands of US Dollars)

	Notes	Equity attributable to shareholders of the Company							Non-controlling interests	Total
		Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total		
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 (as restated)*		–	–	–	–	–	184,578	**184,578**	2,057	**186,635**
Other comprehensive income/(loss) (as restated)*		–	–	–	17,505	(46,026)	–	**(28,521)**	(65)	**(28,586)**
Total comprehensive income		**–**	**–**	**–**	**17,505**	**(46,026)**	**184,578**	**156,057**	**1,992**	**158,049**
Issuance of shares from treasury shares as a part of consideration for acquisition of subsidiaries	4	–	(35,029)	98,614	–	(2,052)	2,052	**63,585**	–	**63,585**
Acquired on acquisition of subsidiary (as restated)*	4	–	–	–	–	–	–	**–**	25,070	**25,070**
Dividends to shareholders of the Company	21	–	–	–	–	–	(38,378)	**(38,378)**	–	**(38,378)**
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(4,996)	**(4,996)**
Balance at 31 December 2009		**6,871**	**2,081,626**	**(626,313)**	**17,505**	**(91,484)**	**1,549,792**	**2,937,997**	**59,874**	**2,997,871**
Profit for the year		–	–	–	–	–	332,169	**332,169**	24,328	**356,497**
Other comprehensive income/(loss)		–	–	–	13,051	(28,252)	–	**(15,201)**	(4,551)	**(19,752)**
Total comprehensive income		**–**	**–**	**–**	**13,051**	**(28,252)**	**332,169**	**316,968**	**19,777**	**336,745**
Increase of ownership in subsidiary	4	–	–	–	–	–	33,023	**33,023**	(11,068)	**21,955**
Dividends to shareholders of the Company	21	–	–	–	–	–	(104,343)	**(104,343)**	–	**(104,343)**
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	**-**	(11,697)	**(11,697)**
Balance at 31 December 2010		**6,871**	**2,081,626**	**(626,313)**	**30,556**	**(119,736)**	**1,810,641**	**3,183,645**	**56,886**	**3,240,531**

The accompanying notes are an integral part of these consolidated financial statements.

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

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 Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel (the "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 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 31.

Authorisation for issuance

The consolidated financial statements of the Group have been authorised for issuance by the Board of Directors on 18 April 2011.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes the 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 jurisdiction 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*, and the fair value of the net assets acquired upon the acquisition of KazakhGold Group Limited ("KazakhGold").

New and revised standards and interpretations adopted in the current period

The following new standards, amendments to standards or interpretations are adopted by the Group and effective for the financial year commencing 1 January 2010:

- IFRS 5 "Non-current assets held for sale and discontinued operations" — amendment;
- IAS 39 "Financial instruments: recognition and measurement" — amendment;
- IFRIC 9 "Reassessment of Embedded Derivatives" — amendment;
- IFRIC 18 "Transfers of Assets from Customers" — clarifications; and
- Annual Improvements to IFRS (April 2009).

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2010 had no material effect on the consolidated financial statements of the Group.

Standards and Interpretations in issue 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 the current year:

	Effective for annual periods beginning on or after
IAS 12 "Income taxes" — amendment	1 January 2012
IAS 24 "Related party disclosures" — revised	1 January 2011
IAS 32 "Financial instruments: presentation" — amendment	1 February 2010
IFRS 7 "Financial Instruments: Disclosures" — amendment	1 July 2011
IFRS 9 "Financial instruments" — amendment	1 January 2013
IFRIC 14 "IAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction" — amendment	1 January 2011
IFRIC 19 "Extinguishing financial liabilities with equity" — issued	1 July 2010
Annual Improvements to IFRS (May 2010)	1 January 2011

The impact of the adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by Group management; however, no material effect on the Group's financial position or results of its operations is anticipated.

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 are identified separately from the Group's equity therein. The interest of non-controlling shareholders may initially be 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 the 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 the 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. The measurement period may not exceed one year from the effective date of the acquisition.

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 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 each prepared in their respective functional currencies. 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 performed 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, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within the 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.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	2010	2009
Russian Rouble/US Dollar		
31 December	30.47	30.24
Average for the year	30.36	31.72
Kazakh Tenge/US Dollar		
31 December	147.40	148.36
Average for the year	147.35	147.50

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 Australasian Joint Ore Reserves Committee Code (the JORC Code), the Russian Resource Reporting Code, or the Former Soviet Union Agency for Mineral Resources classification codes.

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are subsequently 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 exists to indicate that, although a development in the specific area is likely to occur, 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 estimated economic useful life of the asset, or the life of mines of 7 to 23 years, which is based on estimated proven and probable ore reserves, whichever is shorter. Amortisation is charged from the date 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 the consolidated 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 stripping 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 changes 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 the following year when the specific mine is in operation when expensed. Such expenditures mainly include excavation costs and mine specific administration costs, and are recognised in 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, changes in the provision for land restoration and changes 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 date. Stockpiles are verified by periodic surveys. Stockpiles are valued with reference to the net unit cost of production, based on the percentage of completion.

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 (Loss)/income from investments line item in the consolidated income statement. Fair value is determined in the manner described in note 29.

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 income recognised on an effective yield basis.

AFS financial assets

AFS 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 AFS 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 or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, 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 within finance cost.

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 mandatory state pension funds on behalf of all employees of subsidiaries in the Russian Federation and in other jurisdictions where the Group operates. These contributions are recognised in the income statement when employees have rendered services requiring the contribution.

Defined benefit plans

In 2009, the Group introduced defined benefits plans, which are unfunded. The cost of providing benefits under these 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 investments in subsidiaries and associates 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, the Group retains neither a continuing degee of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. 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 are recognised on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

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 and land restoration costs, discounted to net present value, are added to respective assets and corresponding obligations raised as soon as the constructive obligation to incur such costs arises and the future cost can be reliably estimated. Additional assets are amortised on a straight-line basis over the corresponding asset. The unwinding of the obligation is included in the consolidated income statement as finance costs. Obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary to the corresponding item of property, plant and equipment.

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 methodologies. 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.

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Group exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of discounted future cash flows. The use of valuation assumptions includes cash flow estimates from mining activities and discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

If actual results are not consistent with estimates and assumptions considered, the Group may be exposed to losses that could be material.

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;
- allowances;
- environmental obligations; 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 the 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. A provision is recognised, based on the 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.

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

Completion of provisional accounting for acquisition of KazakhGold

The Group originally made an offer to acquire a majority of the of the outstanding share capital of KazakhGold by offering 0.423 Polyus Gold ordinary shares ("Consideration Shares") in exchange for each KazakhGold share (the "Partial Offer"). On 30 July 2009, the Partial Offer became unconditional as the required number of acceptances had been attained, and on 14 August 2009, the Group announced that the Partial Offer was unconditional in all respects. As a result of this unconditional acceptance of the offer, on 30 July 2009, the Group acquired 50.2% of the outstanding share capital of KazakhGold, a gold-mining company with primary operations in the Republic of Kazakhstan. The acquisition was part of the management's plan to increase reserves and production of gold.

The market capitalisation of KazakhGold on 14 August 2009 (the "Closing Date"), 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 and the closing price of Polyus Gold's American Depository Receipts at that date.

According to the Partial Offer terms, 84.86% of the Consideration Shares were repurchased immediately by the Group for cash of USD 20 each Consideration Share. The fair value of the remaining outstanding Consideration Shares (1,700,240 shares) was USD 63,585 thousand based on the MICEX quoted market price for Polyus Gold's ordinary shares at the date of acquisition.

In addition to the share purchase, the Group acquired from a significant shareholder of KazakhGold call options to acquire rights and obligations under two 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 1.50 per share. The fair value of the call options for the convertible loans was estimated at USD 89,872 thousand at the date of entering into the call option. The value of the call options has been recorded as a reduction to the consideration transferred for the 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: Fair value of call options for convertible loans	(89,872)
Total consideration transferred for the acquisition of KazakhGold	**164,328**

The Group recognized USD 11,911 thousand of acquisition-related expenses in 2009 within the *Selling, General and Administrative expenses*.

In the consolidated financial statements for the year ended 31 December 2009, the acquisition of KazakhGold was accounted for using provisional values, and during 2010, the Group finalised the assessment of fair value. The provisional values previously presented for 2009 have been restated in the comparative information presented in the consolidated financial statements to reflect the changes from the finalised valuation. The provisional and finalised values for the purchase accounting for KazahGold are reconciled as follows:

	Fair values at the date of acquisition	Provisional values at the date of acquisition	Adjustments to provisional values
ASSETS			
Property, plant and equipment	334,405	344,034	(9,629)
Inventories	14,419	14,419	–
Trade and other receivables	6,887	6,887	–
Cash and cash equivalents	8,368	8,368	–
Other assets	3,784	3,784	–
LIABILITIES			
Borrowings	207,147	207,147	–
Deferred tax liabilities	22,763	21,092	1,671
Trade payables	11,148	11,148	–
Other payables and accrued expenses	17,135	17,135	–
Other taxes payable	32,814	32,814	–
Other liabilities	25,654	25,654	–
Identifiable net assets at the date of acquisition	**51,202**	**62,502**	**(11,300)**
Consideration transferred	164,328	164,328	–
Plus: Non-controlling interest	25,070	30,545	(5,475)
Less: Value of identifiable net assets acquired	(51,202)	(62,502)	11,300
Goodwill arising on acquisition	**138,196**	**132,371**	**5,825**

The trade and other receivables acquired principally comprised of other receivables with a fair value of USD 6,887 thousand and had a gross contractual value of USD 16,443 thousand. The best estimate of the acquisition date contractual cash flows not expected to be collected is USD 9,556 thousand.

Non-controlling interest

The non-controlling interest of 49.8% in KazakhGold recognised at the acquisition date was measured as the proportionate share of the fair value of KazakhGold's identifiable net assets. Through the purchase price adjustments recorded for the finalised valuation, the non-controlling interest in KazakhGold was adjusted to USD 25,070 thousand.

Goodwill arising on acquisition

Consideration transferred	164,328
Plus: Non-controlling interest	25,070
Less: Provisional value of identifiable net assets acquired	(51,202)
Goodwill arising on acquisition	**138,196**

Upon final determination of the fair values of the identifiable assets and liabilities, and assessment of mineral rights, the excess purchase price was deemed as goodwill. Given that the assessed fair value was lower than the purchase price and management does not believe that the additional payment will result in any future benefit to the Group, management has impaired the entire goodwill balance as at the acquisition date. The impairment is in relation to the Kazakhstan reporting segment.

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 revenue of USD 26,918 thousand and a loss after tax of USD 168,413 thousand from the date of acquisition to 31 December 2009, including effect of the impairment of goodwill USD 138,196 thousand.

Had these business combinations been effected at 1 January 2009, the revenue of the Group for the year ended 31 December 2009 would have been USD 1,232,547 thousand, and the profit of the Group for the year would have been USD 72,230 thousand.

Comparative information for the year ended 31 December 2009

As a result of the finalization of the valuation of KazakhGold, the comparative information for the year ended 31 December 2009 was adjusted. The reconciliation of the previously reported and adjusted components of the consolidated financial statements is as follows:

	2009 As restated	2009 As previously reported	Adjustments
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER			
ASSETS			
Property, plant and equipment	2,290,548	2,299,071	(8,523)
Goodwill	–	132,906	(132,906)
EQUITY AND LIABILITIES			
Translation reserve	(91,484)	(90,407)	(1,077)
Retained earnings	1,549,792	1,686,818	(137,026)
Non-controlling interest	59,874	64,871	(4,997)
Deferred tax liabilities	182,660	180,989	1,671
CONSOLIDATED INCOME STATEMENT			
Cost of gold sales	(573,501)	(575,122)	1,621
Goodwill impairment	(138,196)	–	(138,196)
Income tax	(108,810)	(108,837)	27
Profit for the year	**186,635**	**323,183**	**(136,548)**
Attributable to:			
Shareholders of the parent company	184,578	321,604	(137,026)
Non-controlling interest	2,057	1,579	478
Earnings per share			
Basic and diluted (US cents)	103	180	–

Increase of ownership in KazakhGold

On 1 July 2010, KazakhGold issued 66,666,667 new ordinary shares at a placement price of USD 1.50 per share for a total consideration of USD 98,747 thousand, net of expenses. Polyus Gold, through its subsidiary Jenington International Inc., purchased 51,194,922 of the shares, thus increasing Polyus Gold's ownership in KazakhGold to 65% of its issued share capital. As a result of this transaction, the Group recognised decrease in non-controlling interest of USD 11,068 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. Separate financial information is available for each segment and reported regularly to the chief operating decision maker ("CODM"), the Budget Committee. The Group's seven identified reportable segments are located and described as follows:

- **Krasnoyarsk business unit** (Krasnoyarsk region of Russian Federation) — Extraction, refining and sales of gold from the Olimpiada, Blagodatnoe and Titimukhta mines, as well as research, exploration and development work at Kvartsevaya Gora, Kuzeevskoe and Olimpiada deposits;
- **Kazakhstan business unit** (Republic of Kazakhstan, Kyrgyzstan and Romania), formed by Kazakh Gold Group Limited — Extraction, refining and sales of gold from Aksu, Bestobe, Akzhal, Zholymbet mines, as well as exploration and evaluation works in Southern Karaultube and Kaskabulakskoe deposits;
- **Irkutsk alluvial business unit** (Irkutsk region (Bodaibo district) of the Russian Federation) — Extraction, refining and sales of gold from several alluvial deposits;
- **Irkutsk ore business unit** (Irkutsk region (Bodaibo district) of the Russian Federation) — Extraction, refining and sales of gold from Zapadnoe mine and Verninskoe, research, exploration and development works at Chertovo Koryto, Pervenetc, Verninskoe, Zapadnoe, Medvezhiy Ruchei and Mukodek deposits, and electricity and utilities production and sales in the Bodaibo district of the Irkutsk region;
- **Yakutsk Kuranakh business unit** (Sakha Republic of the Russian Federation) — Extraction, refining and sales of gold from the Kuranakh ore field;
- **Exploration business unit** — Comprised of the two operating segments that are combined into one reportable segment as they satisfy the criteria for aggregation:
  - Yakutsk (Nezhdaninskoe) business unit (Sakha Republic of Russian Federation) — Research and exploration works at the Nezhdaninskoe deposit; and
  - (Krasnoyarsk region, Irkutsk region, Amur region, and others) — Research and exploration works in several regions of the Russian Federation; and
- **Magadan business unit** (Magadan region of the Russian Federation) — Represented by OJSC "Matrosov Mine" which performs development works at the Natalka deposit.

The reportable segments derive their revenue primarily from gold sales, and the substantial costs incurred relate to the cost of gold sold for the period. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the segment measure; segment profit before income tax excluding the finance costs, other sales, costs of other sales and income from investments.

Business segment assets and liabilities are not reviewed by the CODM, and therefore are not disclosed in these consolidated financial statements. Segment financial information provided to the CODM is prepared from the management accounts which are based on Russian or Kazakhstan accounting standards, respectively.

The Group does not to allocate segment results of companies that perform management, investing activities and certain other administrative functions within its internal reporting.

	Gold sales	Segment profit/ (loss)	Capital expenditures	Depreciation and amortisation
2010				
Krasnoyarsk business unit	1,176,392	398,359	194,708	61,651
Irkutsk alluvial business unit	248,254	90,283	17,222	6,246
Yakutsk Kuranakh business unit	149,597	38,923	15,801	5,561
Irkutsk ore business unit	22,607	(4,191)	33,577	6,815
Exploration business unit	–	(11,855)	21,591	937
Kazakhstan Business unit	114,448	(55,943)	36,014	9,437
Magadan business unit	–	(8,760)	16,420	3,127
Segment result	**1,711,298**	**446,816**	**335,333**	**93,774**
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**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during 2010 year (2009: nil).

The segment measure of profit/(loss) reconciles to the IFRS profit before income tax as follows:

	2010	2009
Segment result	**446,816**	**399,981**
Differences between IFRS and management accounts:		
Capitalised exploration works	26,801	8,474
Provisions and accruals	(26,196)	(47,138)
Additional depreciation charge and amortisation of mineral rights	(33,081)	(29,536)
Revaluation of gold-in-process at net production cost	4,511	16,265
Difference in stripping costs capitalisation	(10,909)	(20,646)
Goodwill impairment	–	(138,196)
Other	7,667	1,541
Unallocated	65,728	104,700
Profit before income tax	**481,337**	**295,445**
Segment capital expenditures	**335,333**	**325,140**
Differences between IFRS and management accounts:		
Differences in the moment of recognition of capital expenditures	4,574	(7,333)
Reclassification of advances paid for property, plant and equipment and construction works	15,879	(17,854)
Reclassification of materials related to construction works	3,564	21,277
Differences in capitalised exploration and evaluation costs	30,802	12,482
Other	(8,739)	(9,546)
Capital expenditures	**381,413**	**324,166**
Segment depreciation and amortisation	**93,774**	**67,404**
Additional depreciation charge	20,115	16,946
Amortisation of mineral rights	12,966	12,590
Depreciation and amortisation	**126,855**	**96,940**

The Group's information about its non-current assets other than financial instruments by geographical location is as follows:

	2010	2009
Russian Federation	2,417,329	2,103,062
Republic of Kazakhstan	294,864	291,155
Kyrgyzstan	35,881	35,815
Romania	16,682	13,108
United Kingdom	109	127
Total	**2,764,865**	**2,443,267**

6. Gold sales

	2010	2009
Refined gold	1,596,850	1,172,170
Other gold-bearing products	114,448	26,918
Total	**1,711,298**	**1,199,088**

7. Cost of gold sales

	2010	2009
Consumables and spares	378,598	242,841
Labour	234,730	175,080
Tax on mining	130,230	90,080
Utilities	46,043	25,386
Outsourced mining services	8,897	8,258
Refining costs	2,059	4,332
Sundry costs	46,644	35,272
Total cash operating costs	**847,201**	**581,249**
Amortisation and depreciation of operating assets	118,559	93,402
Deferred stripping costs expensed	44,412	50,736
Increase in gold-in-process and refined gold	(114,617)	(151,886)
Total	**895,555**	**573,501**

8. Selling, general and administrative expenses

	2010	2009
Salaries	103,811	76,918
Administrative overheads	30,719	36,476
Professional services	28,274	21,738
Taxes other than mining and income taxes	27,528	16,105
Depreciation	4,217	3,775
Total	**194,549**	**155,012**

9. Other expenses, net

	2010	2009
Impairment of property, plant and equipment	40,763	10,859
Donations	3,367	6,932
Loss on disposal of property, plant and equipment	2,037	3,875
Change in allowance for obsolescence of inventory	2,346	3,639
Reversal of cost of inventories written off in prior periods	(967)	–
Change in allowance for reimbursable value added tax	(294)	(171)
Non-recoverable VAT	8,600	5,219
Tax provision	14,352	–
Other	5,660	2,602
Total	**75,864**	**32,955**

10. Finance costs

	2010	2009
Interest on borrowings	32,308	11,738
Unwinding of discounts	8,808	4,440
Other	1,601	2,692
Total	**42,717**	**18,870**

11. (Loss) / Income from investments

	2010	2009
(Loss)/income from financial assets at fair value through profit and loss		
(Loss)/income on derivatives classified as held for trading	(63,775)	20,039
Income from investments in listed companies held for trading	11,446	13,702
Income from AFS investments		
Gain on disposal of AFS investments	20,289	696
Loss from held-to-maturity investments		
Loss on disposal of promissory notes	–	(34,928)
Income from loans given		
Interest income on bank deposits	8,329	14,688
Total	**(23,711)**	**14,197**

12. Income tax

	2010	2009
Current tax expense	123,492	93,901
Deferred tax expense	1,348	14,909
Total	**124,840**	**108,810**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% to 28%.

A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated income statement is as follows:

	2010	2009
Profit before income tax	**481,337**	**295,445**
Income tax at statutory rate (20%)	96,267	59,089
Tax effect of non-deductible expenses and other permanent differences	9,868	34,349
Effect of different tax rates of subsidiaries operating in other jurisdictions	8,870	5,051
Tax effect of utilization of tax losses not previously recognised	(8,446)	–
Unrecognised tax losses	10,994	10,321
Other	7,287	–
Income tax expense at effective rate of 26% (2009: 37%)	**124,840**	**108,810**

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

	2010	2009
Net liability at beginning of the year	**182,660**	**148,244**
Recognised in the consolidated income statement	1,348	14,909
Acquired on acquisition of subsidiaries (refer to note 4)	–	22,763
Effect of translation to presentation currency	(1,060)	(3,256)
Net liability at end of the year	**182,948**	**182,660**

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:

	2010	2009
Property, plant and equipment	160,851	150,004
Inventory valuation	51,482	33,592
Deferred stripping costs	11,153	20,158
Investments valuation	1,642	–
Valuation of receivables	(871)	(1,054)
Accrued operating expenses	(41,309)	(20,040)
Total	**182,948**	**182,660**

At 31 December 2010, the Group has not recognised deferred tax assets in the amount of USD 21,964 thousand (2009: USD 10,970 thousand) in respect of tax losses carried forward that are available for offset against future taxable profit of certain subsidiaries within the Group. Such tax losses expire in periods up to ten years, and are not recognized as management does not believe it probable that future taxable profit will be available against which the respective entities can utilise the benefits.

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 31,207 thousand (2009: USD 214,271 thousand), because the Group is is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse 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 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)	–	269,166	1,231	64,008	**334,405**
Disposals	–	(8,700)	(589)	(6,483)	**(15,772)**
Effect of translation to presentation currency	(4,549)	(31,073)	(1,705)	(3,191)	**(40,518)**
Balance at 31 December 2009	**242,883**	**2,046,589**	**61,258**	**457,286**	**2,808,016**
Additions	52,144	225,997	7,776	95,496	**381,413**
Transfers	(4,372)	238,020	2,308	(235,956)	**–**
Change in decommissioning liabilities	–	37,885	–	–	**37,885**
Disposals	–	(7,821)	(466)	(500)	**(8,787)**
Effect of translation to presentation currency	(1,966)	(15,165)	(563)	(4,068)	**(21,762)**
Balance at 31 December 2010	**288,689**	**2,525,505**	**70,313**	**312,258**	**3,196,765**

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2008	**–**	**(376,151)**	**(21,421)**	**(5,155)**	**(402,727)**
Charge for the year	–	(116,291)	(3,800)	–	**(120,091)**
Disposals	–	5,518	334	4,775	**10,627**
Impairment	(1,891)	–	–	(8,968)	**(10,859)**
Effect of translation to presentation currency	(92)	5,288	445	(59)	**5,582**
Balance at 31 December 2009	**(1,983)**	**(481,636)**	**(24,442)**	**(9,407)**	**(517,468)**
Charge for the year	–	(142,729)	(5,600)	–	**(148,329)**
Disposals	–	5,760	289	–	**6,049**
Impairment	(13,584)	(19,835)	–	(7,344)	**(40,763)**
Effect of translation to presentation currency	62	4,399	162	75	**4,698**
Balance at 31 December 2010	**(15,505)**	**(634,041)**	**(29,591)**	**(16,676)**	**(695,813)**
Net book value					
31 December 2009	**240,900**	**1,564,953**	**36,816**	**447,879**	**2,290,548**
31 December 2010	**273,184**	**1,891,464**	**40,722**	**295,582**	**2,500,952**

Mining assets at 31 December 2010 included mineral rights with net book value amounted to USD 537,435 thousand (31 December 2009: USD 559,107 thousand).

Amortisation and depreciation on assets being used for the construction of new assets capitalised during the year ended 31 December 2010 amounted to USD 21,474 thousand (31 December 2009: USD 23,151 thousand).

As at 31 December 2010 property, plane and equipment with a carrying value of USD 3,620 thousand have been pledged to secure bank guarantee liability (refer to notes 24 and 26). As at 31 December

2009 property, plane and equipment with a carrying value of USD 20,510 thousand have been pledged to secure borrowings and bank guarantee liability (refer to notes 24, 25 and 26).

An impairment was recorded by the Group in the amount of USD 40,763 thousand (31 December 2009: USD 10,859 thousand). Of the impairment, USD 14,219 thousand relates to the decision to abandon exploration activities in a certain area, As a result of ongoing operational changes and revisions of plans in the Kazakhstan business unit, where the Group has been actively reassessing its property, plant and equipment requirements, and plans for their future use, an amount of USD 26,544 thousand has been impaired to reduce the book value to the anticipated recoverable value.

The Group, as a result of its previous experience with fires, missing assets, and excessive wear and tear, combined with ongoing operational changes and revisions of plans, has been actively reassessing its property, plant and equipment requirements, and plans for their future use. During the year ended 31 December 2010, the Group identified assets for which the book value exceeded the anticipated recoverable value and also reassessed expected useful life of certain assets, and accordingly an impairment was recorded in the amount of USD 26,544 thousand.

14. Deferred stripping costs

	2010	2009
Balance at beginning of the year	**106,088**	**163,988**
Deferred stripping costs capitalised	9,740	15,111
Expensed stripping cost	(54,152)	(65,847)
Effect of translation to presentation currency	(653)	(7,164)
Balance at end of the year	**61,023**	**106,088**

15. Investments in securities and other financial assets

	2010	2009
Non-current		
Derivative financial assets	46,136	109,911
Loans receivable	3,825	4,562
Other	312	319
Total non-current	**50,273**	**114,792**
Current		
AFS equity investments	99,721	202,161
Bank deposits	39,351	70,158
Equity investments in listed companies held for trading	36,730	39,199
Other	1,530	1,215
Total current	**177,332**	**312,733**

Financial assets at FVTPL

Equity investments in listed companies held for trading are treated as financial assets at FVTPL. In connection with the acquisition of KazakhGold, the Group obtained call options (derivative financial assets) to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (refer to note 4). At 31 December 2010, the fair value of the call options for the convertible loans amounted to USD 46,136 thousand (31 December 2009: USD 109,911 thousand) and the decrease in the fair value of the instrument of USD 63,775 thousand (2009: USD 20,039 thousand) was recognised in the consolidated income statement. The excersise of the call is subject to the Group being able to obtain approval from the Government of Kazakhstan. Management believes it is probable that it would obtain this approval from the Government of Kazakhstan if the Group exercised the call option.

AFS investments, carried at fair value

At 31 December 2010 and 2009, AFS equity investments are primarily comprised of shares owned in Rosfund, SPC (Cayman Islands) acquired in July 2006.

Rosfund, SPC invests in securities and other financial assets. At 31 December 2010 and 2009 Rosfund, SPC included equity investments in listed companies, bonds and Depositary Receipts.

The Group recognised in equity within the investments revaluation reserve an increase in the fair value of AFS equity investments during the year ended 31 December 2010 of USD 33,340 thousand.

In 2010, the Group sold 63% of the shares it owned in Rosfund, SPC for USD 137,000 thousand. As a result of this transaction the Group recognised a gain in the amount of USD 20,289 thousand in the consolidated income statement.

Loans and receivables, carried at amortised cost

Bank deposits at 3.45–6.5% per annum are denominated in RUB and mature in January – December 2011.

16. Inventories

	2010	2009
Inventories expected to be recovered after twelve months		
Stockpiles	201,030	40,732
Total	**201,030**	**40,732**
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	145,332	202,647
Refined gold at net production cost	19,523	14,609
Total metal inventories	**164,855**	**217,256**
Stores and materials at cost	298,503	204,817
Less: Allowance for obsolescence	(8,214)	(6,835)
Total	**455,144**	**415,238**

During 2010 the Group discovered some of its existing ore stockpiles were taking longer to process at its Olimpiada mine. Consequently, the Group postponed processing part of its stockpiles while it modifies its ore processing in order to improve its recoverability at the completion of the manufacturing process. Accordingly, such stockpiles have been classified as long-term.

17. Trade and other receivables

	2010	2009
Trade receivables for gold sales	3,714	4,298
Other receivables	23,478	17,284
	27,192	**21,582**
Less: Allowance for doubtful debts	(5,948)	(3,772)
Total	**21,244**	**17,810**

Substantially all gold sales are made to banks with immediate payment terms. The average credit period on gold-bearing product sales to customers, other than banks, varied from 3 to 8 days in 2010 (2009: 3 to 8 days). No interest is charged on trade receivables.

Other receivables included amounts receivable from sales of electricity, transportation, handling and warehousing services and other services. In 2010, the average credit period for other receivables was 62 days (2009: 74 days). No interest is charged on other receivables.

The Group generally fully provides allowance for all receivables over 365 days because historical experience has shown that receivables past due beyond 365 days are not recoverable.

The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licenses and certifications. At 31 December 2010, the Group's largest customers individually exceeding 5% of the total balance represented 40% (31 December 2009: 39%) of the outstanding balance of accounts receivable.

At 31 December 2010, included in the Group's accounts receivable balance was USD 9,665 thousand (31 December 2009: USD 3,465 thousand) which were past due but not impaired. The Group does not hold any collateral over these amounts. The average age of these receivables was 232 days (31 December 2009: 184 days).

Aging of past due but not impaired receivables:

	2010	2009
Less than 90 days	2,955	1,213
91-180 days	466	234
181-365 days	2,472	2,018
More than 365 days	3,772	–
Total	**9,665**	**3,465**

Movement in the allowance for doubtful debts:

	2010	2009
Balance at beginning of the year	**3,772**	**4,095**
Receivable balances written off	-	(69)
Recognised in consolidated income statement	3,240	1,389
Amounts recovered during the year	(744)	(1,549)
Effect of translation to presentation currency	(320)	(94)
Balance at end of the year	**5,948**	**3,772**

Included in the allowance for doubtful debts are individually impaired other receivables of companies which have been placed under liquidation amounting to USD 627 thousand (31 December 2009: USD 632 thousand). 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.

18. Advances paid to suppliers

At 31 December 2010, advances paid to suppliers of USD 22,968 thousand (31 December 2009: USD 20,773 thousand) were presented net of impairment of USD 2,460 thousand (31 December 2009: USD 2,643 thousand).

19. Other current assets

	2010	2009
Deferred expenditures	18,282	16,918
Other prepaid taxes	3,392	3,719
Total	**21,674**	**20,637**

Deferred expenditures relate to the preparation for the seasonal alluvial mining activities comprised of excavation costs, general production and specific administration costs.

20. Cash and cash equivalents

		2010	2009
Bank deposits	- RUB	69,847	73,245
Current bank accounts	- RUB	182,532	44,416
	- foreign currencies	67,204	44,137
Other cash and cash equivalents		7,322	11,562
Total		**326,905**	**173,360**

Bank deposits are denominated in RUB and bear interest of 1.5–5.0% per annum with original maturity within three months.

21. Share capital

At 31 December 2010 and 2009, authorised, issued and fully paid share capital of the Company comprised of 190,627,747 ordinary shares at par value of RUB 1. Treasury shares are held by a subsidiary of the Group, and have been recorded at cost and presented as a separate component in equity.

At 24 August 2010, the Company declared a dividend of RUB 8.52 or US cents 0.28 (at 24 August 2010 exchange rate) per share relating to the six months ended 30 June 2010. Dividends in the amount of USD 50,528 thousand (net of USD 3,000 thousand attributable to treasury shares) were paid to shareholders at 31 October 2010.

At 21 May 2010, the Company declared a dividend of RUB 9.28, or USD 0.30 (at 21 May 2010 exchange rate) per share related to the year ended 31 December 2009. Dividends in the amount of USD 54,273 thousand (net of USD 3,252 thousand attributable to treasury shares) were paid to shareholders at 31 July 2010.

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.

22. Environmental obligations

	2010	2009
Balance at beginning of the year	**90,518**	**34,379**
New obligations raised	-	9,009
Change in estimate	37,885	29,059
Acquired on acquisition of subsidiaries	-	12,565
Unwinding of discount on decommissioning obligations	8,808	4,230
Effect of translation to presentation currency	(661)	1,276
Repayment of decommissioning obligations	(140)	-
Balance at end of the year	**136,410**	**90,518**

The principal assumptions used for the estimation of environmental obligations were as follows:

	2010	2009
Discount rates	6.97-10.0%	6.6-10.2%
Inflation rates	6.9-13.3%	6.0-9.6%
Expected mine closure dates	2011-2050	2011-2050

Present value of cost to be incurred for settlement of the environmental obligations is as follows:

	2010	2009
Within one year	1,298	–
Due from second to fifth year	2,401	1,596
Due from sixth to tenth year	65,427	11,400
Due from eleventh to fifteenth year	14,432	44,346
Due from sixteenth to twentieth year	26,646	17,381
Due thereafter	26,206	15,795
Total	**136,410**	**90,518**

23. Other non-current liabilities

	2010	2009
Bank guarantee liability	300	11,014
Historical costs liability	4,158	4,512
Defined benefit obligation	15,208	–
Total	**19,666**	**15,526**

Bank guarantee liability

As a result of the acquisition of KazakhGold, the Group acquired a liability for a bank guarantee 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 to mature on 4 April 2013 of USD 15,000 thousand provided by JSC Kazkommertsbank ("KKB") to Akir Group LLP ("Akir Group"). Funds received from the credit facility were used by the Akir Group to acquire mining and other equipment which was subsequently leased to Kazakhaltyn under finance lease agreements concluded during 2006-2007.

In 2009, the Akir Group defaulted on the loan agreement with KKB. As such, as 31 December 2009, the Group fully provided for potential losses related to this guarantee liability.

Liability in the amount of USD 5,996 due in 2011 was included in payables (refet to note 25).

Historical costs liability

The Group has a financial liability to reimburse the Government of Kazakhstan an amount of USD 8,991 thousand for the historical cost of geological studies performed in respect to the Group's subsoil use contracts. The historical cost of geologic studies is expected to be repaid in 10 equal annual instalments, commencing from 2011 subject to approval from the appropriate governmental authority. The effective interest rate on the liability is 12% per annum. In 2010 historical costs liability in amount of USD 899 thousand was reclassified to other accounts payable.

Defined benefit obligation

The Group operates a defined benefit scheme for qualifying employees. The scheme is unfunded. The Group recognised the respective defined benefit obligation as of 31 December 2010. In previous periods, the obligation was not considered material and therefore no provision was made. The full provision was recognised in current year in profit and loss.

The following key actuarial assumptions were used when estimating the obligation:

- discount rate of 9.5%;
- future pension increase of 6.5% per year; and
- future salary increase of 8.0% per year.

24. Borrowings

	Currency	2010 Rate,%	2010 Outstanding balance	2009 Rate,%	2009 Outstanding balance
Guaranteed senior notes (i)	USD	9.37%	173,762	9.37%	163,513
Loans payable (ii)	USD	10.00%	29,686	10.00%	25,365
Secured bank loan	USD		-	13.75%	4,751
Secured bank loan	KZT		-	16.00%	1,854
Unsecured bank loan	USD		-	11.00%	4,348
Total			**203,448**		**199,831**
Less: current portion due within twelve months			(173,762)		(173,437)
Long-term borrowings			**29,686**		**26,394**

Summary of borrowing agreements

(i) Guaranteed senior notes

In November 2006, KazakhGold issued the notes at par with interest payable semi-annually in arrears on 6 May and 6 November of each year, and with principal due on 6 November 2013. The notes are unconditionally and irrevocably guaranteed by Kazakhaltyn, a wholly owned subsidiary of the Company, and its subsidiaries.

Following the acquisition of the KazakhGold by Jenington, Polyus Gold became an additional limited liability guarantor of the notes.

KazakhGold is obliged to comply with a number of restrictive and other covenants under the Guaranteed senior notes, limitations on additional indebtedness, financial reporting timelines and certain other financial covenants. At 31 December 2010, KazakhGold was not in compliance with all the required 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 early redemption. Effective interest rate is 16%.

(ii) Loans payable

In 11 June 2009, KazakhGold signed two loan agreements with Gold Lion Holdings Limited, an entity that was, at that time, a related party. The loan agreements have a 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 1.50 per one share. Conversion is subject to several restrictions, including Republic of Kazakhstan regulatory approval and approval from the Company. In June 2009, Gold Lion Holdings Limited granted a call option to Jenington, or any other direct of indirect subsidiary of Polyus Gold, to acquire all rights and interests under these loan agreements, including the conversion right.

25. Trade, other payables and accrued expenses

	2010	2009
Trade payables to third parties	38,715	24,332
Other payables, including:		
Wages and salaries payable	51,317	43,212
Bank guarantee liability — current	5,996	2,235
Interest payable	2,877	2,821
Other accounts payable and accrued expenses	38,306	16,682
Total other payables	**98,496**	**64,950**
Accrued annual leave	31,826	27,530
Total	**169,037**	**116,812**

In 2010, the average credit period for payables was 11 days (2009: 13 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.

26. Other taxes payable

	2010	2009
Value added tax	4,188	25,315
Social taxes	7,839	7,791
Tax on mining	10,665	6,759
Property tax	4,778	3,321
Other taxes	1,966	437
Total	**29,436**	**43,623**

Contribution to the state pension fund of the Russian Federation for the year ended 31 December 2010 amounted to USD 38,970 thousand (2009: USD 25,642 thousand).

At 31 December 2010, outstanding contributions to the state pension fund amounted to USD 239 thousand (2009: USD 1,885 thousand).

27. 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 purchase and service transactions with related parties. The terms of these transactions would not necessarily be on similar terms had the Group entered into the transactions with third parties.

As at 31 December 2010 and 2009, the Group had the following outstanding balances with entities under common control:

	2010	2009
Cash and cash equivalents	23,304	22,574
Advances and prepaid expenses paid to suppliers	227	186
Other working capital, net	13	(1)

During the years ended 31 December 2010 and 2009, Group entered into the following transactions with entities under common control:

	2010	2009
Purchase of goods and services	1,763	1,078
Interest income	300	–

The Group had no transactions with its shareholders in 2009 or 2010.

The amounts outstanding at 31 December 2010 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 2010 amounted to USD 21,858 thousand (2009: USD 12,047 thousand).

28. Contingencies

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2010 amounted to USD 802,418 thousand (2009: USD 587,211), including USD 24,304 thousand (2009: 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 this land through operating lease agreements, which expire in various years through 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	2010	2009
Due within one year	3,256	2,714
From one to five years	8,308	8,005
Thereafter	18,880	17,328
Total	**30,444**	**28,047**

Litigation

At the date of issuance of these consolidated financial statements the Group was party to a number of claims and litigation, most of which are not material, except:

- Lawsuit related to the liquidation of Talas Gold Mining Company from the General Prosecutor's office of Kyrgyzstan. The amount of assets under proceeding is equivalent to USD 36,172 thousand;

Management believes that this claim will not 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.

On 15 October 2005, new changes were introduced to the Subsoil Use Law of the Republic of Kazakhstan. Those changes stipulate that assignments, transfers and amendments of subsoil use rights may be made only with the prior consent of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (except when such assignment or transfer is to a subsidiary of the subsoil user in question or is as a result of a reorganization of the subsoil user whereby its legal successor assumes all its rights and obligations). The Government has a pre-emption right in respect of a transfer of any part of the subsoil use rights and of a participation share (shares) in the legal entity holding such subsoil use rights for assets in the Republic of Kazakhstan, provided that the terms and conditions (upon which such pre-emption right may be exercised) are not less favourable than those on which the proposed transferee is prepared to assume such subsoil use rights.

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 2010 of approximately USD 3,040 thousand (31 December 2009: USD 15,260 thousand). This amount had not been accrued at 31 December 2010 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 RF, the RF 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 RF continue to change rapidly. Tax, currency and customs legislation within the RF is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the RF. The future economic direction of the RF is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Republic of Kazakhstan risk

Although in recent years there has been a general improvement in economic conditions in the Republic of Kazakhstan, the country 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 Republic of Kazakhstan continue to change rapidly. Tax, currency and customs legislation within the Republic of Kazakhstan is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Republic of Kazakhstan. The future economic direction of the Republic of Kazakhstan is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

KazakhGold dispute

There is a dispute between the former and current shareholders of KazakhGold, whereby the current shareholders are asserting that the former shareholders were negligent in their fiduciary responsibilities related to KazakhGold. On 25 June 2010, the current shareholders filed a lawsuit against the former controlling shareholders.

Subsequent to that date, the Government of the Republic of Kazakhstan has taken various actions against the current management and directors of KazakhGold that have had both a direct and indirect impact on KazakhGold. These actions include the following:

- on 12 July 2010, JSC “MMC Kazakhaltyn” (“Kazakhaltyn”), a major production subsidiary of KazakhGold located in the Republic of Kazakhstan, received notification from the Ministry of Industry and New Technologies of the Republic of Kazakhstan indicating that the previous decisions of the competent authorities in Kazakhstan providing a waiver of the state’s pre-emptive right to acquire KazakhGold’s securities had been annulled. These waivers were obtained in connection with (a) the acquisition of 50.2% of the shares of KazakhGold in July 2009, (b) the issuance of shares in July 2010 that resulted in proceeds of USD 100 million to KazakhGold and (c) the proposed combination between Polyus Gold and KazakhGold announced on June 30, 2010;
- on 2 August 2010, the Group was notified that a freeze had been placed by the Agency on Economic and Corruption Crimes (“AECC”) in Kazakhstan on certain bank accounts held in Kazakhstan by Kazakhaltyn. This freeze is in connection with an investigation by the AECC into allegations of fraud by three members of its current Board of Directors. After clarification, Kazakhaltyn was permitted limited access to make payments to employees and certain key suppliers;
- on 23 August 2010, an unscheduled tax audit of Kazakhaltyn commenced for the fiscal years 2009 and 2010 and further the tax audit was extended for 2007 and 2008 years; and
- on 7 September 2010, major production assets owned by Kazakhaltyn were frozen under AECC freezing order which had been made in the connection with the investigation being processed by AECC. The restriction refers to possible disposal of property, plant and equipment and has no influence on current operating activity;

- on 8 December 2010, the Group entered into an agreement (the "Principal Agreement") to sell Kazakhaltyn to the former controlling shareholders for payment in two tranches totalling USD 509 million not later than 11 March 2011;
- on 14 March 2011, the Group announced that the period for Principal Agreement had lapsed, and the exclusivity agreement described therein was no longer valid.

Management of the Group believe that based on the rapid sequence of these events, the actions of the Government of the Republic of Kazakhstan is in direct response to the legal proceedings brought by the current shareholders against the former shareholders.

The Group is unable to predict the outcome of the actions taken by the Government of the Republic of Kazakhstan and therefore cannot reasonably predict the impact on its operations. The management does not believe this dispute will have material impact on the Group business.

29. 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 24) less cash and cash equivalents (disclosed in note 20) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interests).

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 finance 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.

	2010	2009
Financial assets		
Financial assets at FVTPL		
Derivative financial asset	46,136	109,911
Equity investments in listed companies held for trading	36,730	39,199
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	326,905	173,360
Bank deposits	39,351	70,158
Trade and other receivable	21,244	17,810
Loans receivable	3,825	4,562
AFS financial assets, carried at fair value		
AFS equity investments	99,721	202,161
Total financial assets	**573,912**	**617,161**
Financial liabilities		
Borrowings	203,448	199,831
Trade payables	38,715	24,332
Other payables	130,322	92,480
Other non-current liabilities	19,666	15,526
Total financial liabilities	**392,151**	**332,169**

The main risks arising from the Group's financial instruments are equity investments price, foreign currency, credit and liquidity risks. Due to the fact that there are no borrowings with floating rates at 31 December 2010 and 2009, management believes that the Group is not exposed to interest rate risk.

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 2010 would increase/decrease by USD 9,731 thousand (2009: USD 16,180 thousand) as a result of changes in fair value of Financial assets at FVTPL; and
- Investment revaluation reserve within equity balance would increase/decrease by USD 9,972 thousand (2009: USD 20,338 thousand) as a result of changes in fair value of securities AFS.

The Group normally places their excess cash into investments under asset management agreements with asset management companies who, in turn, utilise 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 2010, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	–	99,721	**99,721**
Equity investments in listed companies held for trading	36,730	–	**36,730**
Derivative financial asset	–	46,136	**46,136**

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	–	202,161	**202,161**
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 15, 17 and 20) and financial liabilities (refer to notes 23, 24, 25 and 26) 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 and loans payable, which had a fair value at the reporting date of approx. USD 231,000 thousand based on applying the yeld on senior notes 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. Prices for gold are quoted in USD based on international quoted prices, and paid in local currencies, RUB or Tenge. 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 2010 and 2009 were as follows:

	Assets		Liabilities	
	2010	2009	2010	2009
USD	162,021	15,835	291,577	279,510
EURO	2,551	5,546	555	1,164
Total	**164,572**	**21,381**	**292,132**	**280,674**

Currency risk is monitored on a monthly basis by performing sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes of exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	2010	2009
Profit or loss (RUB to USD)	12,956	26,368
Profit or loss (RUB to EURO)	(200)	(438)
Profit or loss (KZT to USD)	28,386	27,701
Equity (KZT to USD)	(168)	1,350
Equity (RUB to USD)	(2,915)	(5,959)

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, cash equivalents and deposits kept with banks, loans granted, advances paid, promissory notes and trade and other receivables, and other investments in securities.

In order to mitigate the credit risk, the Group conducts its business with creditworthy and reliable counterparties, minimises the advance payments to suppliers, and actively uses letters of credit and other trade finance instruments.

During 2010, the Group introduced a methodology for in-house financial analysis of banks and non-banking counterparties, which enables the management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

The Group's credit risk profile is regularly observed by management in order to avoid undesirable increase in risk, limit concentration of credit and to ensure compliance with above mentioned policies and procedures.

Although the Group sells more than 80% of 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. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal. At 31 December 2010 the Group had USD 3,714 thousand of outstanding trade receivables for gold sales (31 December 2009: USD 4,298 thousand).

Gold sales to the Group's three major customers, individually exceeding 10% of the Group's gold sales, amounted to USD 1,403,365 thousand (2009: USD 1,160,461 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.

Historically the Group has not extensively obtained external financing. Management is currently in discussions with major Russian and International banks to establish lending facilities. The Group also strives to establish business relations with export credit agencies in order to benefit from their financial support when purchasing the foreign goods and particlularly equipment.

The management believes that, in case of need, the Group would be able to raise sufficient funding rather quickly and at a favourable conditions due to its strong historical operations and positive operating cash flow.

The Group's cash management procedures include medium-term forecasting (budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2010 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:									
Principal	280,335	249,310	–	–	–	–	31,025	–	–
Interest	27,785	3,940	2,865	–	–	–	20,980	–	–
Other non-current liabilities, including:									
Principal	8,392	–	–	–	1,199	899	899	899	4,496
Trade and other payables, including:									
Principal	108,040	101,149	–	6,891	–	–	–	–	–
Total	424,552	354,399	2,865	6,891	1,199	899	52,904	899	4,496

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:									
Principal	289,870	200,206	48,098	9,512	823	206	–	31,025	–
Interest	24,105	1,105	1,105	565	297	53	–	20,980	–
Other non-current liabilities, including:									
Principal	20,005	–	–	–	11,583	1,229	899	899	5,395
Trade and other payables, including:									
Principal	89,282	75,976	8,018	5,288	–	–	–	–	–
Total	423,262	277,287	57,221	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 24, the Group has violated the terms of Notes and Lenders have the right to enforce repayment of the face value.

30. Subsequent events

Invenstments in Natalkinskoye gold deposit

On 24 February 2011, an agreement between OJSC "RiM" and the Administration of Magadan Region was signed. In accordance with the agreement the Group is expected to invest USD 1,034 million until 2014 in the further development of the Natalka gold deposit and construction of processing plant.

Agreement for sale of KazakhAltyn Group

On 8 December 2010, KazakhGold and AltynGroup, the former controlling shareholders of the KazakhGold, entered into a binding agreement (the "Original Principal Agreement") for the sale of KazakhGold's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan and its withdrawal of claims against former shareholders, and cessation of claims by Kazakh Authorities. The Original Principal Agreement was terminated by KazakhGold on 14 March 2011.

Following termination of the Original Principal Agreement, the parties have continued with negotiations regarding the sale of the operating subsidiaries to AltynGroup, resolution of the claims and other disputes between the parties. These continued negotiations have now resulted in the entry into a Restated and Amended Principal Agreement (the "RAPA") on 14 April 2011, and a Settlement Deed in respect of the claims which provides for a conditional settlement and release of the orders, judgments and claims, whether in litigation, arbitration or otherwise, initiated, inter alia, in the UK, Jersey, the BVI, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates, arising in respect of the original acquisition of 50.2 percent of KazakhGold by Jenington (the "Settlement Deed").

Pursuant to the RAPA, AltynGroup will acquire KazakhGold's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan in two tranches beginning in September 2011. The aggregate transaction price for all the shares is USD509,000 thousand, as well as the Assaubayev's family repayment of the Jenington Loan.

As at the date of issuance of these financial statements, management is not certain that the conditions to the transactions contemplated by the RAPA and the conditions to the Settlement Deed will be satisfied, or that the transactions will be completed.

Distribution of dividends for the year 2010

On 18 April 2011, the Board of Directors recommended dividends of RUB 11.25 or USD 0.40 (at 18 April 2011 exchange rate) per share for the second half of 2010 year.

31. Investments in significant subsidiaries

Subsidiaries	Country of incorporation	Nature of business	Effective % held[1]	
			2010	2009
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"[3]	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"[3]	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	65.0	50.2
JSC "MMC Kazakhaltyn"[2]	Republic of Kazakhstan	Mining	65.0	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.
3 These entities are controlled by the Company's Board of Directors. A majority of the board members for these entities are representatives of the Company and are therefore consolidated even though the voting interest is less than 50% as at 31 December 2009 and 2010.

18. Terms and abbreviations

Balance mineral reserve, or Balance reserve — 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 Reserves Committee.

Bio-oxidation — Oxidation of sulphide 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 leaching) — A method of extracting gold or silver from crushed or milled ore by dissolving it in a weak cyanide solution; May be performed on crushed ore stored in containers or in piles in the open air.

Dore, Doré alloy — Unrefined gold; a commercial end product of a gold mill, which is produced by alloying the products of the previous ore concentration 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 Use, GKZ) — state commission for mineral reserves; set up in 1927, the GKZ 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 reserve — The Russian equivalent of the Western notion of mineral resources and ore reserves. Mineral reserves are subdivided into the categories A, B, C1 and C2, depending on the extent of their certainty and degree of technological exploration.

Mineral resource (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.

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 — The total number of mines used to exploit a common 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.

Oxidized 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 Depository Receipts
ASU GTK	The Automated System of Mining and Transportation Complex Management
GDR	Global Depositary Receipts
GKZ	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

19. Contacts

OJSC Polyus Gold

Address: 4 Tverskoy Boulevard, Bldg. 2, 123104, Moscow
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
ir@polyusgold.com

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

Director of Public Relations
Tel.: +7 (495) 641-33-77 ext. 35-23
pr@polyusgold.com

Registar:

ZAO Computershare registrar

121108, 8, Ivana Franko Street, business center «Kutuzoff Tower», Moscow
Tel.: +7 (495) 926-81-60
Fax: +7 (495) 926-81-78
E-mail: info@nrcreg.ru