POLYUS

annual report

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Moscow 2009

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1. SHORT DESCRIPTION OF OJSC POLYUS GOLD

In this Annual Report the terms OJSC Polyus Gold, Polyus Gold, Company, Polyus Group and Group refer to the Open Joint-Stock Company Polyus Gold and its subsidiary and dependent companies, performance results of which are consolidated by OJSC Polyus Gold in accordance with the International Financial Reporting Standards (IFRS).

OJSC Polyus Gold was incorporated in March, 2006, as a result of allocation of gold mining assets of OJSC «MMC Norilsk Nickel» (in this Report the information of the Company's activity before March, 2006 refers to CJSC Polyus and its subsidiary and dependent companies).

OJSC Polyus Gold is the largest gold producer in the Russian Federation and is included into the list of the largest gold mining companies of the world by the volume of production and the raw material base. The Company is engaged in gold mining and exploration in 5 regions of Russia:

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

Shares of OJSC Polyus Gold are traded at leading stock exchanges of Russia: RTS and MICEX. American Depositary Receipts («ADRs») for the Company shares are traded at the Main Board of the London Stock Exchange («LSE»), as well as at the over-the-counter («OTC») market in the USA. Shares of the Company are included into the calculation of Russian stock indices of RTS and MICEX, and also of world stock indices of FTSE Gold Mines, FTSE Russia and MSCI Emerging Markets. Market capitalization of the Company as of 31 December, 2008, was USD 4.9 billion[1].

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

Strategic vision of the Company:

- International public company with shares quoted at leading stock exchanges of the world.
- The leader of the gold mining industry of Russia, and a global top-5 gold mining company by market capitalization, volumes of reserves and production.
- Modern company complying with high standards of corporate management, an attractive investment target.
- Socially responsible company caring about environment and local communities in the regions of its operations. Among most admired employers in the regions of its presence.
- Innovative company that strives to constantly improve its technologies.
- Reliable company noted for unconditional performance of plans and fulfillment of partnership obligations, having long-term prospects of production and raw material base growth.

The Company holds licenses for 6 out of 10 largest gold deposits in Russia. OJSC Polyus Gold also has a large portfolio of exploration projects and licenses for prospective exploration areas located in the territory of the Russian Federation.

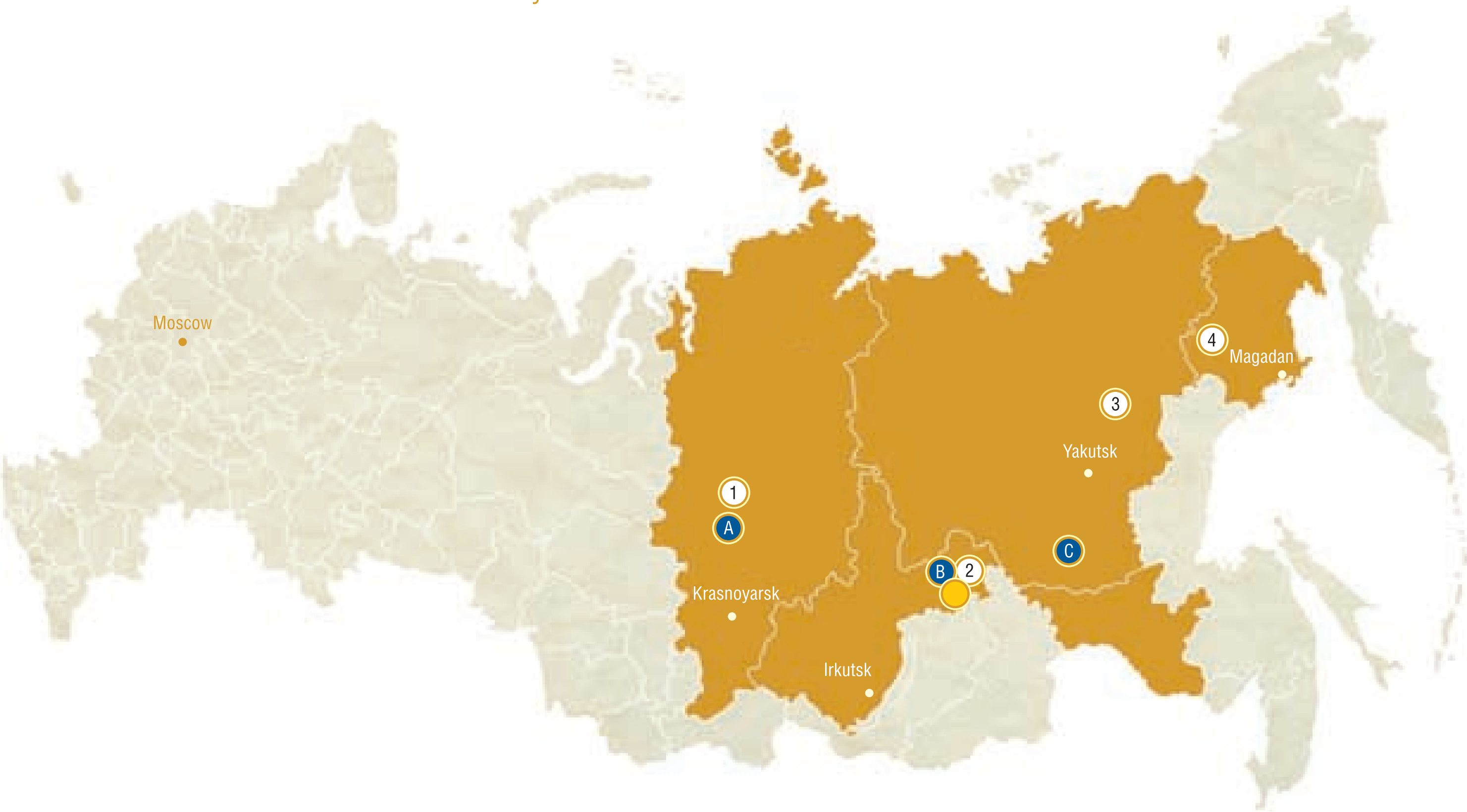
1 Net of 6.5% of shares at the balance of Jenington International Inc., which is a subsidiary company of CJSC Polyus Gold.

Table 1. Key assets of OJSC Polyus Gold

Region/deposit	Status of the asset development as of 31 December, 2008	Gold production in 2008, k oz	Owner	Share of OJSC Polyus Gold in the license owner as of 31 December, 2008
KRASNOYARSK REGION				
Olimpiada	Production	873	CJSC Polyus	100
Blagodatnoye	Construction	-	CJSC Polyus	100
Titimukhta	Construction	-	CJSC Polyus	100
IRKUTSK REGION				
Group of alluvial deposits	Production	181		40.4-66.2[2]
Zapadnoye	Production	25	LLC LZRK	100
Verninskoye	Construction	-	LLC LZRK	100
Chertovo Koryto	Feasibility study preparation	-	LLC LZRK	100
REPUBLIC OF SAKHA (YAKUTIA)				
Kuranakh	Production	144	OJSC Aldanzoloto GRK	100
Nezhdaninskoye	Exploration/Feasibility study preparation		OJSC SVMC	100
MAGADAN REGION				
Natalka	Feasibility study preparation	-	OJSC Matrosov mine	100

2 Licenses for alluvial deposits are at the balance of various entities that do not directly belong to OJSC Polyus Gold. Crossholding constitutes from 40.4% to 66.2%. However for the purpose of accounting (IFRS 27), as well as for the purpose of reserve estimation the Company entirely consolidates financial results of these companies and entirely accounts their reserves in the reserves of the Group.

Location of the main assets of OJSC Polyus Gold



Operating hard-rock deposits	*1 – Blagodatnoe, Titimukhta*	*A – Olimpiada*
Projects	*2 – Verninskoye, Chertovo Koryto*	*B – Zapadnoye*
Alluvial deposits	*3 – Nezhdaninskoye*	*C – Kuranakh*
	4 – Natalka	

2. KEY FEATURES OF 2008

PRODUCTION AND FINANCE

- Production plan was fulfilled: 1.2 million ounces of refined gold;
- The entire volume of metal was sold on the domestic market;
- The average sales price of gold amounted to USD 867;
- Revenues from gold sales grew 25% to USD 1,062 million;
- EBITDA grew 32% to USD 436 million;
- Total cash costs per ounce of produced metal amounted to USD 392 as compared with USD 306 in 2007;
- Capital expenditures amounted to USD 630 million as compared with USD 459 million in 2007.

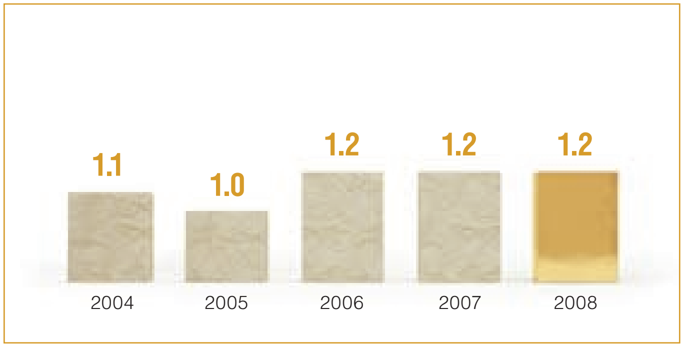
PRODUCTION DEVELOPMENT AND NEW PROJECTS

- Mill number 3 at Olimpiada mine achieved its designed capacity (410-420 thousand tonnes of ore per month);
- In-house production of explosives at Olimpiada mine was established;
- Reconstruction of Mill-1 at Olimpiada mine for processing of the Titimukhta deposit ores was performed;
- Essential progress was achieved in construction of Blagodatnoye mine and Verninskoye mine;
- Pilot plant at Natalka deposit constructed.

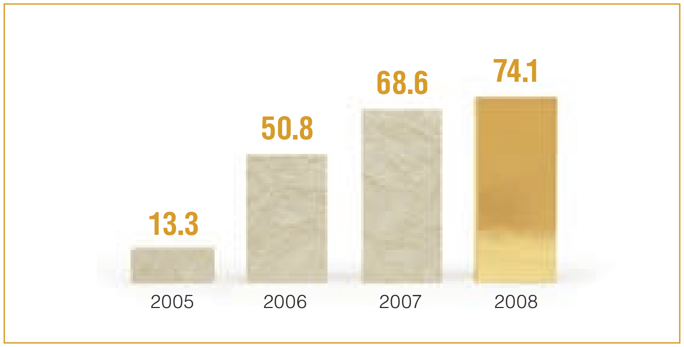
EXPLORATION AND GROWTH OF RESERVES

- Proved and probable reserves (P&P, JORC) grew by 8% up to 74.1 million ounces;
- Total growth of reserves (Russian B+C1+C2) amounted to 137 tonnes (4.4 million ounces); as of 01 January, 2009, total reserves base according to the Russian classification amounted to 3,129 tonnes (100.6 million ounces);
- Drilling volume amounted to 291.2 thousand meters.

Gold production of the Group in 2004-2008, million ounces

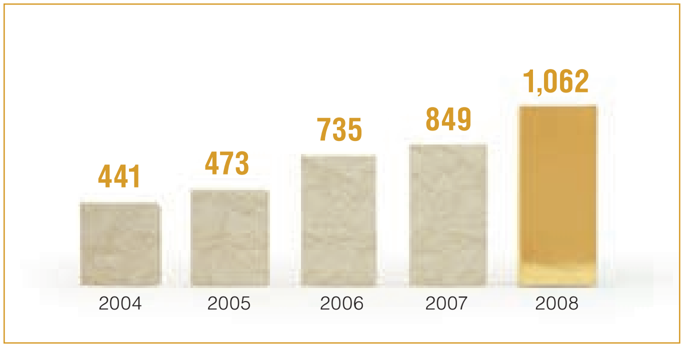


Proved and probable reserves (P&P, JORC) of the Group in 2004-2008, million ounces*

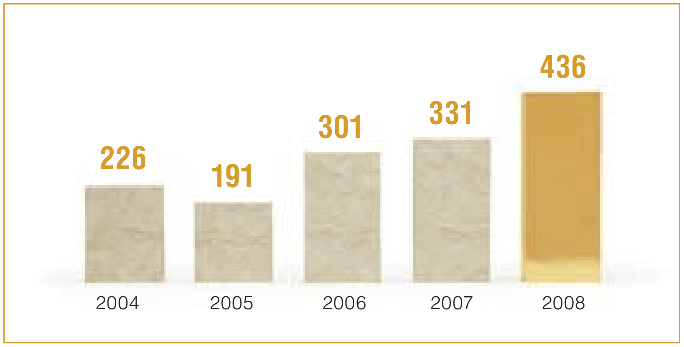


*The first JORC audit of reserves was performed in 2005.

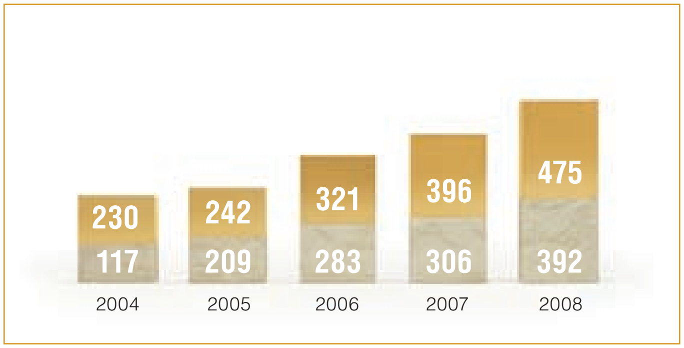
Revenues of the Group in 2004-2008, USD million



EBITDA of the Group in 2004-2008, USD million



Total cash costs and cash margin of the Group in 2004-2008, USD/ounce



TCC *Cash margin*

3. LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS OF OJSC POLYUS GOLD

Dear shareholders of Polyus Gold,

The year 2008 was the third year of OJSC Polyus Gold existence as an independent player on the global gold mining market. For several years of its work OJSC Polyus Gold has reasserted its status of the indisputable leader of Russian gold mining industry, and took a deserved place among the leading world producers of the metal.

The year 2008 clearly demonstrated that we were right having chosen gold as the area of our business. The interest towards gold mining industry in Russia continues growing both in the country and abroad. Under the conditions of the global financial crisis many investors turned to gold as «the safe haven». Demand for the metal is growing all over the world, as well as for everything, that is related to it: from gold exchange trading funds (ETF) to shares of gold mining companies. In the late 2008 – early 2009 we saw a growing interest towards Polyus Gold shares among international investors.

We can proudly state that in spite of complicated global macroeconomic situation the long-term strategy of the Company has not changed. OJSC Polyus Gold is still focusing on becoming a global top-5 gold mining company by 2015, and it confidently proceeds with realization of all its projects approved by the Strategic Program in 2006.

In 2008, the Company made a number of substantial steps in the sphere of realization of the program aimed at expansion of existing production facilities and construction of new mines. In 2008, the targeted volume of works of all new projects of the Company was entirely accomplished.

Within the reporting period the Company kept increasing its holdings in the subsidiaries. At present we own 100% stakes practically in all our production assets.

In the period under review, Polyus continued to grow its reserves through extensive exploration, as well as acquisition of new license areas, enhancing one of its key competitive advantages: its unique mineral resources base. In 2008, the proved and probable reserves of the Company increased up to 74.1 million ounces of gold.

Responsible attitude towards local communities in the regions of our business, our employees, and also towards the environment, remains an essential component of the Company's reputation. In 2008, we prepared the second Social Responsibility Report according to Global Reporting Initiative («GRI») standards.

In the nearest future, we shall proceed with realization of our strategy and are planning to commission several new production facilities. In 2009, the stage of active growth of production is starting for the Company. In 2009, we are planning to bring into operation the first project in the frame of the Company's Strategy, the Titimukhta project; in 2010 we expect the new large mining enterprise, the Blagodatnoye mine in Krasnoyarsk region, to be commissioned. Besides, we shall continue to study the M&A opportunities available in the market, taking into consideration the favourable market conditions.

On behalf of the Board of Directors of OJSC Polyus Gold I would like to express my gratitude to all shareholders of the Company for their support, as well as to all employees of the Company for their professional skills and commitment to realization of our ambitious plans.

We can proudly state that in spite of complicated global macroeconomic situation the long-term strategy of the Company has not changed.

M.D. Prokhorov
Chairman of the Board of Directors

4. LETTER FROM THE GENERAL DIRECTOR OF OJSC POLYUS GOLD

Dear shareholders,

In 2008, OJSC Polyus Gold successfully achieved targeted goals in all spheres of its activity and demonstrated positive dynamics in key financial and operational indicators.
As it was planned, in the period under review the Company produced 38.0 tonnes (1,222 thousand ounces) of refined gold, as compared with 37.8 tonnes (1,214 thousand ounces) in 2007.
Revenue from gold sales amounted to record-breaking USD 1,062 million, as compared with USD 849 million in 2007. The revenue growth is primarily a result of the increase in the average gold selling price from USD 701.7 per ounce in 2007 up to USD 867.3 per ounce in 2008. The gold sales in the reporting year amounted to 1,226 thousand ounces as compared with 1,210 thousand ounces in 2007.
EBITDA has improved significantly: it increased from USD 331 million in 2007 up to USD 436 million in 2008. EBITDA margin amounted to 40%, as compared with 38% in 2007. Net income of the Company amounted to USD 60 million.
In the reporting year all production facilities of the Company performed well. The Group's flagship production unit – Olimpiada mine (Krasnoyarsk region) – was transferred to sulphide ores, which was performed without temporary decrease in production volumes. The transfer of the Olimpiada mine to this type of ores substantially extended the life of the mine and provided for the possibility of complete realization of the deposit's capacity rich in sulphide ores.
In 2008, Mill No. 3 at the Olimpiada mine, the construction of which was completed in 2007, achieved its designed capacity of ore processing in the amount of 410-420 thousand tonnes of ore per month. In the same year the reconstruction of mill number 1 at Olimpiada mine was performed, and in 2009 the plant will start processing of ores of the Titimukhta deposit. Thus, the year 2009 will become a milestone for the Company: the launch of the first of investment projects provided for the long-term development program is expected in this year.
The Titimukhta project with the average annual production of about 5.3 tonnes (170 thousand ounces) will give its first gold in 2009, thanks

OJSC Polyus Gold successfully achieved targeted goals in all spheres of its activity and demonstrated positive dynamics in key financial and operational indicators.

to well-coordinated and expedient work of the Olimpiada mine team. In 2008, in the frame of the Titimukhta project realization, an automobile road and a 7 km power transmission line were built, works on preparation of the foundation for the electrical substation and the crushing plant were performed, mining transportation equipment was delivered.

The Titimukhta project with the average annual production of about 5.3 tonnes (170 thousand ounces) will give its first gold in 2009.

Capital reconstruction works continued at the Kuranakh mine in the Sakha Republic (Yakutia). In 2008, the reconstruction of the plant continued; it was aimed at increase in the plant capacity from 3.6 million tonnes to 4.5 million tonnes of ore per year. The reconstruction is expected to be completed in the second quarter of 2009.

Due to works on the Mill technological process optimization performed at the Zapadnoe mine the entity showed some production decrease.

In 2008, the Company continued to realize programs of capital expenditures aimed at reconstruction of operating facilities, construction of new entities, development and implementation of innovations, exploration projects. The total volume of capital expenditures in 2008 amounted to USD 630 million. This sum includes USD 289 million spent on creation of new production facilities, expansion and reconstruction of existing production facilities and innovative projects. Investments into exploration work amounted to USD 138 million.

Substantial progress was achieved in the sphere of development of new projects of the Company. In 2008, the deadlines of commissioning of new objects in all spheres of activity were met.

Construction of the main plant building and the building of the Hydrometallurgical Department was performed at the Blagodatnoye deposit in Krasnoyarsk region within the year, construction of the capm for 987 beds and canteen for 200 seats was completed, delivery of the mining equipment continued, the ground for tailings dump was prepared. The launch of the Blagodatnoye mine is expected, according to the schedule, in 2010, its average annual gold production will amount to 412 thousand ounces.

In the early 2008, the Board of Directors of the Company approved the Feasibility Study of the construction of the Verninskoye mine in the Irkutsk Region. Within 2008, the Mill main building, the unit of ore acceptance and grinding, shift team camp, as well as of power and heat supply units were being constructed.

In July 2008, at the Natalka deposit in the Magadan Region the construction and trial startup of the pilot plant with the capacity of 100 thousand tonnes of ore per year was accomplished, the pilot plant being a full analogue of an industrial gold extraction plant provided with advanced equipment. The plant is intended for modeling of the future technological process of the prospective Natalka mine; it will enable to elaborate the technology of gold extraction from ores of the Natalka deposit as precisely as possible.

In 2008, the targets were reached in the area of exploration. The first stage of the prospective Exploration Program was accomplished; this stage covered exploration activities on operating mines and advanced projects. The total volume of drilling in 2008 amounted to 284.9 meters.

Within the reporting period the Company kept on building up its reserves base. The exploration and calculation of reserves of the Chertovo Koryto deposit in the Irkutsk Region was accomplished; the independent audit of this deposit according to international JORC standards was performed. The international JORC audit was also performed at the Titimukhta and Blagodatnoye deposits. These measures resulted in the increase in proved and probable reserves of the Company from 68.6 million ounces as of the end of 2007 up to 74.1 million ounces as of the end of 2008.

The Company continued to increase its stakes in its subsidiary companies. In particular, shares in OJSC Matrosov mine (the Natalka deposit) and OJSC Aldanzoloto 'GRK' (Kuranakh mine) were increased to 100%.

Within the reporting period the Company prepared and issued the second Report on Sustainable Development covering the period from 2006 to 2007. The Report was prepared by the Group on a voluntary basis and complies with the requirements of the GRI (Global Reporting Initiative) international standard, version 3.0, and the GRI Annex for metallurgical and mining industry, version 1.0. Regular reporting according to the GRI standards enables the Company to constantly update and improve the concept of sustainable growth, representing the base of its activity.

Within the reporting period, the Company continued to update the investment community, and first of all its shareholders, on the progress made in the implementation of the Company's strategy. The Company's efforts in that area were recognized by independent experts.

According to the results of the survey performed under the initiative of the SmartMoney magazine, Polyus Gold was the fourth among Russian public companies – trade leaders at MICEX – in terms of its investor relations activities.

On behalf of the management of OJSC Polyus Gold I would like to express my gratitude to all employees of the Company for great achievements in their work, as well as to its shareholders for their support of our initiatives aimed at strengthening Polyus' position in the Russian and world gold mining industry.

Within the reporting period the Company prepared and issued the second Report on Sustainable Development covering the period from 2006 to 2007.

E.I. Ivanov

General Director of OJSC Polyus Gold

Terex trucks working at Olimpiada mine

Construction of Blagodatnoye mine

Vadim V. Palamarchuk,
Mounter of technological equipment,
Olimpiada mine:

«Our key achievement in 2008 was the construction of the main building and the hydrometallurgy workshop of the Blagodatnoye mine».

5. DEVELOPMENT OF NEW PROJECTS

Long-term strategy of the Group stated and approved by the Board of Directors of OJSC Polyus Gold in 2006, anticipates more than threefold production growth by 2015, as well as essential growth of the raw material base.
Starting from 2006, the Company has been systematically implementing the program of construction of several new gold mining entities in the regions of its activity, as well as conducted modernization of operating mines. Realization of this program is to provide substantial increase in total production volume of the Group as soon as in 2009. Thus, realization of the strategic development program of OJSC Polyus Gold has come to the stage of active growth of production volumes.
Within 2008, the Company achieved substantial progress with respect to realization of new projects. Deadlines of bringing into operation of new units of all projects were met.

KRASNOYARSK REGION

BLAGODATNOYE DEPOSIT

In 2008, significant progress was achieved in the construction of the Blagodatnoye mine in the Krasnoyarsk region. The construction of the mine at one of the largest gold deposits of Russia explored by geologists of OJSC Polyus Gold in 2005 is performed in accordance with the approved schedule. The startup of the enterprise is anticipated in 2010 with achieving its designed capacity of 6 million tonnes of ore per year in 2011. Expected annual gold production is 12.8 tonnes (412 thousand ounces).
In 2008, the main building of the plant, the building of the Hydrometallurgical Department and the ragging plant were under construction, the ground for tailings dump was prepared, delivery of mining transportation equipment was going on at the deposit. In the reporting period, the construction of the camp for 987 people and canteen for 200 seats was completed at the deposit. The construction of the thermal power plant started, fitting of water pipeline and construction of intake facilities were in progress, the construction of automobile roads and the power transmission line was completed. The volume of investments in the Blagodatnoye project in 2008 amounted to USD 76 million. As of the end of 2008, the total volume of investments[3] in the project was performed at about 24%.
Engineers, builders and other specialists, who participated in construction of Mill No. 3 at Olimpiada mine, were engaged in the project of the Blagodatnoye mine development.
As of the end of 2008, in main building of the Blagodatnoye Mill the following works were completed: construction of the structure and external envelopes of the building was completed, the heating circuit was made, bridge cranes were installed and their commissioning and start up are being accomplished, works on foundation building for assemblage of equipment for mills and flotation machines were arranged, works on assemblage of equipment of flotation machines were arranged, 50% of works on construction of foundations for assemblage of structure of built-in premises were accomplished. Works on lighting of the building were performed, installation of the heating system is being performed. Flotation ma-

3 «The volume of investments» represents the data of managerial accounting on expenditures recognized at the moment of the launch of the equipment, as well as on expenditures for actually performed capital mining operations and construction and assemblage works, net of advance payments. Due to this, the «Total volume of investments» in 2008 differs from the Capital expenditures recognized in the Cash Flow Statement according to the IFRS.

chines, as well as equipment for one of the mills were delivered. Delivery of all equipment for the building is expected in the first half of 2009.
As of the end of 2008, works on construction of the structure and external envelopes of the Hydrometallurgical Department building were performed, the heating circuit was made, assemblage of overhead beam cranes was performed, their commissioning and start up was close to completion. Foundation works for the structure of built-in premises in the 12-meter bay were also performed. Foundation works for assemblage of sorption tanks were arranged. Some metal elements of the structure of built-in premises in the 12-meter bay were delivered. A part of desorption equipment was delivered. The rest of the equipment was contracted, its delivery is expected in the first half of 2009.
As of the end of 2008, the preparation of project documentation for the heating power station of the Blagodatnoye mine was accomplished. The equipment for 2 boiler units, fuel supply equipment, the pressure-reducing cooling station (ROU), heat-exchanging units, main-line

The Company holds a license for mining of mineral coals of the Kokui deposit, the reserves of which exceed 940 million tonnes. The Kokui deposit is situated in Motygino district of the Krasnoyarsk region, 30 km to the east from the district center Motygino settlement. In 2008, 180 thousand tonnes of coal was mined at Kokui. The plan for 2009 amounts to 375 thousand tonnes. The coal of the Kokui deposit is used for the Olimpiada mine as well. The delivery of coal is performed by motor and river transport (the Angara river – the Yenisei river).

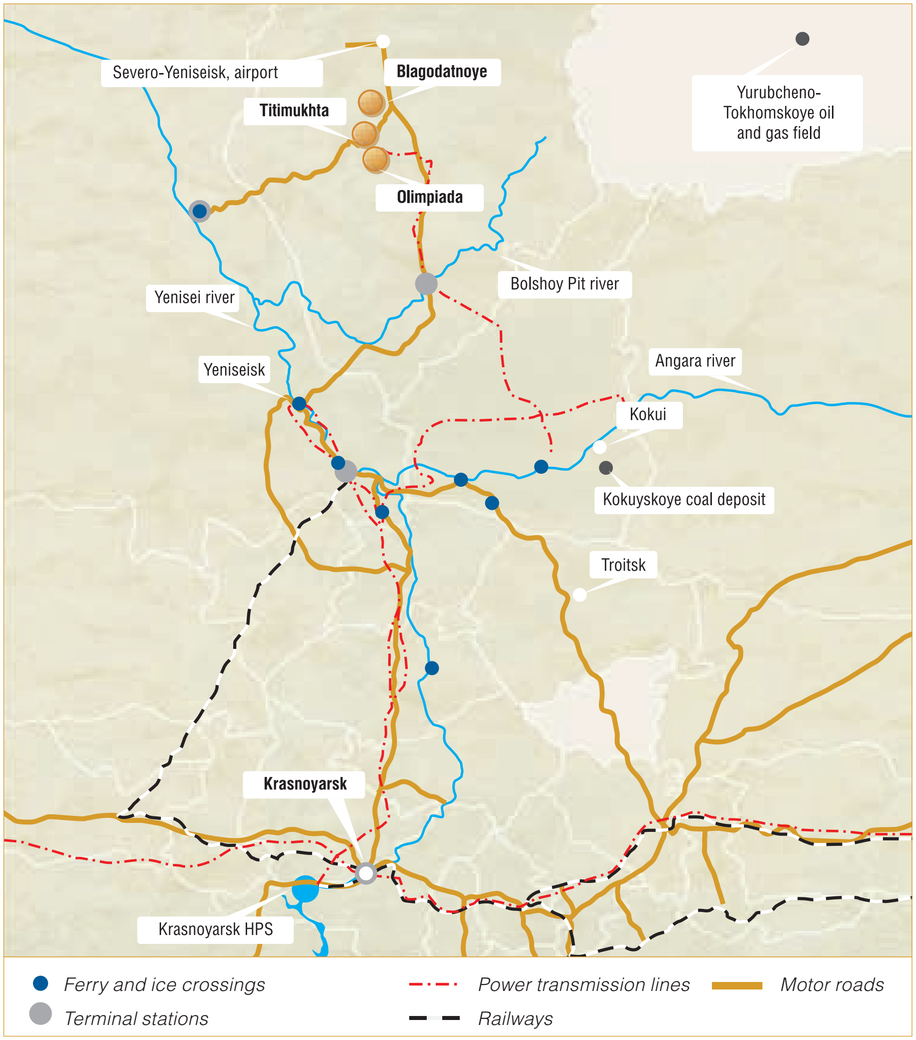
and feed pumps, a deaeration plant, a cooling tower, 3 boiler units were delivered. Foundation works for the whole project structure, boiler premises equipment, chemical water treatment units, coal storage facilities, and smoke stacks were accomplished. Works on cooling tower pool were in progress; the structure of the boiler premises was installed. Coal will be delivered to the heating power station of the Blagodatnoye mine from the Kokui deposit.

WAREHOUSE OF DRY CHEMICAL REAGENTS

Within the reporting period foundation works and installation of the structure and external envelopes of the warehouse of dry chemical reagents were performed. The equipment of overhead beam cranes was assembled and commissioned, the backfill was performed. Accomplishment of the whole complex of works is expected in the first half of 2009.

MILL № 3 PROJECT

Gold Extracting Plant No. 3 (Mill № 3) at Olimpiada mine achieved its design capacity by the volumes of ore processing in October 2008. Successful achievement by the Mill № 3 of its design capacity of 5 million tonnes of ore per year guaranteed the Olimpiada mine production growth in the reporting period despite a difficult period for the unit: transfer to work with sulphide ores.



The Titimukhta deposit is situated 9 km from the Olimpiada Mine. The reserves of the deposit are 2.2 million ounces of gold. The ores of the Titimukhta deposit will be processed at the first gold extraction plant of the Olimpiada Mine (Mill № 1), completed the processing of oxidized ores of Olimpiada deposit which are depleted.

In 2009, works on improvement of technological performance of Mill № 3 are continued.

TITIMUKHTA DEPOSIT

In the reporting period, substantial volume of works was performed in the frame of the Group's strategic program first project implementation: Titimukhta.

Within 2008, re-equipment of the Mill № 1 processing complex was successfully completed. Works on re-equipment of the plant were performed in the period from June to November 2008, within the record-breaking time, with substantial advance in the approved schedule.

In the frame of reconstruction at the Mill № 1 a new technological processing scheme was implemented: the ragging stage was introduced for primary processing of ores at the plant, whereupon the ore is fed to mills for degradation. New equipment was installed: more efficient mills, unbalanced-throw screens, modernized hydro cyclones.

In January 2008, the excavator EKG-10 at the open pit Titimukhta was assembled and brought into operation. Within 2008, mining works were going on at the open pit. The volume of mined ore amounted to 211 thousand tonnes.

In 2008, in the frame of realization of the Titimukhta project an automobile road and a power transmission line 7 km long were built, foundation works for substation and ragging complex were performed, mining transportation equipment was being delivered.

Within 2008, works on creation of the automated system of the mining and transportation complex management (ASU GTK) were being performed; it will work with the use of equipment and systems of Wenco Systems.

The volume of investments for the development of Titimukhta deposit in 2008 amounted to USD 45 million. Thus, as of 31 December, 2008, the total volume of investments into the project was performed approximately for 52%. The Titimukhta project is supposed to be brought into operation in the current year, according to the schedule, and in 2010 it will achieve its design capacity of 2.2 million tonnes of ore per year. The average gold production at Titimukhta will amount to about 170 thousand ounces, the expected production in 2009 will be about 100 thousand ounces.

The construction of the largest ore processing plant in Russia was completed in July 2007 in the frame of implementation of measures of the unit transfer to sulphide ores. The necessity of expansion of sulphide ore processing facilities at the Olimpiada mine is connected with depletion of reserves of free-milling oxidized ore. In 2004-2005, the Company developed the program of expansion of the ore processing activity at the Olimpiada mine up to 8 million tonnes of ore per year, which is aimed at maintenance of steady gold production at the level of about 24 tonnes of gold (780 thousand ounces). The project of the Mill № 3 construction at the Olimpiada mine was prepared by engineers of the Research and Project Center of CJSC Polyus (IPC). The primeary rock processing is performed according to the flotation beneficiation scheme with the following sorption cyanidation of float concentrate preliminary oxidized by biological method and production of Dore bead from electrolytic slime. The period of the project realization from the design stage to startup was about 3 years, which is a good performance as compared with world analogues. The technology of primary ore flotation concentrate biooxidation (BIONORDTM) developed by the Company is used at Mill № 3, it enables to increase the degree of gold extraction. The biooxidation technology is adapted to application in the Far North conditions and has been successfully applied at the Olimpiada Mine since 2001.

IRKUTSK REGION

VERNINSKOYE DEPOSIT

In the frame of the Verninskoye deposit project in the Irkutsk Region within 2008 the following objects were under construction: the main building of the Mill and the unit for ore acceptance and ragging, the shift team camp units, as well as units of power and heat supply systems. The automobile road was constructed as well.

The volume of investments for the Verninskoye project in 2008 amounted to USD 25 million. As of the end of the reporting period the total volume of investments into the project amounted to approximately 25%.

At the end of the year decision was taken on suspension of works on the plant construction at the Verninskoye deposit for 6 months due to a number of reasons, including the delay in obtaining of a number of authorizations from regulatory authorities. Meanwhile, the development operations at the deposit, as well as delivery of mining transportation equipment are going on. We hope that the delay of operations on the plant construction will not affect substantially the time of bringing of the Verninskoye mine into operation.

CHERTOVO KORYTO DEPOSIT

In 2008, the pre-feasibility study of the development of the Chertovo Koryto deposit was performed by the efforts of the Project Center of Polyus. The balance reserves of the deposit amount to 87.124 tonnes of gold. In the frame of preparation of the pre-feasibility study 5 variants of the future mine were considered with a capacity from 2.2 to 4 million tonnes, depending on the parameters of cut-off grade. 3 variants of electric power supply were considered: supply from external networks, from thermoelectric plants and from a diesel power plant; the supply from thermoelectric plants was accepted as a priority variant. Steam and electricity are supposed to be produced from mineral coal of the Dzhibariki-Haya deposit situated in the Tompon District in Yakutia. The coal will be delivered by the Lena river from the railroad station Ust-Kut (BAM) to the transshipment base in the settlement of Yaroslavskiy (the left bank of the Lena river); the distance is 800 km. Further it will be transported by automobile transport along the automobile road with the length of 115 km; the road is being designed at present.

Under the results of the pre-feasibility study all principal decisions with respect to mining works, ore processing technologies, auxiliary sites, tailing facilities, and social objects have been determined. Under the results of the document consideration the Investment Committee of the Company took the decision to continue the exploration works on the deposit as well as recommended to begin the feasibility study preparation.

MAGADAN REGION

NATALKA DEPOSIT

In 2008, the Company was preparing the preliminary Feasibility Study of construction of a large mining complex at the Natalka deposit, whose startup is expected in 2013. Increase of existing generating and transmission capacities of the region is required for the preliminary Feasibility Study implementation. With this aim, in October 2007, the Company submitted The Investment Project of the Natalka Gold Ore Deposit Development (application) to consideration of the Investment Committee with the purpose of gaining budgetary allocations of the Investment Fund of Russia.

On the 19th of October, 2007, the Investment project was recognized to be consistent with the aims, tasks and requirements of the Investment Fund of the Russian Federation. On the 5th of September, 2008, RusHydro, RAO ES of East and Polyus Gold agreed upon two alternative variants of the Natalka mine external electric power supply with purpose of prepara-

tion of materials for the application to the Investment Fund of the Russian Federation. In October 2008, the Ministry of Energy approved the agreed decision on the choice of optimum alternative of design output (at the stage of feasibility study) of the scheme of external electric power supply of the facility. On 27 March, 2009, the Ministry of Energy signed its positive opinion on the project of the Natalka deposit development. The opinion states, in particular, that the Ministry of Energy supports the realization of the project involving attraction of the state budget assets at the expense of the budgetary allocations of the Investment Fund of Russian Federation under the condition of construction and commissioning of the Ust-Srednekansk Hydroelectric Power Station in 2012-2017. On 30 March, 2009, the updated set of documents (application) was submitted to the Investment Committee.

One of the key events at the deposit in the reporting year was the trial launch of the pilot plant with the capacity of 100 thousand tonnes of ore per year. The trial commissioning of the plant took place on the 24th of July.

The pilot plant is a full analogue of an industrial gold extraction plant and is equipped with the most advanced equipment, which will provide required conditions for modeling of the technological process of the future Natalka mine and

Trial launch of the pilot plant, July 2008

enable to improve the technology of gold extraction from ores of the Natalka deposit as precisely as possible. The professional equipment of the pilot plant includes: concentrators Falkon, high-speed flotation machines Metso minerals, fine crushing mills from XTRATA technology, an intensive cyanidation unit from Gekko Systems, etc. Flexible design enables to use the equipment of the plant for improvement of various process schemes for various types of ores. It will enable to use the pilot plant as a research base for all production units of the Group. The plant is also intended for training workers of the future Natalka mine, as well as for testing new equipment.

In the reporting year, the program of testing of the Natalka deposit optimal processing scheme was developed. The pilot plant is intended, first of all, for testing and confirmation of the prospective gold extraction plant design criteria. The regulations of the unit provide for performing tests on ore processing by means of two processing schemes: the gravitation processing and the gravitation and flotation processing. The optimal scheme of hydrometallurgical processing of concentrates is supposed to be determined either.

In the reporting year, operations aimed at the old production units closing, as well as preparatory works at the site of the prospective mine were going on at the Natalka deposit. In particular, the reclamation of the former Mill territory was performed, and the pulp line of the pulp pumping station was being dismantled. Works on people removal from the land allotment territory, as well as on liquidation of the Matrosov settlement were performed.

The Natalka deposit in the Magadan Region is the second gold mining deposit in Russia by the volume of its reserves, according to results of the exploration performed by OJSC Polyus Gold in 2004-2006. Proved and probable gold reserves (P&P, JORC) amount to 40.8 million ounces with the grade of 1.13 g/ton.

Fuels and lubricants warehouse of the Olimpiada mine

Igor.A.Semyonov,
Head of the fuels and lubricants warehouse of the Olimpiada mine:

'The main achievement of myself and my team was accident-free operation of the fuels and lubricants warehouse. As for the Company's main achievement in the year 2008 – it was the construction of Blagodatnoye mine'.

6. RESULTS OF OPERATIONS

In 2008 Polyus Gold produced 38.0 tonnes (1,222 thousand ounces) of refined gold versus 37.8 tonnes (1,214 thousand ounces) in 2007 to meet target figures set before. The production of dore gold (gold before refining) at the same time increased 1.9% from 37.6 tonnes (1,208 thousand ounces) in 2007 to 38.3 tonnes (1,208 thousand ounces) in 2008.

The Company facilities moved in 2008 43.6 million cubic meters of total rock versus 47.9 million cubic meters in 2007.

The mined ore in 2008 was 6.6 million tonnes versus 9.4 million tonnes in 2007. The processed ore in 2008 amounted to 10.8 million tonnes compared to 10.7 million tonnes of 2007. The excess of the processed ore over the mined ore was due to substantial supplies of ores from the stock piles at the Olimpiada Mine under the process schedule. The stock piles of the Olimpiada Mine as of the beginning of the reporting period had some 15.4 million tonnes of ore.

Table 2. Results of business operations of the Group in 2006-2008

	2008	2007	2006
TOTAL ROCK MOVED (in thousand m^3)			
Olimpiada Mine[5] including stripping	30,622.4 30,061.2	32,840.9 30,947.6	26,737.9 23,343.3
Stripping ratio	17.4[6]	6.9	2.9
Kuranakh Mine including stripping	11,084.0 8,875.0	13,073.0 10,723.0	10,411.0 8,237.0
Stripping ratio	2.3	2.6	2.1
Zapadnoye Mine including stripping	1,916.8 1,565.1	2,018.9 1,741.1	1,619.8 1,327.2
Stripping ratio	1.6	2.3	1.7
Total rock moved	43,623.2	47,932.8	38,768.7

4 The difference in the output of dore and refined gold is understood as some of the produced metal will be put to refining within the period of report and the generated backlog will carry over to next period of report.

5 Total rock moved at the Olimpiada Mine does not include the total rock moved in course of mining development works at Titimukhta and Blagodatnoye gold deposits.

6 A notable growth of the stripping ratio in 2008 was due to extensive stripping works at the Vostochny pit due to the switch to sulphide ore processing.

	2008	2007	2006
ORE MINED (in thousand tonnes)			
Olimpiada Mine			
Ore mined			
Oxidized ore (the Olimpiada deposit)	-	928	1,646
Sulphide ore (the Olimpiada deposit)	1,254	2,434	6,023
Olenye deposit	261	1,111	366
Titimukhta deposit	211		
Olimpiada mine total	1,727[7]	4,473[7]	8,035
Average gold grade (g/t)			
Oxidized ore (the Olimpiada deposit)	-	14.2	14.3
Sulphide ore (the Olimpiada deposit)	2.6	4.9	4.1
The Olenye deposit	3.1	6.2	7.6
The Titimukhta deposit	1.5	-	-
Kuranakh Mine			
Mined ore	3,899	4,154	3,847
Average gold grade (g/t)	1.4	1.4	1.5
Zapadnoye Mine			
Mined ore	950	750	789.6
Average gold grade (g/t)	1.8	2.0	2.0
Total mined ore	6,575	9,377	12,672
ORE PROCESSED (in thousand tonnes):			
Olimpiada Mine[8]			
Ore processed			
Oxidized ore (the Olimpiada deposit)	414	973	1,333
Sulphide ore (the Olimpiada deposit)	4,801	5,252	3,209
The Olenye deposit	1,408	6	8
Olimpiada mine total	6,623	6,231	4,550

7 The reduction of ore mining at the Olimpiada Mine within 2007 and 2008 was provided for the mining plan. Ore processing was secured by supplies of ores from the stock piles. In 2009 the growth of ore mining at Olimpiada will begin.

8 Actual data on processing of oxidized ores at the Olimpiadinskoe combined works within 2006 – 2007 slightly differs from previously reported indicators. The reason is related to the decision based on the analysis of operations of the OJSC Polyus Gold to attribute part of mixed type ores formerly classed as oxidized to a more appropriate sulphide ore types.

	2008	2007	2006
Average gold grade (g/t):			
Oxidized ore (Olimpiada deposit)	14.6	14.3	13.2
Sulphide ore (Olimpiada deposit)	3.9	3.4	3.5
The Olenye deposit	6.3	5.1	7.7
Recovery (%)			
Oxidized ore (Olimpiada deposit)	96.9	95.4	96.9
Sulphide ore (Olimpiada deposit)	76.0	75.9	82.1
The Olenye deposit	86.0	-	-
Kuranakh Mine			
Ore processed	3,696	3,905	3,737
Average gold grade (g/t)	1.4	1.4	1.5
Recovery (%)	84.6	85.6	86.5
Zapadnoye Mine			
Ore processed	495	518	522
Average gold grade (g/t)	2.2	2.2	2.4
Recovery (%)	74.4	75.0	76.5
Total ore processed	10,814	10,654	8,809
Alluvial deposits			
sands washed (million m^3)	9.7	9.1	9.4
Average gold grade (g/m^3)	0.6	0.6	0.6
REFINED GOLD PRODUCTION (in thousand ounces)			
Olimpiada Mine	873	861	854
Kuranakh Mine	144	142	156
Zapadnoye Mine	25	32	32
Alluvial deposits	181	179	172
Total refined gold production[9]	1,222	1,214	1,215

9 Final indicators of gold production at facilities of the OJSC Polyus Gold in 2007 and 2006 include inconsiderable amounts of metal received as a result of the cleanup of the closed production at the OJSC SVMC.

Totals may not add due to rounding error.

KRASNOYARSK BUSINESS UNIT. OLIMPIADA MINE

Description of the production capacities

Olimpiada Mine is located in the North-Yenisei District in the Krasnoyarsk region, 500 kilometers north of the city of Krasnoyarsk.

Three mills are operable at the moment namely:

- Mill No. 1 was commissioned back in 1996 and currently employs the process of hydrometallurgical oxidized ore processing using deposits of the Olimpiadinskoe, Olenye and Titimukhta deposits. 2008 saw the completion of oxidized ores processing coming from the Olimpiadinskoe deposit and Mill-1 was remodeled for the processing process to handle raw materials coming from the Titimukhta deposit and the production capacity was raised as a result from 1.5 to 2.2 million tonnes a year.
- Mill No. 2 (Mill-2) was commissioned back in 2001 and currently employs the process of biological and hydrometallurgical processing (the biological oxidation process) yielding the production of 3 million tonnes of ore.
- Mill No. 3 (Mill-3) was commissioned back in 2007 and currently employs the process of biological and hydrometallurgical processing (the biological oxidation process) to handle refractory sulphide ores at the design capacity of 5 million tonnes of ore.

The refining of gold produced at the Olimpiada Mine is performed at the Krasnoyarsk base metals plant.

The power to Olimpiada Mine is supplied by OJSC Krasnoyarskenergo. Some electricity is generated by at site facilities as well.

Characteristics of the deposit and the types of ores

Olimpiadinskoe hard rock gold deposit includes two pits – Zapadnyi and Vostochnyi. Ore bodies No. 1, 2 and 3 have been explored in Zapadnyi. Development of the second phase of the Zapadnyi pit will start in 2015.

Vostochnyi pit develops ore body No. 4 which contains the bulk of ore and gold reserves, consisted of oxidized and sulphide ore reserves, and were separately measured. Extraction of oxidized ores in the Vostochnyi pit ended in 2007, and their processing stopped in 2008. Oxidized ores represent soft poorly consolidated siltstone. Gold is present in the ore in a finely dispersed and pulverized form. Some of it is combined with ferrous and manganese hydroxides, antimonic oxides, and some is found in a free state. The gold grade of the oxidized ores is between 8-10 g/t.

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

Mining technology

Olimpiadinskoe mine works as an open pit mine with surface stockpiling. Ore is excavated from the pits with a preliminary ripping method via a set of drilling and blasting operations, which is necessitated by the hardness of ore and host rock. December 2008 saw the beginning of test runs of mix-pump trucks for the preparation of emulsive explosives and borehole charging. Emulsive explosives will be used in the opencast pit of Vostochnyi to break 80% of the total volume of rocks.

Mined ore is loaded on trucks by excavators, with waste rock transported to external dumps and ore transported to the sorting yard. of open pits (Vostochnyi, Blagodatnyi and Titimukhta) ever reached in mining rock mass is 34.6 million cubic meters.

Ore processing technology

In sulphide ores gold is combined with sulphides and is not suitable for direct cyanide leaching. For this reason, additional technical operations are needed to recover gold from the rock.

The Olimpiada mine was the first in the world to apply the bacterial oxidation (bio-oxidation) technology to recover gold from refractory sulphide ores in the far north environment.

The ore, which is at first crushed and ground into pulp is fed for floatation, after which the sulphide floating concentrate is fed for bacterial oxidation in cascades of mechanical air reactors and the flotation tailings are fed for absorption leaching after preliminary thickening.

After neutralization the oxidized concentrate is also fed for absorption leaching.

Otherwise, the gold extraction technology for sulphide ores is the same as the technology used in the oxidized ore processing section.

OPERATIONS OF OLIMPIADA MINE IN 2008

Ore production at the Olimpiada Mine in 2008 was 1,726 thousand tonnes versus 4,473 thousand tonnes a year earlier and including 1,254 thousand tonnes of mined sulphide ores, 261 thousand tonnes of ores mined at the Olenye deposit and 211 thousand tonnes mined at Titimukhta deposit showing respective average gold grade of 2.6 g/t, 3.1 g/t and 1.5 g/t. Re-

duced production of sulphide ores was determined by plans (provided for by project schedules) and related to the increased supplies of ores from the storage yard as laid down by the plan of mining operations. The left-over ore surplus at the storage yard as of 01.01.2009 was 9,928 thousand tonnes.
Ore processing at the Olimpiada Mine in 2008 was 6,623 thousand tonnes versus 6,230 thousand tonnes back in 2007. The volume of dressed sulphide ores (4,801 thousand tonnes) remained practically unchanged in respect to the reference 4,772 thousand tonnes in 2007. The year 2008 saw the completion of the processing of oxidized ores at the Olimpiadinskoe deposit.
The output of pure gold at the Olimpiada Mine reached in 2008 27.1 tonnes or 873 thousand ounces versus respective 26.8 tonnes (861 thousand ounces) in 2007. The growth of the gold production was made feasible by virtue of the increase of the average gold grade in all grades of dressed ores and a contribution of Concentration plant No. 3 put to the full production capacity in the same year (for more details see Section Development of new projects).
Shutdown for revamping of Gold concentration plant No 1 should be mentioned among factors to influence production results of the Olimpiada Mine. Reserves of oxidized ores at the Olympiada mine were at that time depleted and 2008 saw the reconstruction of Mill № 1 to adjust processing technology for the ores from the Ti-

timukhta deposit (For more details see Section Development of new projects).

The key facility of the Company was in 2008 successfully converted to sulphide ores without interim reduction of the production. The transfer of the Olimpiada mine from the processing of oxidized ores to the processing of sulphide ores substantially extended the mine life and facilitated an exposure of potential of sulphide-ore-rich deposit.

In 2008 the system of drainage and water removal was completed at the Vostochnyi pit in course of implementation of works to transfer the mining and processing to sulphide type of ores. A 17.2 MW Diesel-driven power plant was commissioned within the same period. In 2008 the Company spent USD 42 million for the transition of the processing to sulphide type of ore. 77% of processed ore were delivered from the stockpile (unlike 28% in 2007). The long-term mining plan implies accelerated depletion of sulphide ore stockpile in 2008.

CREATING IN-HOUSE EXPLOSIVES PRODUCTION FACILITIES

To reduce the cost of blasting works and to improve labor environments of employees involved in drilling and blasting operations sector in opencast pits at the Olimpiada, Blagodatnoye and Titimukhta deposits a decision was made to develop an in-house facility for the production of an emulsive explosive substance. Terms and conditions of outsourcing were picked up as the optimal scheme to implement the project. An agreement was signed in March 2007 to contract UEE Company for the supply of explosives on the tolling basis for the period of 8 years. A plant was built in 2008 under the above Agreement at the Olimpiada Mine to produce 50 thousand tonnes of explosives a year. A fleet of mix-pump trucks was set up at the combined works site.

On December 30, 2008 the first blast stuffed with the local-made explosives was done in the Vostochnyi pit.

Expenses related to adaptation of new production processes and the provision of new types of explosives accounted for RUR 60 million (about USD 2.4 million).

IRKUTSK HARD ROCK BUSINESS UNIT. ZAPADNOYE MINE.

Description of production capacities

Zapadnoye mine is located in the territory of Bodaibo district of Irkutsk region. Zapadnoye Mine is developing the Zapadnoye gold deposit – constituent part of the Sukhoi Log ore field immediately flanking eastwards a Russia largest gold ore field of Sukhoi Log.

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

The Group has outsourced the refining of gold from Zapadnoye mine to an independent precious metals refinery – Krasnoyarsk Non-Ferrous Metals Plant.

The Zapadnoye mine is currently the only Russian gold mining facility that has a customized industrial technology for the processing of ores similar to the ores of Sukhoi Log – one of the largest gold deposits in Russia and globally.

Characteristics of the deposit and the types of ores

The Zapadnoye gold deposit is represented by three saddle-shaped ore bodies. Ore concentrations confine to the zones of veined impregnation of quartz – sulphide mineralization. Ore bodies are found in a feathering formation in respect to each other and have a combined length stretch of 2700 m. With the downfall to the wings the ore bodies pitch out significantly and stretch to the length of 150-350 m. The thickness of ore bodies at the folder curve is 15-35 m and thin out in 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 the total content of sulphides of 2-6%. Gold like in the fields of Sukhoi Log and Verninskoye is dominantly fine but 85% of it is greater than 0.07 mm.

Technology of mining operations

The Zapadnoye deposit is mined using the open pit method on the basis of drilling and blasting operations.

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 sorting yard of the mill. Excavators are used for the stripping and excavating work. The ore is transported to the mill by dumpers with a lifting capacity of 30 tonnes.

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

Ore processing technology

More than 90% of the gold in the Zapadnoye deposit is in a mineral form; and only a small

portion of it is found in pyrite and pyrrhotite in the shape of the thinnest of clots. The mill uses the gravitation technology with subsequent cyanidation of the concentrate.

OPERATION OF ZAPADNOYE MINE IN 2008

The Zapadnoye Mine mined in 2008 950 thousand tonnes of ore with the average grade of 1.82 g/t versus 750 thousand tonnes mined back in 2007.

In 2008 the Zapadnoye mine processed 494.7 thousand tonnes of ore compared to 517.8 thousand tonnes in 2007.

A significant difference in mining and processing of the ore was due to storing of notable volumes of the mined ore at a dedicated depot yard. Processing of stockpiled ores will be performed within follow-up periods.

The production of refined gold at the Zapadnoye Mine in 2008 was 767 kg or conversely 24.66 thousand ounces showing a setback of 1 ton or 32 thousand ounces versus 2007. The drop in production of gold at the Zapadnoye Mine in 2008 was due to the reduced average gold grade and lower scales of ore processing.

IRKUTSK ALLUVIAL GOLD BUSINESS UNIT. ALLUVIAL DEPOSITS

Description of production capacities

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

43 plots were operated in 2008 including 9 dragline mode based. Deposits in operation feature deep occurrence, high water content, bouldering and local permafrost, man – caused excavations and low grade of gold.

The mining involves the use of dredges and draglines with the bucket volume of 6 to 20 cubic meters, mining shovels with shovels of 5 cubic meters, over two hundred various class bulldozers, open-pit dump trucks and sluice boxes.

Mininng technologies

Alluvial gold operations use the separate and dredge methods.

Separate method

Stripping operations for the preparation of the mining grounds use combinations of technical schemes involving draglines, bulldozers and open-pit dump trucks. Gold sands from the grounds are fed to the washing machines.

Dredge method

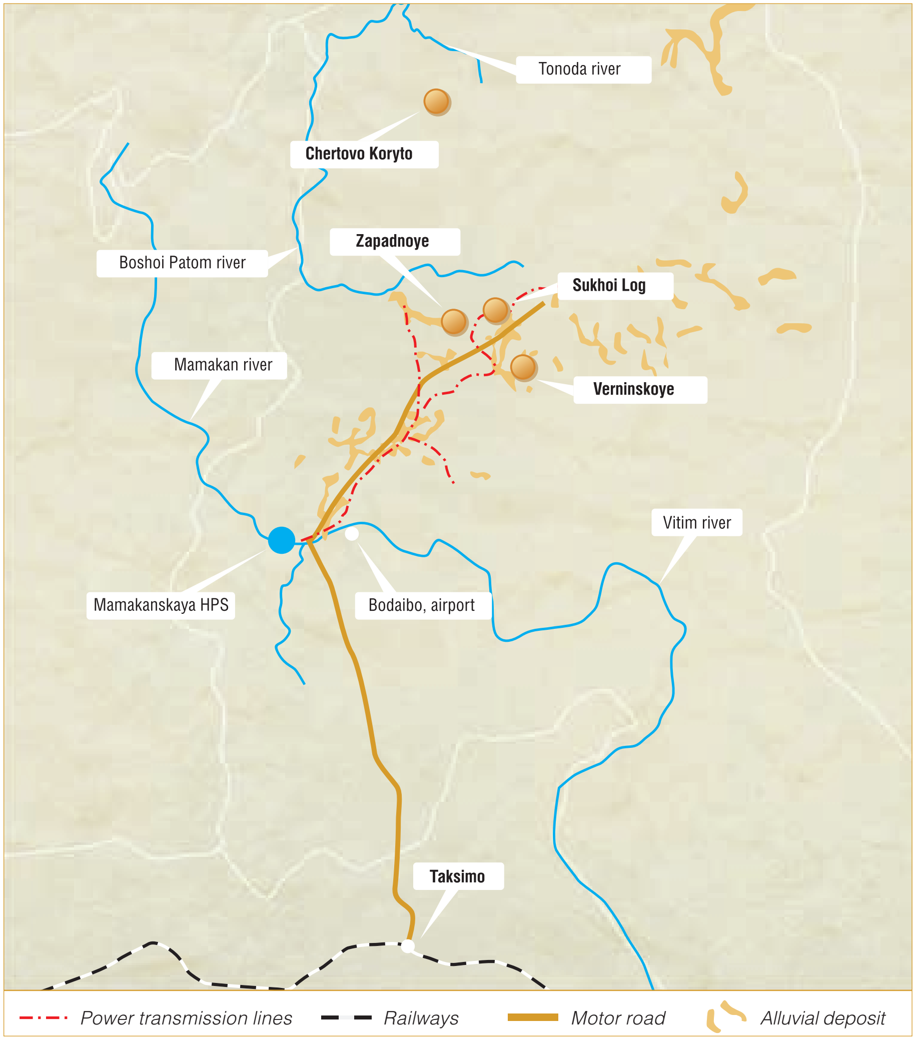
The dredge technology facilitates a set of preparatory works. The peat is stripped, depending on the depth of the productive layer, by bulldozers or by excavation method with the use of draglines. The dredge method is the most economically effective in the development of alluvial deposits and ensures profitable mining with an average gold grade in the sands of approximately 0.3 g/m^3.

Sand extraction technology

Gold sands are processed at various types of washing installations with sluice enrichment technology.

OPERATIONS AT ALLUVIAL DEPOSITS IN 2008

In 2008, the total gold production from the alluvial deposits amounted to 181 thousand ounces (5.6 tonnes) compared to 179 thousand ounces (5.57 tonnes) in 2006. The main factors which affected the performance in 2008 included: putting to operation advanced mining and transport equipment, structural changes within CJSC ZDK Lenzoloto (a business of the Group concentrating on the production of the metal at placer fields), favorable weather conditions (early



spring, warm and extended autumn) and acquisition in February 2008 of a new subsidiary.

YAKUTIA BUSINESS UNIT. KURANAKH MINE

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

Gold production at the moment is carried out at the gold concentrating plant (Mill) commissioned back in 1965 with the aggregate production capacity of 3.6 million tonnes a year. Revamping of the gold concentration plant is planned for completion in the second half of 2009 to raise the annual capacity to 4.5 million tonnes.

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

Deposits and characteristics of ores

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

All deposits of the Kuranakh ore field reveal common features of the geological structure, morphology and lithology. The ores belong to the quartz-pyrite type. 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.

The technology of mining operations

The mining at deposits of the Kuranakh ore field employs open cut, drilling and blasting operations downward transport system from top to bottom layerwise, each layer 10 m thick at most.

Bulldozers are used incidentally for ore mining or ore loosening. Ore mining with bulldozers is performed by trenching terraces 5 m high at most. Blasting operations stay on most com-

mon explosives of the igdanite type.
The aggregate annual mined rock mass production at the pits will in the years to come reach about 10 million cubic meters and the production of the ore will make round 4.5 million cubic meters of the above total.

Ore processing technology at Kuranakh mine

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

PRODUCTION OPERATIONS OF KURANAKH MINE IN 2008

The Kuranakh mine mined 3,899 thousand tonnes of ore in 2008 with an average gold grade of 1.42 g/t compared to 4,154 thousand tonnes in 2007.
In 2008 the Kuranakh mine processed 3,696 thousand tonnes of ore compared to 3,905 thousand tonnes in 2007. Gold recovery remained almost at the same level of 84.6% in 2008 compared to 85.6% in 2007.
The production of refined gold at the Kuranakh Mine in 2008 was 4.5 tonnes or conversely 144 thousand ounces versus 4.4 tonnes or 142 thousand ounces in 2007. The increase in the production of the metal by the Kuranakh Mine is primarily related to higher average grade of gold in the processed ore. The modernization program, which is currently underway at the Kuranakh mine, will enhance the production rate in the upcoming years.
2008 saw a sustained effort to revamp the gold concentration plant at the Kuranakh Mine aimed at raising the production from 3.6 million tonnes to 4.5 million tonnes annually.
The expected time of completion of the renovation project is scheduled in the second half of 2009. Expenses related to the extension of the concentration facility in 2008 came to USD 25 million.
Integration of comprehensive soft- and hardware for the system of remote management of mining transport started in 2008 as well. The development of standards for production processes (excavation and transport) was carried on.

Nezhdaninskoye deposit, fuel and lubricants warehouse

Grigory N. Ivanov, Head of the exploration department of OJSC SVMC:

«In 2008 OJSC SCMV submitted to the State reserves committee the scoping study and reserves calculation for additional exploration at the Nezhdaninskoye deposit».

7. RESULTS OF GEOLOGICAL EXPLORATION

In the year under review the Company continued the implementation of the Exploration Programme designed until the year 2010, which was approved by the Board back in May 2006. In the year 2008 the Group's exploration team worked at 29 sites of hard-rock gold deposits and at 25 placer sites in five regions of the Russian Federation namely in the Krasnoyarsk region, Magadan, Irkutsk, Amur Regions and in the Republic of Sakha (Yakutia).

The expenses on geological exploration works in 2008 amounted to USD138 million. Those expenses were capitalized[10]. The total drill works in 2008 was 291.2 thousand meters versus 365.6 thousand meters in 2007. The reduction of drilling operations was related to the completion in 2008 of the first phase of the long-term Exploration Program which included exploration at the existing operations and advanced projects. By the end of the reporting period the proved and probable reserves of the Company (P&P, JORC) were increased to 74.1 million ounces of gold versus 68.6 million ounces as of the end of 2007.

The Company kept on extending the list of prospecting areas and geological exploration objects. The Company participated in 2008 in a number of state auctions and obtained licenses for the Kuzeyevskaya area in the Krasnoyarsk region and for the Doroninskoye deposit in Magadan Region and also purchased a license for the waste dumps of the Kuranakh ore field.

In 2008, the Group's balance reserves under categories $B+C_1+C_2$ grew by 137 tonnes and to 3,129 tonnes as of January 1st, 2009.

State listing of Blagodatnoye (additional exploration) and Chertovo Koryto reserves made a substantial contribution into the growth of reserves. The completion of the exploration works at the Nezhdaninskoye, Verninskoye and Zapadnoye deposits in 2008 resulted in the increase of reserves under categories C_1+C_2 in the amount of 292 tonnes of gold. In addition to that, unaudited growth of reserves under C1+C2 categories amounted to 135 tonnes (the Verninskoye deposit – 75 tonnes, the Zapadnoye deposit – 10 tonnes, the Nezhdaninskoye deposit – 50 tonnes).

Unaudited alluvial reserves growth in 2008 was 3,411 kg of gold.

The growth of prognostic resources under P1 category was as follows. The Omchaksky ore cluster – 70 tonnes of gold, the Olimpiadinskaya ore field – 30 tonnes of gold, the Zapadnoye deposit – 3.4 tonnes of gold, deep levels of the Olimpiada deposit up to 250 tonnes of gold.

KRASNOYARSK REGION

In 2008, the Company carried out exploration activities across 9 projects in Krasnoyarsk region: Kvartsevaya Gora, Blagodatnoye, Olimpiada (deep levels) and Poputninskoye deposits and on Kuzeyevskaya, Panimbinskaya, Olimpiadinskaya, Zyryanovskaya, and Razdolinskaya ore fields.

The Blagodatnoye deposit

saw the completion of additional exploration and reserves calculation. The total balance reserves were increased to 309 tonnes of gold at the average grade of 2.4 g/t. The increment of reserves was 87 tonnes of gold.

The Rozhdestvenskiy area (the north-west flank of the Blagodatnoye deposit) showed the reserve growth of 10.7 tonnes of gold under C_2 category which were included in the reserves calculation of reserve of the Blagodatnoye deposit.

It should be noted separately that November 2008 saw the completion of audit of reserves

10 This sum includes an insignificant part of R&D expenses (a part of R&D expenses subject to capitalization) and does not include a part of expenses on geological exploration works expenses, which is recognized in Profit and Losses Statement, line «Research and exploration expenses» (this line accounts for unpromising geological exploration projects recognized as expenses in the reporting period).

of the Blagodatnoye deposit by virtue of JORC standards. The audit followed additional exploration programme carried out at the deposit in 2007 -2008. The area between the North-West and the South-East ore bodies was explored using high-frequency exploration grid. Reserves (P&P) of the deposit were raised to 9.9 million ounces at the average grade of 2.3 g/t versus 8.1 million ounces as stated by the audit of 2006. Measured and indicated (M & I) resources of the deposit were estimated at 10.5 million ounces. The explored zone was included into the pit outline, which lead to reserves growth.

Calculation of reserves was based on the cut-off grade of 1.0 g/t and the gold price of USD 712 per ounce. It is important to note that the same cutoff grade was used in reserves calculation in 2006.

The Olimpiada deposit

Exploration works on deep levels of Olimpiada depost (down to -300 meters) were started.

The project was targeted at:

- exploration and state listing of the reserves under C_1+C_2 categories in the least amount of 250 tonnes of gold within the levels of +50 – (-300) meters;
- to transfer balance reserves of category C_2 in the amount of 145 tonnes of gold hosted between levels +150 and +50 meters into reserves of category C_1.

Exploration efforts in 2008 clarified the morphology and structural position of the main ore body at the Olimpiada deposit and preliminary estimated its resource potential of deeper level sat the level of 250 to 300 tonnes of gold. Essentially important is that the grade sustains on the level of explored primary ores.

The above discoveries combined with the results of grade control drilling shall add about 10 additional tonnes of gold to the pit contour when C2 reserves and transferred into C1 reserves.

The exploration on ***Titimukhta deposit*** was carried out within the period of 2004 to 2007. The Company completed the Titimukhta reserves audit in accordance with JORC standards in July 2008. Proved and Probable reserves were increased from 1.1 million ounces to 2.2 million ounces. Ore reserves accounted for 21.1 million tonnes at average grade of gold of 3.3 g/t. Measured and indicated mineral resources in the deposit amounted to 27.2 million tonnes of ore with an average grade of gold at 3.1 g/t and 2.7 million ounces of gold (versus 1.1. million ounces as of 01 January, 2007). Inferred resources of the deposit amounted to 3.55 million tonnes of ore with average grade of gold 2.4 g/t and 0.27 million ounces of gold. Calculation of reserves was made using the cutoff grade of 0.8 g/t.

Kvartsevaya Gora deposit

Laboratory and technological research and preliminary calculation of reserves were conducted at Kvartsevaya Gora deposit. Potential reserves depending on pit limits ranged from 6 to 32 tonnes of gold. The ores are easy to process, the recovery for heap leaching equals to 85%, while the recovery for gravity sorption method is 90.6%.

Prospecting works within in the ***Olimpiadinskaya field*** were carried out at Titimukhtinskiy, Rozhdestvenskiy areas and Yerudinskiy cluster (the ore field of Kvartsevaya Gora deposit) and several areas of 5 plots of Southern Olimpiadinskaya field: Verkhne-Tyradinskiy, Pripolkanskiy, Levo-Chirimbinskiy, Verkhne-Chirimbinskiy, Polutornikovskiy, and Polkanskiy.

Lombancha area was recognized perspective and its resources are estimated at 10 tonnes of gold basing on the bore-holes and trenching data.

Area grid-type geochemical and geophysical works (grid size 100 x 20 m) were performed in

Vostochny pit of the Olimpiada mine

Kuzeyevskaya area. Also, geochemical exploration along leakage fluxes was performed and some trenching and test drilling was done. Presorting of the area was done basing on the potential.

IRKUTSK REGION (HARD-ROCK)

In 1008, exploration works in Irkutsk Region were carried out at Verninskoye and Zadnoye deposits, prospecting works were carried out at Artemyevskoye ore field (Zheltuktinskaya, Kevaktinskaya, and Illigirskaya areas), and Mukodek ore field.

Additional exploration at Verninskoye and Zapadnoye deposits had been completed in the year under review. Scoping study and reserves calculation are to be approved respectively in the third and fourth quarters of 2009.

According to pre-audit reserves calculation, C1+C2 geological reserves amounted to 193 tonnes of gold, while balance reserves in pit outline amounted to 110–120 tonnes basing on the respective cut-off grades of 0.75–1.0 g/t. Possible ore zones off the limits of the licence area were confirmed.

Preliminary geological reserves of Zapadnoye deposit were confirmed in $C_1 + C_2$ categories as equal to 35.2 tonnes of gold, the increment of geological reserves by virtue of the additional exploration in 2007-2008 was 20 tonnes of gold.

Prospecting activities within the limits of Artemyevskoye ore field were continued. Drilling and trenching in Zheltuktinskaya and Verkhne-Kevaktinskaya areas identifieda number of ore zones which at this stage were classified as small objects. Illigirskaya area is less explored. The beginning of 2009 will see more geochemical and geophysical works at the area.

The scoping study and reserves calculation for ***Chertovo Koryto*** deposit had passed State expertise. On-balance reserves of the deposit were approved under categories $C_1 + C_2$ in the amount of 87 tonnes of gold at the average grade of gold of 2.34 g per a ton of ore. International audit of mineral resources and ore reserves of Chertovo Koryto deposit was completed in January 2008. According to the auditors' report proved and probable reserves of the deposit were rated at 43.61 million tonnes of ore with the average grade of gold 1.83 g/t and 79.96 tonnes of gold (2.6 million ounces). Measured and indicated resources of the deposit amounted to 50.49 million tonnes of ore with the average grade of 1.84 g/t of ore and 92.95 tonnes of gold. Inferred mineral resources totaled 2.09 million tonnes of ore with the grade of 1.64 g/t and 3.4 tonnes of gold. Reserves calculation used the cutoff grade of to 0.8 g/t.

IRKUTSK REGION (ALLUVIAL DEPOSITS)

The Company continued geological exploration at placer deposits in Irkutsk Region. Exploration activities were carried out in 25 areas while operational exploration works were done at 20 areas. Preliminary growth of reserves under category $C_1 + C_2$ amounted to 3,410 kg, probable resources of category P1 – 265 kg.

REPUBLIC OF SAKHA (YAKUTIA)

Geological exploration works in the Republic Sakha (Yakutia) in 2008 were executed by the Company at deposits of the functioning Kuranakh Mine as well as at three advanced projects – Nezhdaninskoye deposit in northwest Yakutia, deposit Kyuchus in Northern Yakutia and Piniginskoye deposit in Southern Yakutia.

A new scoping study with reserves calculation for deposits of Kuranakh group was being prepared during the year. The documents will be submitted to the state expert examination in the second quarter of 2009. Prospective increment of reserves according to the new reserves calculation will amount to 100 tonnes of gold.
The license to use waste dumps of the Kuranakh ore field was obtained in 2008. The scoping study and reserves calculation for those waste dumps are to be prepared in 2009.
2008 saw the completion of works related to the project of supplementary exploration of Nezhdaninskoye deposit. The expected reserves addition is 200 tonnes of gold. Total reserves of category $C_1 + C_2$ amounted to 680 tonnes of gold. The scoping study and reserves calculation have been submitted to the State reserves committee (GKZ).

MAGADAN REGION

In 2008 exploration works were carried on within the limits of Omchaksky ore cluster with the purpose to examine feasibility of extending and improving raw material sources for the designed Natalka mine (***Natalka deposit***). Prospecting data indicated the plot Zolotaya Rechka as a high potential project. An ore zone 180 m thick was found in the plot displaying inside the zone ore intervals with thickness ranging from 2.7 m to 83.5 m, Gold grade in some samples ranging from 0.4 to 13.1 g/t. The average grade across the ore intersections ranges from 0.6 to 4.6 g/t. The final assessment of perspective development of the plot will be formed based on the results of works in 2009. Probable resources of category P1 across the are estimated at measured 65 – 70 tonnes of gold.

Exploration works at the licence areas of Polyus Exploration Ltd.

The rights on 12 license areas were transferred to Polyus Exploration Ltd., a subsidiary of the Company.The list includes the following license areas: Panimbinskiy cluster, Razdolinskiy ore cluster, Zyryanovskiy ore cluster, Mukodek ore occurrence, Piniginskoye deposit, Kyuchus deposit, Degdekanskoye ore field, Tokichanskoye ore field, Chai-Yuryinskiy ore cluster, Doroninskoye deposit, Bamskoye deposit, Apsakanskaya gold ore area. The following works and operations were carried out at the above licensed areas within the period under review.

Krasnoyarsk region

Prospecting works were continued at Panimbinskaya area. Prospective ore occurrences of Mikhailovskoye and Zolotoye saw the beginning of exploration works under a special addendum to the main development program. Resources estimated under categories C_2 and P_1 accounted for at least 100 tonnes and the resources potential could be increased at the flanks and deeper levels of the occurrence. End-to-end gold recovery from ores of Mikhailovskoye and Zolotoye occurrences using gravity and hydrometallurgical process yielded 90% of available gold.

The first phase of prospecting drilling operations in the Zyryanovskaya area had been completed. Processing of obtained data and estimation of the resource potential were underway.

Prospecting works on the Razdolinskaya area had been completed. Resource potential under category P_1 is estimated at the level of 50 tonnes. The course of estimation works was planned to continue upon examining technological properties of ores and evaluation of geological and economic issues. Prospecting works at the Poputninskoye ore deposit (part of Razdolinskaya area) were carried on. Potential reserves accounted for at least 60 tonnes of gold; technological studies were continued.

Irkutsk Region

Prospecting works were carried on in 2008 at Mukodek ore occurrence in Mamsko-Chuiskiy region of the Irkutsk Region. Technological trials of ore were performed using laboratory core samples. It was revealed that ores belonged to poor-sulphide grades and were easy to process. Gravity-flotation process supplemented by cyanidation of gravity and flotation concentrate was recommended for processing technology. The preliminary scoping study was produced along with the final estimation of reserves (in category C_2 – 6.4 tonnes of gold) and predicted resources (P_1 – 3.0 tonnes of gold, P_2 – 28.5 tonnes of gold). The documents were submitted to the Territorial reserves committee (Irkutsknedra) for expert examination.

Republic of Sakha (Yakutia)

Field geological exploration works were completed at Kyuchus deposit. A commercial and process prototype ore sample weighing 26 tonnes was taken at the final stage of works. Materials of the Feasibility study of provisional exploratory standards for terms of open pit and underground mining development were submitted to the Federal Agency for the Subsoil Use Rosnedra and passed the State expert examination. Provisional standards for the de-

Table 3. Distribution of licenses among exploration subsidiaries of Polyus Exploration Ltd. as of 31.12.2008:

Development project	Former owner	New owner	Date of license expiry
Panimbinskiy ore cluster	CJSC Polyus	LLC Krasnoyarskoye GRP	01.11.2029
Razdolinskiy (Poputnenskiy) ore cluster	CJSC Polyus	LLC Krasnoyarskoye GRP	01.11.2025
Zyryanovskiy ore cluster	CJSC Polyus	LLC Krasnoyarskoye GRP	15.10.2030
Mukodek ore occurrence	LLC LZRK	LLC Irkutskoye GRP	01.04.2030
Piniginskoye deposit	OJSC 'Aldanzoloto' GRK	LLC Yakutskoye GRP	15.02.2027
Kyuchus deposit	OJSC YGK	OJSC YGK	31.10.2009
Degdekanskoye ore field	OJSC Matrosov Mine	LLC Magadanskoye GRP	01.06.2030
Tokichanskoye (Vostochnaya area) ore field	OJSC Matrosov Mine	LLC Magadanskoye GRP	01.09.2030
Chai-Yuryinskiy ore cluster	GRK BarGold Ltd	LLC GRK BarGold	20.04.2031
Doroninskoye deposit	-	LLC GRK BarGold	17.02.2033
Nevachanskaya hard rock gold area (Bamskoye deposit)	CJSC Polyus	LLC Amurskoye GRP	15.04.2030
Apsakanskaya hard rock gold area	CJSC Polyus	LLC Amurskoye GRP	25.05.2032

The camp at the Kyuchus deposit in the Sakha Republic (Yakutia)

posit were approved based on the results of the above examination.

In 2008, exploratory works were commenced at Piniginskoye field. Design estimated were developed and approved, 750 running meters were drilled, and core samples were obtained and sent to the laboratory for the analysis within the same year of 2008.

Magadan Region

The main scope of field geological survey and exploration works were completed in the plot of Vernyi of the Degdekanskoye ore field. The ore body was a V-shaped gold-sulphide stock work suitable for the open pit. Result of technological mapping attributed ores to the refractory type subject to concentration of 86-90% gold in the sulphide concentrate (gravity-flotation process scheme). Preliminary calculation of reserves employed statistical methods. Reserves at cutoff grade of 0.4 g/t in category C_1+C_2 were estimated at 138.1 tonnes of gold; the average grade of gold was 0.93 g/t while the expected average grade of gold within the rigid plot limits was 1.3 g/t. Prospecting and estimation works at Tokichanskaya (Eastern) ore deposit area in 2008 had a limited scope. Two potential plots were identified. Estimated reserves were equal to 25.2 tonnes of gold.

Prospecting works at Doroninskoye ore field were accomplished. Gold and silver mineralization was supposed. Probable reserves were estimated at 10 tonnes of gold and 2,500 tonnes of silver. Prospecting was completed in the plot covering placer tailings with ore occurrences Vlasych, Shakhtnoye and about a decile of occurrences with visible gold at Chai-Yuryinskaya potential area. A number of small-scale deposits of easy to process ores and coarse grain gold in the amount of 5 to 10 tonnes were predicted within the limits of the ore area. Methods adjustment trials were organized on the plot sizing 150 x 150 m (test grid pattern was 10 x 10 x 10 m) to improve prospecting techniques and exploration of bonanza-grade type of gold ore bodies.

Amur Region

The Company has licenses in the Amur Region for the Nevachanskaya gold ore area (the Bamskoye deposit) and Apsakanskaya gold ore area. Auditing and evaluation survey were performed under the plan of supplementary exploration of the Bamskoye deposit. Field, laboratory and laboratory-based process works were completed.

Works on the feasibility report and estimation of reserves are continued. 2008 saw the completion of geological surveys and exploration works across the Nevachanskaya area. Results of the prospecting works to identify vein gold deposits brought about the conclusion on the unpromising perspective of the Nevachanskaya area in discovering deposits exclusive east and south-east flanks of the Bamskoye deposit wherein follow-up geological explorations were recommended.

The Apsakanskaya area (242 km2) is located south-east of the Nevachanskaya area and belongs to the same ore cluster as the Bamskoye gold ore deposit.

Geochemical surveys scaled 1:50 000 were carried in 2008 and two plots were sub-detailed to 1:10 000 scale. Experimental and method testing works were completed at the Bamskoye deposit with the scope to develop a geochemical image of a Bamskoye-type deposit. 70% of analyses were completed. Geoecological studies to identify and analyze the background benchmark status of the environment were carried out across the entire area.

A dredge working at the Maly Patom area, Bodaibo area of Irkutsk region

Zinaida I.Puntusova (right), Deputy chief geologist, OJSC Lenzoloto:

«In 2008 the alluvials production units successfully fulfilled the gold production targets set for the year. On the exploration front, the reserves growth amounted to 3.4 tonnes of gold under categories C1+C2».

Oksana V.Yaglinskaya, chief geologist of OJSC Lenzoloto:

«The key achievement of the Lenzoloto production units in 2008 was the stability of the operations. All the people at Lenzoloto are united with their commitment to their goals and their will to be a great team».

Table 4. Mineral resources according to the JORC Code[11]

Table 4.1 Measured, indicated and inferred resources

Месторождение	Measured			Identified			Total measured and indicated, gold ('000 ounces)
	Ore (mln tonnes)	Grade (g/t)	Gold ('000 ounces)	Ore (mln tonnes)	Grade (g/t)	Gold ('000 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	0.22	237	169.8	0.42	2,091	2,328
Total	53.5	2.03	3,491	415.6	1.40	18,696	22,187
PROJECTS							
Blagodatnoye(5)	3.4	2.50	271	132.8	2.40	10,230	10,501
Natalka(2)	163.9	1.74	9,166	626.9	1.52	30,543	39,709
Verninskoye(1)	–	–	–	31.5	2.20	2,248	2,248
Olenye(1)	–	–	–	0.4	7.40	100	100
Titimukhta(3)	9.7	3.10	950	17.6	3.10	1,750	2,700
Chertovo Koryto(4)	4.1	1.85	247	46.4	1.84	2,742	2,989
Total	181.1	1.83	10,634	855.5	1.73	47,613	58,247
Grand total	234.6	1.87	14,125	1271.1	1.62	66,309	80,434

11 Reserves and resources of each deposit are indicated in full and include resources and reserves belonging to minority shareholders of companies in the Polyus Gold Group.

The Company has been keeping the balance of mineral resourses by virtue of the Russian and international classification ever sicnce the date of association. The reserves of the Company are accounted for by the State balance of mineral resources of the Russian Federation.
The Company has been auditing within several recent years mineral and raw material resources by virtue of the the JORC Code with the purpose to provide the investing community with information on reserves and resources using international standards of the sector.
The first audit or ore reserves and mineral resources of OJSC Polyus Gold was executed by SRK Consulting Company back in 2005. The audit included analyses of a number of deposits of the Company in the Krasnoyarsk region, Magadan and Irkutsk Regions. The Company ever since has been assigning audits on a regular basis of corporate deposits by virtue of JORC standards as soon as geological surveys and exploration works are completed. From the year 2006 on the international audit of the Company deposits is performed MICON International Company.
The Company performed in 2008 an international audit of Titimukhta, Chertovo Koryto and Blagodatnoye deposits. Aggregate proved and probable (P&P) resources of the Company increased within 2008 alone from 68.6 million ounces to 74.1 million ounces. Measured and indicated (M&I) mineral resources grew from 73.3 million ounces to 80.4 million ounces.

Месторождение	Inferred		
	Ore (mln tonnes)	Grade (g/t)	gold ('000 ounces)
OPERATING FACILITIES			
Olimpiada[1]	37.2	3.10	3,666
Kuranakh[1]	7.3	1.50	346
Zapadnoye[1]	1.7	3.40	181
Lenzoloto[1]	29.2	0.62	520
Total	75.4	1.94	4,713
PROJECTS			
Blagodatnoye[5]	36.1	2.20	2,555
Natalka[2]	472.4	1.42	21,538
Verninskoye[1]	4.4	3.10	446
Olenye[1]	0.7	6.90	150
Titimukhta[3]	3.6	2.40	270
Chertovo Koryto[4]	2.1	1.64	109
Total	519.2	1.50	25,068
Grand total	594.7	1.56	29,781

1. Audited in October 2006 by Micon International Co. Limited.
2. Audited in July 2007 by Micon International Co. Limited.
3. Audited in July 2008 by Micon International Co. Limited.
4. Audited in January 2008 by Micon International Co. Limited.
5.Audited in November 2008 by Micon International Co. Limited.

Table 4.2. Ore reserves according to the JORC Code

Deposit	Proved			Probable			Total proved and probable, gold grade ('000 ounces)
	Ore (mln tonnes)	Grade (g/t)	Gold ('000 ounces)	Ore (mln tonnes)	Grade (g/t)	Gold ('000 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
Alluvials[1] [6]	12.5	0.32	128[7]	104.8	0.52	1,603	1,731
Total	31.5	3.09	3,133	228.1	1.87	13,684	16,817
PROJECTS							
Blagodatnoye[5]	3.1	2.30	226	132.1	2.27	9,633	9,859
Natalka[2]	242.3	1.30	10,291	883.1	1.10	30,550	40,841
Verninskoye[1]	–	–	–	17.1	3.00	1,657	1,657
Olenye[1]	–	–	–	0.5	6.40	99	99
Titimukhta[3]	7.7	3.30	817	13.4	3.30	1,422	2,239
Chertovo Koryto[4]	3.8	1.80	218	39.8	1.84	2,352	2,570
Total	256.9	1.40	11,552	1,086.0	1.31	45,713	57,265
Grand total	288.4	1.58	14,685	1,314.1	1.41	59,397	74,082

1. Audited in October 2006 by Micon International Co. Limited.

2. Audited in July 2007 by Micon International Co. Limited.

3. Audited in July 2008 by Micon International Co. Limited.

4. Audited in January 2008 by Micon International Co. Limited.

5.Audited in November 2008 by Micon International Co. Limited.

6. In '000s cubic meters.

7. Grams per cubic meter.

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

Classification	Category	Ore (mln tonnes)	Grade (g/t)	Gold ('000 ounces)
Resources[1][2]	Measured	234.6	1.87	14,100
	Indicated	1271.1	1.62	63,800
	Total measured and indicated	1,505.7	1.66	77,900
	Inferred	594.7	1.57	30,117
	Total measured, indicated and inferred	2,100.4	1.63	110,215
Reserves[1]	Proved	288.4	1.58	14,685
	Probable	1,314.1	1.41	59,397
	Total proved and probable reserves	1,602.5	1.44	74,082

1. Conversion of gold dust was made proceeding from the balance of 2 metric tonnes per 1 cubic meter.

2. Mineral reserves of each deposit are indicated in full including mineral reserves including those falling to the share of minority shareholders members of the Group Polyus Gold.

Smelting at the laboratory of the pilot plant at Natalka

Lyubov S. Koryakova,
metallurgy section controlloer
(the Natalka deposit):

«The laboratory is equipped with the state-of-the-art machinery, which allows to produce high-quality samples and to minimize the probability of error. The equipment requires high professionalism from those who operate it».

8. INNOVATIONS

The Group attends on developing its own research base. The powerful research base is one of the factors constraining operating costs growth ensuring the Company will retain industry leadership in technology development. To develop the Company's innovative activities, the R&D Center operates in Krasnoyarsk business unit. The R&D Center covers virtually all R&D activities held in the Company and comprising the entire gold production cycle, from testing and research to industrial technology development. OJSC Aldanzoloto (GRK) (Yakutsk business unit) also has its own Central Research Laboratory.

Research laboratories of the R&D Center utilize state-of-the-art equipment and devices enabling development and promotion of the Company's innovative solutions using the best practice complying with globally recognized standards. The Group's innovation headroom is also maintained by highly-qualified personnel of the R&D Center (as of December 31st 2008, the personnel consists of 64 employees, including 7 PhD graduates), the Science and Technology Division of the Corporate Center (4 employees, including 2 PhD graduates), the research laboratory of Olimpiada Mine (20 employees), and the research laboratory of Kuranakh Gold Extraction Plant (Mill) (5 employees).

Main results of the Group's innovative activities in 2008:

1. A set of measures aimed at achieving the design capacity of the Mill-3 (Olimpiada Mine) performed:

- Examining efficient flotation agents reducing acid-consuming carbonate minerals in float concentrates at Mill № 3;
- Industrial tests of acid liquid glass in the flotation process at Mill № 3;
- Industrial tests of floatation and sorption waste gravity preparation;
- Industrial tests of gravity preparation of hydrocyclone sand for eliminating gold-related circulating load and for reducing metal loss because of overgrinding;
- Adjustment of process parameters and indicators related to processing primary rock currently produced at Vostochnyi pit of Olimpiada deposit (520 – 530 m horizon) accompanied by industrial tests;
- Determining the influence of proportion of mineral nutrition components on the biooxidation process of Olimpiadinskoye deposit ore concentrates;

2. Implementing the Engineering design related to development of the automated system of analytical control of the production processes at the mill-3 of Olimpiada mine; generating Metal Balance subsystem. Design of Mill № 3 automation system was also in process.

3. Rational ore processing technologies for ore produced at Panimba, Poputnenskoye and Kvarzevaya Gora deposits were developed in consolidated laboratory scale.

4. Research for development of ore pre-concentration technology for ore produced at Natalka deposits was conducted;

5. Pilot tests of extracting stibium from Olimpiada Mine biofiltrate were conducted;

6. Approval and pilot tests of new sorbents for extracting gold at Nizhny Kuranakh deposit were performed;

7. Construction and commissioning of the pilot plant were completed at Natalka deposit in Magadan Region. Schedule of tests aimed at determining the best process flow chart of field ore processing was developed.

8. An excavation method used to develop multilayer alluvial deposits with onshore bucket dredges was implemented, with obtaining the patent for invention. Dredge jolting machine No. 134 was implemented instead of the sluice technology enabling 13% improvement in gold recovery.

In 2008, the Group spent USD 5.5 million for R&D financing. It's worth mentioning that financial reporting doesn't include a separate line to

account R&D costs. A part of R&D costs referring to the period under review included in Research and exploration expenses of the Income Statement. The capitalized part of R&D costs is accounted as a part of fixed assets.

9. CAPITAL MARKET ACTIVITIES

AUTHORIZED CAPITAL

As of 31 December 2008, OJSC Polyus Gold issued share capital consisting of 190,627,747 ordinary shares with a par value of RUR 1 per share, of which 12,476,401 ordinary shares (or 6.54% of the authorized capital stock) were held by Jenington International Inc., which is a part of the Group.
The Company's Charter has no provision for any preference or preferred shares.

THE COMPANY'S SHARES ON THE STOCK MARKET

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

- OJSC RTS Exchange;
- CJSC MICEX Stock Exchange.

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

OJSC Polyus Gold is permitted by the Federal Financial Markets Service (FFMS) of Russia to have 66,719,711 ordinary shares which can circulate outside.
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.
As of 31 December, 2008, 130,948,072 American Depository Receipts were issued, which is 34.35% of the Company's authorized capital. As of 31 December, 2008, the total capitalization of American Depository Receipt Program of OJSC Polyus Gold amounted to USD 1.68 billion.

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

- On the Main Board at the London Stock Exchange, with PLZL ticker symbol;
- On the OTC Market in the USA, with OPYGY ticker symbol;
- Off the listing at Frankfurt Stock Exchange, with P6J2 ticker symbol.

Market quotations of the Company's securities are used for calculation of a number of Russian and international stock indices, such as RTS, MICEX, AK&M, MSCI and FTSE.

DIVIDENDS

Recommendations on the amount of dividends provided by the Board of Directors of OJSC Polyus Gold are based on the Regulation on Dividend Policy of OJSC Polyus Gold, approved by the Board of Directors on 3 April 2007.
On 13 April, 2009, the Board of Directors recommended to the Annual Shareholders Meeting not to pay the dividends based on results

of 2008. This decision was adopted in connection with the existing macroeconomic situation, and in connection with the fact that pursuant to Russian accounting standards, OJSC Polyus Gold, the Group's parent company got the net loss of its activities resulted from the revaluation of the cost of securities purchased in accordance with the asset management agreements and recognized on the balance sheet of this Company.

In June 2008, the Annual General Meeting of the Shareholders of OJSC Polyus Gold adopted the decision to distribute RUR 562,351,853.65 for dividend payment, to declare dividends based on the results of activities of OJSC Polyus Gold in 2007 in the amount of RUR 2.95 per 1 ordinary share of OJSC Polyus Gold, and to establish that dividends must be paid until 29 August, 2008 inclusive.

As of 31 December, 2008, the Company paid dividends for the amount of RUR 560,469,204.05.


Loading of ore for the trial launch of the pilot plant at the Natalka deposit

DEBT INSTRUMENTS AND OTHER FINANCIAL INSTRUMENTS

In the reporting period the Company continued to follow its debt-free and non-hedge strategy, even in spite of the fact that it accumulated a significant sum of cash and equivalents and continued to operate in a favorable pricing for its production.
No doubt, this has favorably influenced financial results of the Company. OJSC Polyus Gold has completely reflected positive dynamics of the gold price growth in its revenues, and has avoided considerable financial loss caused by the growth of interest rates.
However, the Company continues actively monitoring of the financial market situation, and, if it addresses improving shareholders' wellbeing, the company doesn't exclude an opportunity to use both hedging instruments and to enter debt market.

PURCHASING 50.1% SHARES OF KAZAKHGOLD GROUP LIMITED

On 26 September, 2008, the Company declared that it was negotiating with KazakhGold Group Limited (KazakhGold) about a Possible Partial offer of the Company or its daughter company to purchase 50.1% of KazakhGold Group Limit-

ed issued shares and shares to be issued.
On 30 September, 2008, the Board of Directors of OJSC Polyus Gold generally approved the possible purchase of 50.1% shares (GDRs) of KazakhGold Group Limited by the company indirectly controlled by OJSC Polyus Gold by paying in cash and by shares priced at USD 7.95 and 0.298 of ordinary registered shares of OJSC Polyus Gold for one share (GDRs) of KazakhGold.
On 29 December, 2008, KazakhGold declared that as a result of the negotiations with OJSC Polyus Gold, the Parties had come to an agreement to revise the Partial offer.
The same day, absentee voting of the members of the Board of Directors of OJSC Polyus Gold was held; as a result of the voting it was decided to approve the possible purchase of 50.1% of KazakhGold Group Limited issued shares and shares to be issued (including shares presented by GDRs) by Jenington International Inc. included in the Group, with the purchase to be conducted within the framework of the Partial offer in compliance with the Great Britain City Code for Mergers and Acquisitions (Partial offer) and to be paid for by ordinary registered shares of OJSC Polyus Gold at the rate of 0.423 of ordinary registered share of OJSC Polyus Gold per one share of KazakhGold (including shares presented by GDRs).
In case the Partial offer is executed, the Board of Directors also considered it expedient for one or several companies of the Group to purchase an additional issue of KazakhGold shares that are planned to be issued by KazakhGold in order to attract funds for amount of approximately USD 100 million.
The Group has adopted the decision that the Possible partial offer will be declared of in case owners of KazakhGold Senior notes (noteholders) undertake to their right to require KazakhGold to repurchase all or any part of the Senior Notes on a change of control of KazakhGold, as well as to refuse a number of conditions allowing KazakhGold to attract additional funds from the Group.
On 02 February, 2009, the General Meeting of KazakhGold noteholders adopted the decision about waiving the right to request KazakhGold to repurchase all or any part of the Senior Notes on a change of control. Thus, one of the conditions required to execute the Partial offer was met.
Maturity term of the bonds for total amount of USD 200 million expires in 2013. If the Partial offer is executed, OJSC Polyus Gold will become the guarantor for the notes issue.
On April 30, 2009 KazakhGold Limited made an announcement on the revision of the Proposed Partial offer, due to exceptional circumstances. That is why the terms of the Proposed Partial offer as announced on December 29, 2008 became no longer valid. KazakhGold and Polyus Gold carried on the negotiations process aimed at reaching an agreement on the revised terms of the Proposed Partial offer.
For the date of issuing this annual report, it was not guaranteed that the Partial offer would be executed. Whether it will be finally declared is defined by a number of conditions.
For the date this annual report was published, no binding offer was made.

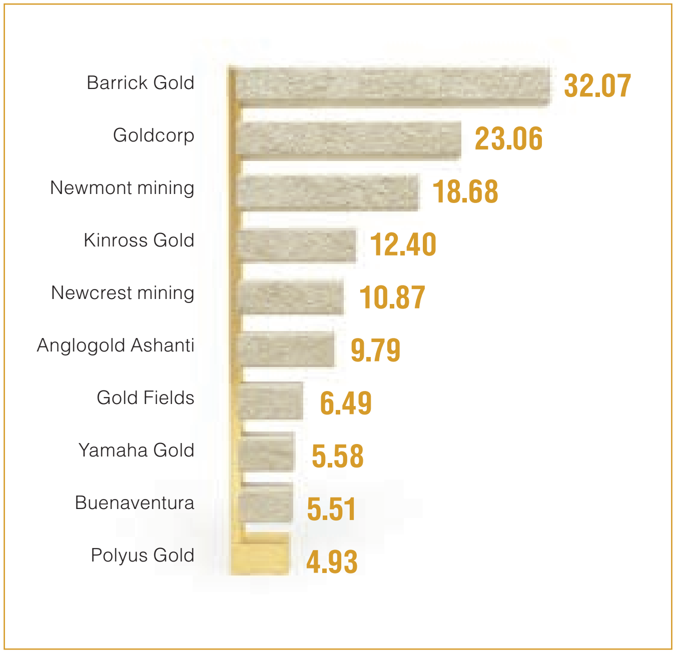
Ore loading at the Kuranakh group of deposits

Boris M.Mitrokhin,
mining equipment repairman, Kuranakh mine:

«What was the main achievement of the year 2008 at Kuranakh? I would say that during the recent couple of years the life at Kuranakh has improved significantly: new mining equipment is being supplied: the trucks, excavators, bull-dozers, drilling machines. Modern passenger busses was introduces. In the year 2008 the automated system of mining fleet control was introduced. The machines are equipped with special devises that allow to monitor what is going on in the pits. That helps us to reduce the downtime and to improve efficiency».

10. OJSC POLYUS GOLD IN THE INTERNATIONAL GOLD MINING INDUSTRY

The world's largest gold-mining companies, based on the market capitalization (as of 31.12.2008), billion USD



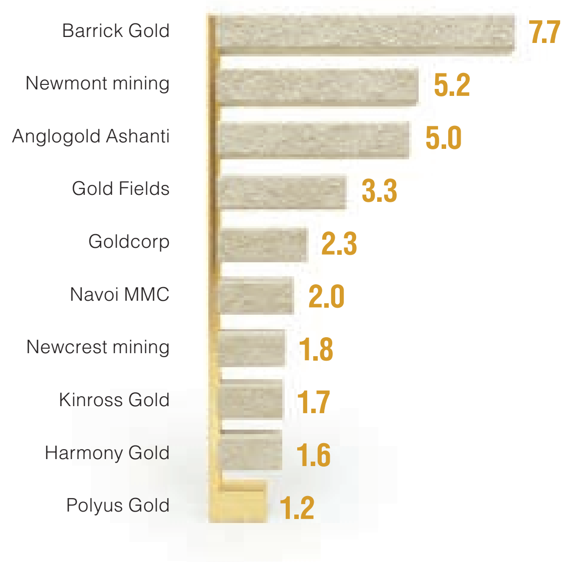
Source: Bloomberg.

As of 31 December, 2008 the Polyus Gold, was one of the world's leading gold-mining companies in terms of its market capitalization. As of 31 December, 2008, the capitalization of the Company amounted to USD 4.9 billion, as compared to 8.1 billion dollars as of 31 December, 2007. A more substantial decline in capitalization of the Company (39%), as compared to the other world's leading producers (Barrick Gold – 25%, Newmont – 28%, Kinross – 15%) resulted in transferring the OJSC Polyus Gold, based on its market capitalization, from the 9th place in 2007 to the 10th in 2008.

NO 10 GLOBALLY IN TERMS OF MARKET CAPITALIZATION

USD 4.93 BILLION

World's leading gold producers, Production in 2008, mln oz.



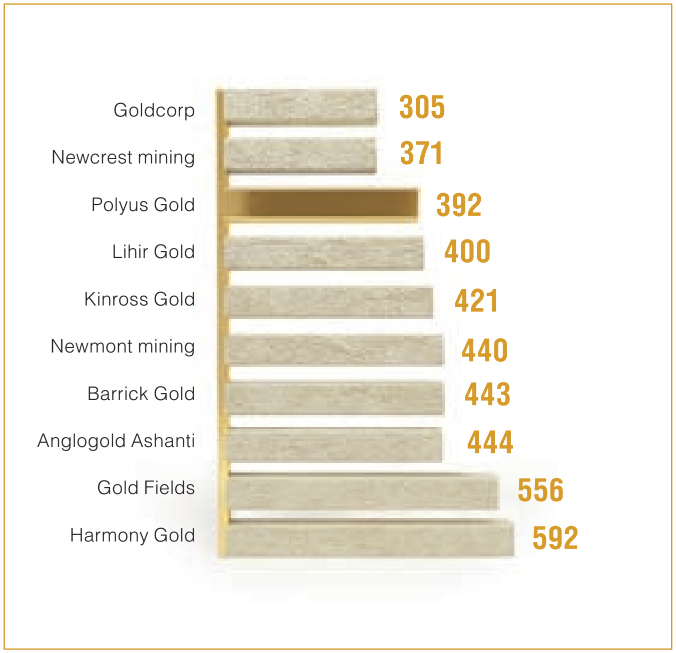
Source: GFMS.

According to GFMS, Polyus Gold, following the results of 2008, secured the world's tenth place, based on the volume of metal produced. As it was envisaged by the the Company Strategy, over the last three years the production volume remained at the level of 1.2 million ounces, whereas in 2009 the Company is expecting the beginning of the production growth intended to strengthen the position of the Polyus Gold among the other world's gold producers and to place it among the leading top five up to the year of 2015.

NO 10 IN THE WORLD IN TERMS OF GOLD PRODUCTION

1.2 M OZ

World's leading gold producers, TCC in 2008, USD/ounce

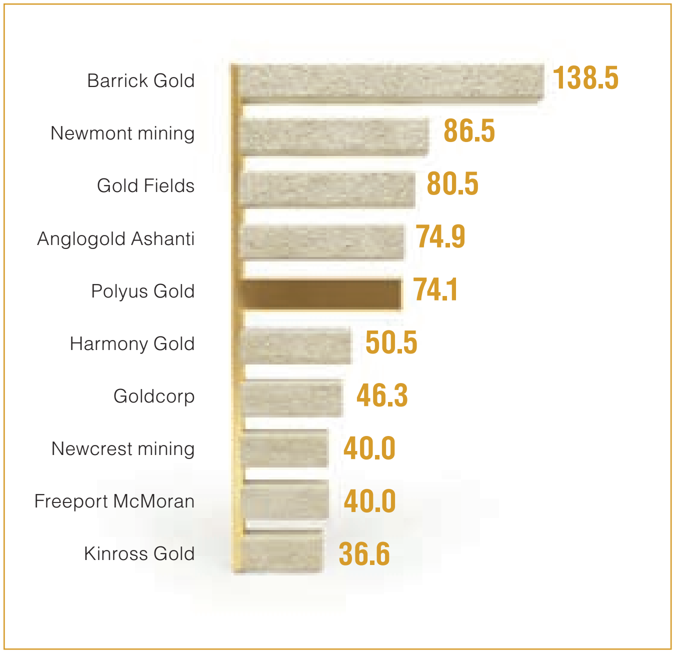


Source: The companies' web-sites.

In 2008 the Group continued to remain a producer with a relatively low expenses, as compared to the world's leading gold producers.

AT THE LOWER END IN THE INDUSTRY IN TERMS OF TCC **392** USD/OZ

World’s leading companies, based on gold P&P reserves, Proved and probable reserves, in 2008, million ounces

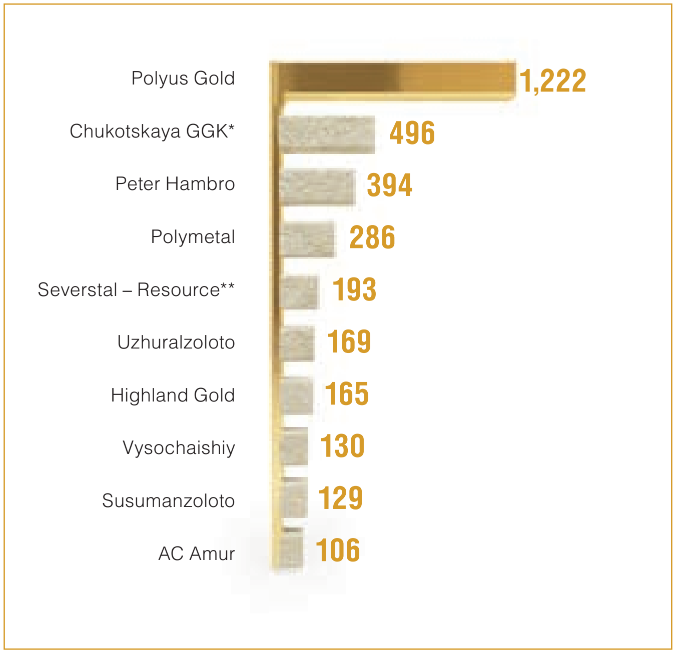


Source: The companies’ web-sites.

Following the results of 2008, OJSC Polyus Gold was number 5 globally in in terms of the proved and probable reserves, retaining its position at the level of 2007. For more detailed information on the development of mineral resources base of the Company, see the Section 7 «Results of geological exploration».

NO 5 IN THE WORLD IN TERMS OF P&P RESERVES 74.1 M OZ

Russia's leading gold producers,
Production in 2008, thousand of ounces



Source: the Companies' information, the Union of Gold Miners.

In the year of 2008, the Company remained the indisputable leader among the Russian gold producers, based on the volumes of the metal produced as well as on the volumes of the mineral resources base. The share of the Company in the Russian-wide metal production in 2008 amounted to 21%.

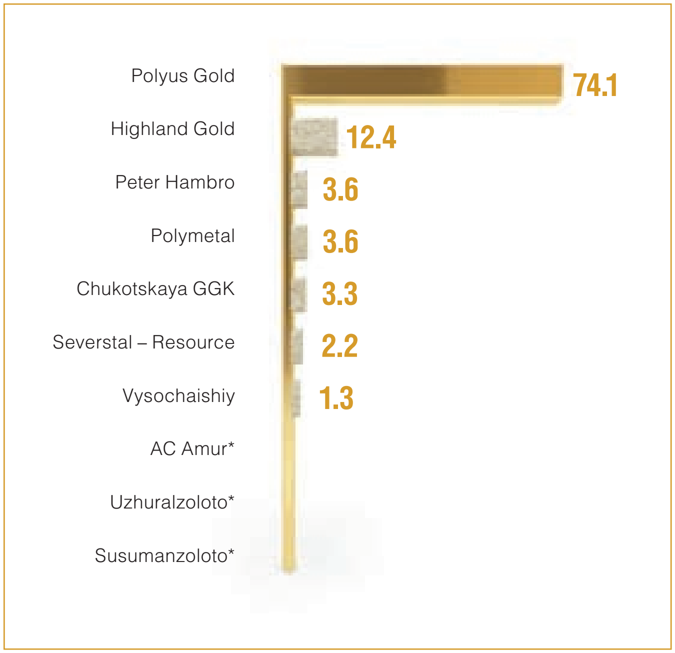
* 75% of CJSC Chukotskaya GGK developing the Kupol deposit is owned by Kinross Gold Corp.

** In 2008, CJSC Severstal-Resource acquired the controlling stake of High River Gold.

NO 1 GOLD PRODUCER
IN RUSSIA

1,222 K OZ

Russia’s leading gold producers,
Proved and probable reserves, million ounces



INDISPUTABLE LEADER
IN RUSSIA IN TERMS
OF P&P RESERVES

74.1 M OZ

Sources: The companies’ web-sites.

** no data available.*

Assay smelting

Tatiana V.Misyul, smelter of the assay laboratory of Lengeo Co Ltd., a subsidiary of LZRK Co Ltd.:

«I am proud that I work in Lengeo. In 2008 the company became one of the leading exploration enterprises in the Bodaibo district and currently we are working on retaining the achieved positions».

11. GOLD MARKET

OVERVIEW OF THE GOLD INDUSTRY

People have used gold for many centuries to store value, as a form of money, and to produce jewellery. Until recently, many economies used gold as the basis for international monetary standards and Polyus Gold believes it remains a popular investment tool. Due to its qualities of malleability, ductility, reflectivity, resistibility to corrosion and excellent thermal and electric conductivity, people also use gold in a wide variety of industrial and medical applications.

Jewellery is by far the most important market for gold. India is currently the world's largest consumer of gold jewellery by volume, whilst the United States was the largest market by value in 2006. In addition to the more familiar rings, brooches, necklaces and earrings, people use gold as gold leaf for decoration and protection, screen printing (for example directly on to bone china, earthenware, porcelain and glass surfaces). Gold is also the key component for both «liquid gold», a formulation containing up to 12% gold, which is ideal for decorative application using brushes, and gold pastes used for screen printing.

Gold is also well known as a coinage metal.

> According to GFMS, Russia became the fifth biggest gold producer in the world.

Apart from gold coins, gold ingots and gold bars, gold is available in many forms including pure gold and alloys, such as gold flakes, foil gauzes, grain, powders, sheet, sponges, tubes, wires and even single gold crystals.

Recently, gold catalysts have become increasingly useful in the chemical industry. Many other gold compounds – including neutral gold halides, aurates, gold cyanides, gold oxides, phosphine gold complexes, gold hydroxides and gold nitrates – are available to industrial users. Chloroauric acid, which contains gold, is used in photography for toning silver images.

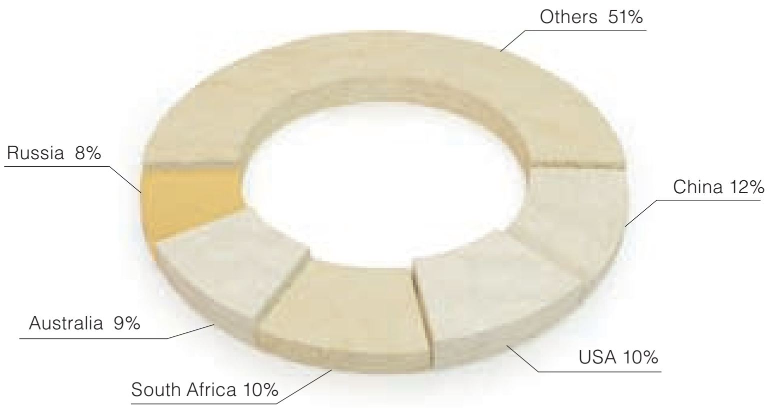
Finally, gold is a useful metal for use in electronics owing to its inert nature and other physical properties. For example, people use gold for electrical contacts, bonding wire, solder alloys and electroplating. Gold is also a useful brazing material and manufacturers use it for coating space satellites since it is a good infrared reflector and is inert.

Polyus Gold believes that, because of its historically high value, the bulk of the gold mined throughout history is still in circulation today in one form or another.

GOLD PRODUCTION

Gold deposits are located throughout the world. According to provisional statistics produced by Gold Fields Mineral Services Limited of London («GFMS») in February 2009 (which included estimates for informal production, where applicable), the total volume of gold mined, worldwide, in 2008, amounted to 2,385 tonnes, which is a 4% decrease from the 2007 level. The GFMS report states that China is the largest producer of gold, overtaking the United States and South Africa (South Africa was the largest producer until 2007, when it lost its leading position in gold production for the first time since 1905). In 2008 the United States' gold production decreased by 2% from 239 tonnes in 2007 to 234 tonnes. In 2008, South Africa's gold production decreased by 14% from 270 tonnes in 2007 to 232 tonnes. Conversely, China increased metal output from 280 tonnes in 2007 to 288 tonnes in 2008. Australia, the fourth largest producer, decreased its production by 14% from 245 tonnes in 2007 to 211 tonnes in 2008. According to GFMS, Russia became the fifth biggest gold producer in the world with 183 tonnes of gold. However, notwithstanding these changes, the international gold industry is relatively concentrated as compared to certain other metallurgical industries, with the top ten producers accounting for the majority of production in 2008.

The leading gold producing countries in 2008



Источник: GFMS.

The largest producing companies are based in Canada, South Africa, the United States and Australia.

SUPPLY AND DEMAND

In addition to freshly mined metal, the mobilisation of above-ground stocks of bullion provides a significant contribution to total supply. Substantial reserves of gold are held by central banks, as well as private financial institutions, industrial organisations and private individuals, and any decision to sell such reserves may significantly increase the supply of gold. The risk of an excess of supply has been mitigated to some extent by the Central Bank Gold Agreement («CBGA») that the European Central Bank and 16 other central banks renewed in 2004. The CBGA sets a limit on gold sales by those central banks for a term of 5 years. In addition to these reserves of gold, a significant proportion of gold supply is derived from scrap.

GFMS estimated total gold supply in 2008 to be 3,772 tonnes, which was 4% lower than in 2007. Gold supply from mines in 2008 showed a decrease of 4% from 2007 to reach 2,385 tonnes. Supply from gold scrap increased by 13% to 1,108 tonnes in 2008. Sales from official reserves in 2008 dropped by 43% to 279 tonnes. The decline was primarily due to falling sales from signatories to the second CBGA.

The demand for gold derives primarily from manufacturers of jewellery and, to a lesser extent, industrial users, such as the electronics sector. In addition, the repurchase by producers, in response to increasing prices, of gold that they had previously hedged to mitigate the effects of declining prices has provided a significant contribution to total demand throughout this decade (according to GFMS, de-hedging amounted to 346 tonnes in 2008). Finally, in 2008, investors have accounted for an equally substantial portion of global demand. According to GFMS, implied net investment equalled 219 tonnes in 2008.

The revival of gold investment demand has come largely in response to the continuing uncertainties in the financial markets. However, total combined demand for gold fell by 4% in 2008, driven mostly by a slump in jewellery fabrication demand.

INVESTMENT DEMAND

In 2008 high investment demand for gold was reported. According to GFMS, the investment demand was represented by demand for golden ingots, implied net investments and demand for golden coins and comprised 795 tonnes of metal, as compared to 533 tonnes in 2007.
According to GFMS, ingot acquisition in 2008 increased by 62.3% from 236 tonnes to 383 tonnes of gold. In 2008 the increase in implied net investments in gold was reported by 21.7% from 180 tonnes to 219 tonnes of metal, with increase in demand for golden coins comprising 41.6% from 137 tonnes to 194 tonnes.
The increase of investments in gold should be attributed primarily to the instability of the world financial market. The demand for ingots was traditionally claimed by the Asian countries. The demand for gold in 2008 was the most substantial over the last 21 years and was generated basically by the investors from the Northern America and Western Europe.
The implied net investments were represented by various instruments: tradable structured warrants and certificates, exchange traded funds (ETF), metal accounts, futures and other derivatives. 2008 was characterized by investors fleeing the traditional assets and instruments unsecured by physical gold (certificates, futures) into the instruments secured by the metal availability, such as ETF and metal accounts.

Global gold consumption in 2008

According to GFMS, ingot acquisition in 2008 increased by 62.3% from 236 tonnes to 383 tonnes of gold.

The ETF is the most attractive financial product due to its liquidity, availability and security. The total volume of the 11 ETFs, monitored by GFMS, increased by 308 tonnes and amounted to 1,209 tonnes, as of late 2008 (increase nearly by 4 times since 2007 and 24 times since 2004).

PRICING AND TRADING

In addition to the fundamental supply and demand dynamics of the gold markets, the price of gold is affected by many other factors, including global economic conditions, sales and purchases by central banks or other large holders or dealers, speculative trading, currency exchange rates and inflation and interest rates. In 2008, gold prices continued to grow. The average gold price hit a record of USD 871.96 per troy ounce, which is 25% higher than the previous record set in 2007 which was USD 695.39 per troy ounce (in nominal terms). The price peaked in March 2008 at

USD 1,011.25 per troy ounce, surpassing the historic maximum in 1980, when the price of a gold troy ounce was USD 850. The main growth of gold prices in 2008 occurred in the first half of the year. According to GFMS, that a number of macroeconomic events in 2008 caused this growth:

- the continuing uncertainties in the financial markets;
- the decision by many governments to pursue aggressive monetary and fiscal policies; and
- concerns over the security of many alternative forms of investments.

Polyus Gold expects the key drivers of gold prices in 2009 to continue to be the unstable and weak world financial and commodity markets, the liquidity crisis, uncertainty about the world banking system and hard currencies fluctuations, reduced world gold output, depleted gold ore reserves, demand from investors and increased geopolitical tension.

12. THE STRUCTURE OF THE POLYUS GOLD GROUP

CHANGES IN THE STRUCTURE OF THE POLYUS GOLD GROUP

In February, 2008, CJSC ZDK Lenzoloto acquired 100% of the authorised capital of the LLC Novyi Ugakhan alluvial enterprise.

In February, 2008, CJSC Polyus increased its ownership share of the authorised capital of OJSC Aldanzoloto GRK up to 100% by acquiring 713,369,000 ordinary nominal non-documentory shares of the company, and OJSC Polyus Gold acquired 100% of LLC CHOP Polyus Shield.

In addition to that, in February a series of restructuring-related changes was implemented in the share structure of the geological exploration assets. The shares of various geological exploration enterprises, which had been owned by OJSC Matrosov Mine, OJSC Aldanzoloto GRK, LZRK Ltd and CJSC Polyus were transferred to Polyus Exploration Limited. OJSC Matrosov mine, OJSC Aldanzoloto GRK, LZRK Ltd and CJSC Polyus acquired the respective shares of Polyus Exploration Limited.

In March, 2008, in order to jointly develop the Tomponskiy district of Yakutia the new company was set up – OJSC Corporation of Eastern Yakutia Development. The share of OJSC SVMC in the authorised capital of the company amounted to 74.9%, the share of the Government of the Sakha (Yakutia) Republic – 25.1%,.

In April, 2008, the activities of the following societies were terminated: LLC Alfa-V by way of reorganization through joining LLC Alfa-V to LLC Vitim-Baikal and Baikal Insurance Company due to its dissolution by the decision of the company founders.

Also, in April a new company, LLC Pervoye GRP with the authorised capital of RUR 10,000,000 and following founders: LLC Amurskoye GRP with the share of 99% and LLC Yakutskoe GRP with the authorised capital share of 1% was set up.

Besides, the authorised capital of CJSC ZDK Lenzoloto was increased up to the amount of RUR 513,237,103 by placing to the advantage of CJSC Polyus of 30,805,200 ordinary nominal non-documentory additional issue shares of CJSC ZDK Lenzoloto. As a result of the placement, the ownership share of CJSC Polyus increased up to 6.002%, and the ownership share of OJSC Lenzoloto in the registered capital of OJSC ZDK Lenzoloto decreased to 93.998%, respectively.

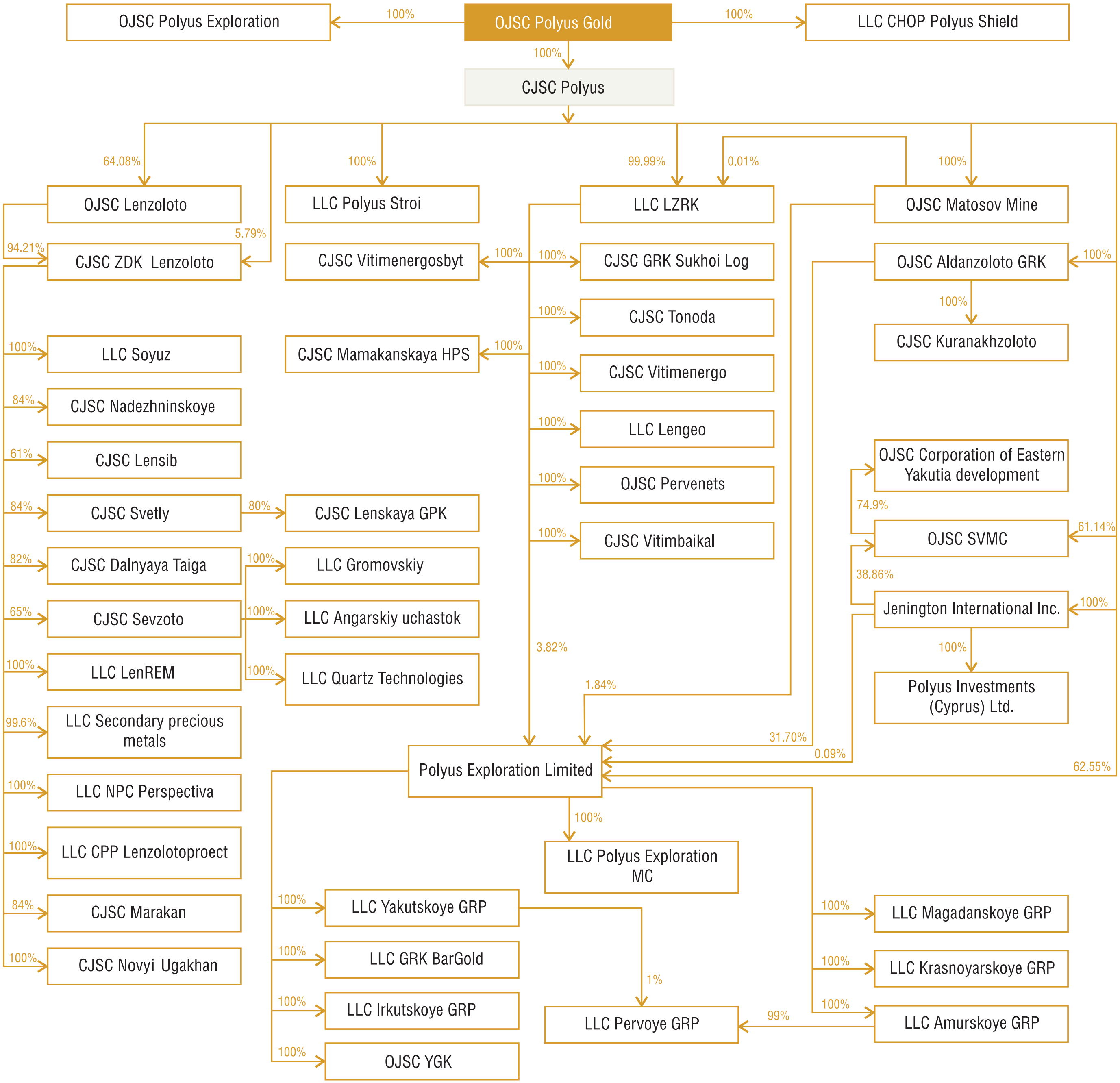
In July, 2008, OJSC Aldanzoloto GRK acquired 1,528,344 ordinary nominal non-documentory shares of CJSC Kurakhanzoloto with nominal value of RUR 8 per each share, which comprises 100% of the Authorised capital of CJSC Kurakhanzoloto.

In July, 2008, OJSC Lenzoloto sold 350,000 (three hundred fifty thousand) ordinary nominal non-documentory shares of OJSC Vysochaishiy with nominal value of RUR 0.02 per each share, which comprises 6.719% of the authorised capital of OJSC Vysochaishiy. The deal amount comprised approximately USD 28.5 million.

Also, in July, the limited liability company Management Company Polyus Geologorazvedka (LLC UK Polyus Geologorazvedka) was set up with the authorised capital of RUR 50,000,000. The share of Polyus Exploration Limited in the authorised capital comprises 100%.

In September, the authorised capital of OJSC Aldanzoloto was increased up to the amount of 1,471,550,000 as a result of placing the additionally issued ordinary nominal book-entry shares to the number of 33,000,000,000 with the face value of RUR 0.01 per each share, which have been transferred by closed subscription to the only shareholder of the company – CJSC Polyus.

In November, 2008, the authorised capital of OJSC SVMC was increased to the amount of RUR 75,261,200 by way of closed – subscription acquisition through CJSC Polyus of 47,626 ordinary nominal non-documentory shares of additional issue of OJSC SVMC. As a result


OJSC Polyus Gold
OJSC Polyus Exploration
LLC CHOP Polyus Shield
CJSC Polyus
OJSC Lenzoloto
LLC Polyus Stroi
LLC LZRK
OJSC Matosov Mine
CJSC ZDK Lenzoloto
CJSC Vitimenergosbyt
CJSC GRK Sukhoi Log
OJSC Aldanzoloto GRK
CJSC Tonoda
CJSC Kuranakhzoloto
LLC Soyuz
CJSC Mamakanskaya HPS
CJSC Vitimenergo
CJSC Nadezhninskoye
LLC Lengeo
CJSC Lensib
OJSC Pervenets
OJSC Corporation of Eastern Yakutia development
CJSC Svetly
CJSC Lenskaya GPK
CJSC Vitimbaikal
OJSC SVMC
CJSC Dalnyaya Taiga
LLC Gromovskiy
CJSC Sevzoto
LLC Angarskiy uchastok
Jenington International Inc.
LLC LenREM
LLC Quartz Technologies
Polyus Investments (Cyprus) Ltd.
LLC Secondary precious metals
Polyus Exploration Limited
LLC NPC Perspectiva
LLC CPP Lenzolotoproect
LLC Polyus Exploration MC
LLC Yakutskoye GRP
LLC Magadanskoye GRP
CJSC Marakan
LLC GRK BarGold
LLC Krasnoyarskoye GRP
CJSC Novyi Ugakhan
LLC Irkutskoye GRP
LLC Pervoye GRP
LLC Amurskoye GRP
OJSC YGK
100%
64.08%
99.99%
0.01%
5.79%
94.21%
84%
61%
82%
65%
99.6%
80%
3.82%
1.84%
31.70%
0.09%
62.55%
74.9%
38.86%
61.14%
1%
99%

Mining at Verninskoye

of additional issue share placement, the ownership share of CJSC Polyus increased up to 61.14%, whereas the ownership share of the Jenington International Inc. in the authorised capital of OJSC SVMC decreased down to 38.86%.

In December, 2008, the ownership share of OJSC Lenzoloto in the authorised capital of CJSC ZDK Lenzoloto was increased up to 94.21% by way of closed subscription acquisition through OJSC Lenzoloto of 19,191,110 additional issue ordinary nominal non-documentory shares of CJSC ZDK Lenzoloto. As a result, the share of CJSC Polyus in the authorised capital of CJSC ZDK Lenzoloto was decreased to 5.79%. Because the Report on the results of the share additional issue was not yet registered, the changes of the Corporate Charter of CJSC ZDK Lenzoloto resulting from the increase of the authorised capital of CJSC ZDK Lenzoloto, as of 31 December, 2008, have not been registered.

In December, 2008 CJSC Polyus set up a new company – OOO Polyus Stroi with the stockholding to the amount of 100% of the company,

its nominal value being RUR 10,000.
Also, in December, 2008 the affiliate of CJSC ZDK Lenzoloto, CJSC Charazoloto, was liquidated.

CONSOLIDATION OF THE 100% STAKE OF THE OJSC MATROSOV MINE

On the 22 February, 2008, CJSC Polyus, which at that time owned 94.80% of the authorised capital of OJSC Matrosov Mine, made a voluntary offer to the minority shareholders of OJSC Matrosov Mine to aquire the ordinary and preferred shares of the company. As a result of this offer, the Company consolidated 97.505% of the share of the MC OJSC Matrosov Mine. It gave the Company the right to squeeze out the remaining shareholders, in accordance with the Article 7 of the Federal Law «About amendments to the Federal Law On Joint Stock Companies» No. 7-FZ dated January 05, 2006 as well as in accordance with the Article 84.8 of the Federal Law «On Joint-Stock Companies» No. 208-FZ dated 26 December, 1995.

On 31 July, 2008, OJSC Polyus Gold made the squeeze out offer. As a result, by October, 2008 CJSC Polyus increased its stake in the authorised capital of OJSC Matrosov Mine up to 100%.

13. CORPORATE GOVERNANCE REPORT

Polyus Gold is continuously working on improving its corporate governance standards, in order to raise the Company's investment appeal, as well as to enhance the managerial efficiency.

INFORMATION DISCLOSURE

One of the most important corporate governance elements is the volume and quality of the information disclosed by the Company. Seeking to enhance the level of transparency, OJSC Polyus Gold maintains its reputation as the reliable partner and investment target. The timely and full disclosure of information helps reduce risks for investors and thus influences the Company's market capitalization. This is extremely important in the conditions of the global financial crisis.

The Company regularly and fully discloses the information regarding all the significant issues, including the information on the ownership structure, financial and operative information, lists of the affiliated persons, securities-related data etc. The transparency policy of the Company is intended to ensure strict compliance of the volume, terms and quality of information disclosure with the requirements of the regulating authorities as well as to maximally meet the expectations of Russian and international investors.

The information disclosure principles the Company abides by are specified by the Policy of Public Relations and Relations with Investors of OJSC Polyus Gold, which is valid from November, 2006.

Regarding the binding information disclosure, OJSC Polyus Gold meets the requirements of the regulatory documents, including the Federal Law On the Joint Stock Companies, advices of the Corporate Behaviour Code, requirements by the Federal Financial Markets Service of the Russian Federation, requirements by the British Financial Services Regulatory Authority and listing requirements of the Russian and foreign stock exchanges, including OJSC Stock Exchange Russian Trade System, CJSC MMVB Stock Exchange and London Stock Exchange. Besides, the Company regularly issues a social report made in accordance with the Global Reporting Initiative standards.

THE BOARD OF DIRECTORS

The role of the Board of Directors in the corporate governance system of OJSC Polyus Gold is invaluable. The Board of Directors of the Company exercises broad powers, which are specified by the Company Rules and implemented practically, ensuring the Board's control over the Company management.

The high status of the Board of Directors is a necessary attribute of public companies with considerable involvement of minority shareholders and meets the best international corporate governance standards.

The Board of Directors determines the development strategy of the Company, assesses possible risks, as well as designates, motivates and controls its management. The primary goal of the activities of the Board of Directors is to stimulate the capitalization and profitability growth of the Company as well as to comprehensively protect the interests both of it majority and minority shareholders.

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

The decision by the General Meeting of the shareholders on 26 June 2008 enacted some amendments to the Company Rules, which affect the Board of Directors by expanding the Board's responsibilities, severing demands on the independent members of the Board of the Directors and responsibility of the Board members for the activities, which may lead to a conflict of interests with those of the Company as well as by improving the operating procedures of the Board of Directors of the Company. All of

the amendments enabled the Company to fully ensure compliance of the currently valid corporate governance system with the recommendations of the Corporate Behavior Code by the RF Federal Securities Commission.
In accordance with the Federal Law On Joint-Stock Companies, the Board of Directors of the Company is elected by the General Meeting of the shareholders and consists of nine members. The structure and composition of the Board of Directors of OJSC Polyus Gold fully corresponds with the tasks which it faces.

Composition of the Board of Directors
The annual General Meeting of the shareholders of OJSC Polyus Gold that took place on 26 June 2008 elected the following people to the Board of Directors:

- Mikhail Dmitrievich Prokhorov, Chairman of the Board of Directors
- Robert Buchan
- Valery Nikolayevich Braiko
- Evgueni Ivanovich Ivanov
- Andrey Alexandrovich Klishas
- Lord Patrick James Gillford
- Valery Vladimirovich Rudakov
- Ekaterina Mikhailovna Salnikova
- Evgeniy Vladimirovich Yarovikov

The Board of Directors was joined by the six members of the Board of Directors elected by the annual General Meeting of the shareholders in 2007. The shareholders also elected three new directors: Robert Buchan, E.V. Yarovikov and A.A. Klishas, who earlier had been a member of the Board of Directors (until the annual Meeting of the shareholders of OJSC Polyus Gold in 2007). S.L. Batekhin, P.G. Skitovich and K.Yu. Parinov left the Board of Directors.

At the Meeting of 3 July 2008, the President of the Onexim Group, M.D. Prokhorov, was again elected as the Chairman of the Board of Directors.

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

29 June 2007	26 June 2008
M.D. Prokhorov, (Chairman from 16 October, 2007)	M.D. Prokhorov, Chairman
S.L. Batekhin (Chairman before 16 October, 2007)	Robert Buchan
V.N. Braiko	V.N. Braiko
E.I. Ivanov	E.I. Ivanov
Lord Patrick James Gillford	Lord Patrick James Gillford
K.Yu. Parinov	A.A. Klishas
V.V. Rudakov	V.V. Rudakov
E.M. Salnikova	E.M. Salnikova
P.G. Skitovich	E.V. Yarovikov

COMPOSITION OF THE BOARD OF DIRECTORS OF OJSC POLYUS GOLD

Mikhail Dmitrievich Prokhorov

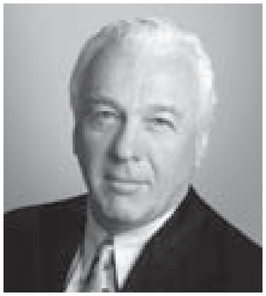
Chairman of the Board of Directors

Ownership of shares in OJSC Polyus Gold according to the Registrar of the owners of the nominal securities, as of 30 September 2008 was 9,531,387 ordinary nominal shares of OJSC Polyus Gold, comprising 4.99999% of the authorized capital of OJSC Polyus Gold.

Date of birth: 3 May 1965

Education: Moscow State Financial Institute, Department of International Economic Relations, degree with honors

- 2001 – 2007: Director General of OJSC MMC Norilsk Nickel
- 2003 – 2007 and from June – December 2008: Member of the Board of Directors of OJSC MMC Norilsk Nickel
- 2005 – 2007: Chairman of the Board of Directors of OJSC FK Moskva
- 2007 – June 2008: Member of the Board of Directors of CJSC MK Invest
- 2006 – September 2008: Chairman of the Board of Directors of the Limited Liability Company Management Company Sports Projects
- 2007 – present: President of the Onexim Group
- October 2008 – present: President of the Russian Civic Organization Union of Biathlon Participants of Russia



Robert Buchan

Does not own shares in OJSC Polyus Gold

Date of birth: 16 August 1947

Education: Herriot – Watt University, Edinburgh, 1969, specializing in mountain engineering; 1971 – Degree as the Magister of Ore Extraction Economics at the Queen’s University, Kingston, Ontario

- 1993 – 2005: CEO and Director General of Kinross Gold Corporation Company
- 2007 – present: CEO of Quest Capital Company
- 2007 – present: CEO of Allied Nevada Company
- 2007 – present: CEO of Extract Resource Company
- 2008 – present: CEO of Phoenix Coal Inc. Company

Valery Nikolayevich Braiko

Does not own shares in OJSC Polyus Gold

Date of birth: 12 February 1939

Education: Tula Mining Institute, specializing in Mining Electrical Engineering; Academy of National Economy, specializing in Economics, Management and National Economy Planning.

- From 1961: was employed by the Alliance Severovostokzoloto as master, master mechanic, electric superintendent, chief engineer, gold-mine director
- 1975 – 1982: Polyarninsky mine of Severovostokzoloto (General Director)
- 1985 – 1995: Severovostokzoloto gold mining company (general director)
- 1995 – NPO Union of the Russian Gold Producers (Chairman)

Lord Patrick James Gillford

Does not own shares in OJSC Polyus Gold

Date of birth: 28 December 1960

Education: Eton College (UK); 1980 – Royal Military Academy Sandhurst

- From 1993 – present: Director and Partner – Founder of the Gardant Communications Company (former The Policy Partnership Limited)
- 2000 – 2004: Chairman of the Board of Directors of the Cleveland Bridge UK Ltd without executive responsibilities
- 2005 – present– Director and Member of the Advisory Council of the Ukrainian British City Club
- 2007 – present: CEO of the Eurasia Drilling Company

Evgueni Ivanovich Ivanov

Does not own shares in OJSC Polyus Gold

Director General

Date of birth: 29 September 1966

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

- 2000 – 2003: CEO of OJSC AKB ROSBANK
- 2003 – 2004, 2005 – 2007: Member of the Board of Directors of OJSC AKB ROSBANK
- 2004 – 30 June 2007, 11 February 2008 – 13 October 2008: President of CJSC Polyus
- 28 December 2007 – 10 February 2008, 14 October 2008 – present: Director General of CJSC Polyus
- 2004 – present: Member of the Board of Directors of CJSC Polyus
- 2005 – September 2007, 30 June 2008 – present: Member of the Board of Directors of OJSC Matrosov Mine
- 2005 – present day: Member of the Board of Directors of OJSC Lenzoloto
- 2005 – August 2007: Member of the Board of Directors of OJSC Aldanzoloto GRK

- 2005 – February 2008: Chairman of the Board of Directors of OJSC YGK
- 2005 – August 2007: Member of the Board of Directors of OJSC SVMC
- 2005 – 30 October 2008: Deputy Chairman of the Board of Directors of the ROSBANK (Switzerland) S.A.
- 2006 – present day: Chairman of the Board of Directors of CJSC ZDK Lenzoloto
- March 2006 – May 2007, 17 October 2007 – present: Director General of OJSC Polyus Gold
- 2007 – present: Director General, member of the Board of Directors of OJSC Polyus Exploration
- March 2008 – present: Chairman of the Board of Directors of OJSC Eastern Yakutia Development Corporation
- 8 December 2008 – present day: member of the Board of Directors of the LLC LZRK

In accordance with Clause 6.3.3.10 of the Rules of OJSC Polyus Gold, the amount of rewards and compensations paid out to the Director General is determined by the Board of Directors.

Andrey Alexandrovich Klishas

Does not own the shares in OJSC Polyus Gold

Date of birth: 9 November 1972

Education: Ural State University, specializing in History of Philosophy in 1993; 1998 – Bachelor of Jurisprudence of the Peoples' Friendship University of Russia; 2000 – Graduated with honors from the Magistrate of the Peoples' Friendship University of Russia with the degree in Magister of Jurisprudence; Assistant Professor of the Department of the Constitutional and Municipal Right of the Moscow University of the Russian Interior Ministry, Doctor of Legal Sciences

- 1998 – present: member of the Board of Directors of OJSC RAO Norilsk Nickel
- 2001 – present: Chairman of the Board of the Directors of OJSC RAO Norilsk Nickel
- 2001 – 2008: Chairman of the Board of the Directors of OJSC GMK Norilsk Nickel
- 2001 – present day: member of the Board of Directors of OJSC GMK Norilsk Nickel
- 2001 – 2008: Director General and CEO of CJSC INTERROS Holding Company
- 2002 – 2005: member of the Board of Directors of OJSC Silovye Mashiny
- 2002 – 2008: member of the Board of Directors of CJSC Agroindustrial Complex AGROS
- 2003 – 2006: member of the Supervisory Committee of the OOO Fincom – Investments and Management
- 2003 – present: member of the Expert Council of the Interior Ministry of Russian Federation
- 2003 – present: member of the Guardian Council of the Association of the Russian Lawyers
- 2004 – 2008: member of the Board of Directors of CJSC INTERROS Holding Company
- 2004 – 2008: Chairman of the Board of Directors of OJSC AKB ROSBANK
- 2005 – present: member of the National Corporate Governance Council
- 2006 – 2007: member of the Board of Directors of the OOO Roza Hutor
- 2007 – 2008: Director of the Board of Directors of OJSC Open Investments
- 2007 – 2008: member of the Board of Directors of CJSC KM Invest
- 2007 – present: member of the Public Council of the Interior Ministry of the Russian Federation
- March – June 2008: Deputy CEO of CJSC INTERROS Holding Company
- 2008 – present day: Vice- President and Chairman of the Board of Directors of CJSC INTERROS Holding Company
- 2008 – present: member of the Board of Directors of OJSC AKB ROSBANK

Valeriy Vladimirovich Rudakov

Does not own shares in OJSC Polyus Gold

Date of birth: 6 June 1942

Education: Moscow Mining Institute, specializing in Mining Engineering, Corresponding Member of the Engineering Academy, Active Member of the Academy of Mining Sciences and Active Member of the Russian Academy of Natural Sciences; awarded the Order of the Red Banner of Labor for developing a new technology to optimize kimberlite pipes in 1982; awarded the Order of Lenin in 1986; Moscow Mining Institute. Specialty: Mining Engineer

- 2002 – present: Chairman of the Committee to support entrepreneurship in the field of extraction, production, development and trade of the precious metals and stones affiliated with Chamber of Trade and Commerce of Russian Federation.
- 2004 – 2006: Chairman of the Board of Directors of CJSC ZDK Lenzoloto
- 2006 – 2007: member of the Board of Directors of CJSC ZDK Lenzoloto
- 2002 – present: Chairman of the Board of Directors of CJSC Polyus
- 2003 – present: member of the Board of Directors of OJSC Shchelkovskiy Secondary Precious Metals Plant
- 2004 – present: Chairman of Board of Directors of OJSC Matrosov Mine
- 2007 – present day: Chairman of the Board of Directors of OJSC Polyus Exploration
- 8 December 2008 – Chairman of the Board of Directors of the OOO LZRK

Evgueni Vladimirovich Yarovikov

Does not own shares in OJSC Polyus Gold

Date of birth: 3 November 1969

Education: Moscow Institute of International Relations, specializing in International economic relations economist in 1993

- 2000 – 2006: Director of Department for Financial Institutions of OJSC AKB ROSBANK
- 2006 – 2008: Executive Director of CJSC INTERROS Holding Company
- July – November 2008: Advisor of the First Deputy Director General of OJSC MMC Norilsk Nickel

Ekaterina Mikhailovna Salnikova

Does not own shares in OJSC Polyus Gold

Date of birth: 14 July 1957

Education: Moscow Management Institute, specialty: Management planning engineer, 1979; graduated from the Academy for State Service affiliated with the President of Russian Federation in 1979, Specialty: Jurisprudence and got the degree equal to Ph.D. in Economics

- 1998 – 2007: Corporate Structures Director of CJSC INTERROS Holding Company
- 1998 – 2007: Director General of CJSC Universalinvest
- 1999 – 2000, 2004 – 2006: member of Board of Directors of OJSC AKB ROSBANK
- 2000 – 2004: member of the Board of Directors of CJSC Publishing House Profmedia
- 2000 – 2005, 2006 – 2007: member of the Board of Directors of OJSC Silovye Mashiny
- 2001 – 2003: member of the Board of OJSC INTERROS Holding Company
- 2001 ^{2}2003, 2004 – 30June 2008: member of the Board of Directors of OJSC GMK Norilskiy Nickel
- 2003 – 2007, 11 December 2008 – present: member of the Board of Directors of OJSC Open Investments
- 2004 – 2005: member of the Board of Directors of CJSC Agroindustrial complex Agros
- 2007 – present– Deputy Financial Director of the OOO Onexim Group
- 31 July 2008 – present: member of the Board of Directors of OJSC TGK-4
- 17 June 2008 – present: member of the Board of Directors of the OOO Soglasiye Insurance Company
- 19 December 2008 – present: member of the Board of Directors of the Commercial Bank APR – Bank (open joint stock company)

INDEPENDENT DIRECTORS - MEMBERS OF THE BOARD

International practices suggest that independent directors are an important element of the corporate governance system. The potential and advantage of the 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.

Independent directors have been members of the Board of Directors of OJSC Polyus Gold since the company was founded. To determine the independence of the members of the Board of Directors, the Company employs the criteria based on the recommendations of Corporate Behavior Code of the RF Federal Financial Markets Service and specified by the Rules of OJSC Polyus Gold.

The independent directors of OJSC Polyus Gold are supposed to enhance the efficiency of this structure and to ensure the reasonable opinion of the Board on the issues under consideration. These independent directors facilitate the more efficient performance of the Board of the Directors, which impacts the Company's performance as a whole.

The Board of the Directors, which has been operating since 26 June 2008 (the date of the annual General Meeting of shareholders), has chosen Mr. V.N. Braiko and Lord Patrick Gillford to be independent directors. The Board of the Directors elected by the annual General Meeting of the shareholders on the 26 June 2008 has chosen Mr. V.N. Braiko and Robert Buchan to be independent directors.

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS

Until 26 June 2008, the members of the Board of Directors Mr. V.N. Braiko and Lord Patrick James Gillford were paid compensation for their work on the Board of Directors, with the respective expenditures reimbursed.

The amount of payments was endorsed by the extraordinary General Meeting of the shareholders of OJSC Polyus Gold in October of 2007. In accordance with the decision by the General Meeting of the shareholders, the amount of payment comprised USD 25,000 quarterly, with payment effected in RUR at the exchange rate of the Central Bank of the Russian Federation at the last day of the quarter the reward was paid out for. In addition, the decision was made to reimburse each director for expenses arising from the performance of their responsibilities to the amount of up to RUR 2,000,000 million per year.

In 2008, the other members of the Board of Directors were paid no remuneration.

ACTIVITIES OF THE BOARD OF DIRECTORS IN 2008

In 2008, the Board of Directors of OJSC Polyus Gold held 18 meetings, seven of which were held live.
The meetings of the Board of the Directors considered both the performance results of OJSC Polyus Gold over the prior periods and the strategically important issues of Company development:

- Confirming the Company's 2008 budget
- Considering the results of the Company's performance, including the analysis of Company's positions on the stock market
- Confirming the parameters to analyze the investment projects and to make investment decisions
- On the project of development of Natalka deposit
- On implementation of the Verninskoye deposit project
- On modernization of the Kurakhan gold extraction plant
- On external technological audit of Olimpiada Mine
- On setting up Committees of the Board of Directors for strategy, personnel and rewards
- On approval of interested-party transactions

COMMITTEES OF THE BOARD OF DIRECTORS OF OJSC POLYUS GOLD

Three specialized committees of the Board of Directors of OJSC Polyus Gold operate to consider the most important issues early, issues which require deep analysis and which lie at the discretion of 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
- Remuneration Committee of the Board of the Directors of OJSC Polyus Gold

Until May 2008 there operated only one Committee – Audit Committee of the Board of the Directors.
To update the decision-making procedures by Audit by the Board of the Directors of the Company as well as to enhance the corporate governance level of OJSC Polyus Gold, the Decision by the Board of Directors of 21 May 2008 (Minutes 08-08/SD) set up two more Committees – Strategy Committee and Remuneration Committee.
The performance of the Committees is regulated by the respective regulations endorsed by the Board of the Directors.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The main assignment of the Audit Committee is to assist the Board of Directors in controlling the financial and economic performance of the Company by prematurely considering and developing recommendations to the Board of Directors as to issues of interaction with external auditors, revising financial reports as well as assessing the efficiency of the internal control of the Company.

The Committee ensures the practical participation of the members of the Board of Directors in controlling, and contributes to their personal update on, the Company's performance.

In 2008, the Audit Committee at the Board of Directors met eight times (out of them five meetings were held in absentia).

The members of the Committee who had acted before 26 June 2008:

Lord Patrick J. Gillford – the Chairman of the Committee, Independent Director

E.M. Salnikova

V.N. Braiko

The members of the Committee elected on 3 July 2008 (Minutes of the Meeting of the Board of Directors of the Company No. 10-08/SD dated 4 July 2008):

V.N. Braiko – the Chairman of the Committee, Independent Director

E.M. Salnikova

E.V. Yarovikov

THE REMUNERATION COMMITTEE OF THE BOARD

The Remuneration Committee of the Board of Directors of the Company is responsible for the comprehensive study of issues related to the selection of personnel attracted for work in the management bodies of OJSC Polyus Gold, as well as for the elaboration of main provisions of contracts with them, and the preparation of recommendations for the Board of Directors of the OJSC Polyus Gold on the issues within the frame of the Committee's competence.

One meeting of the Remuneration Committee was held in 2008; its agenda was the elaboration of recommendations for the Board of Directors of the OJSC Polyus Gold regarding the amount of awards and indemnifications to the members of the Board of Directors of the Company who are independent directors.

The members of the Committee elected on 3 July 2008 (Minutes of the Meeting of the Board of Directors of the Company No. 10-08/SD dated 4 July 2008):

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

THE STRATEGY COMMITTEE OF THE BOARD OF DIRECTORS OF THE COMPANY

The Strategy Committee of the Board of Directors of the Company is responsible for the consideration, analysis and development of recommendations to the Board of Directors of OJSC Polyus Gold with respect to making and further fulfillment of strategic decisions related to OJSC Polyus Gold development.

The members of the Committee elected on 3 July 2008 (Minutes of the Meeting of the Board of Directors of the Company No. 10-08/SD dated 4 July 2008):

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

CORPORATE SECRETARY

The main task of the Secretary of OJSC Polyus Gold is the provision of compliance by the management bodies of the Company with the requirements of law and internal regulatory documents of the Company, guaranteeing execution of rights and realization of interests of its shareholders.
The regulatory base for the Secretary of OJSC Polyus Gold's execution of his / her functions was, apart from the Articles of Association, the Regulations on the Secretary of OJSC Polyus Gold approved by the Board of Directors in March 2006.
In 2008, the powers of the Secretary of OJSC Polyus Gold and the Secretary of the Board of Directors were vested upon Anna Solotova.

MANAGEMENT OF OJSC POLYUS GOLD

The management of the Group is provided by the management team headed by the General Director of Polyus Gold, E.I. Ivanov. Key managers in the corporate center in Moscow as well as directors of business units of the Group are subordinate to him. The management team of Polyus Gold includes the following managers:

Evgueni Ivanovich Ivanov

Mr. Ivanov's biography is presented in the section «Composition of the Board of Directors of OJSC Polyus Gold».

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

Graduated with honors from the Ural State University with a degree in history; underwent training in History at Bowdoin College (Brunswick, Maine, USA); graduated from the Russian State Service Academy with the degree in Economics

- 1994 – 1995: a project head in CJSC MOSEXPO
- 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 of the Canadian gold mining company LLC Placer Dome International
- 2002: took the position of the Deputy General Director of CJSC Polyus
- 2004: appointed the Vice-President for corporate development of CJSC Polyus
- 2007 – present: has been the Deputy General Director for strategy and corporate development of OJSC Polyus Gold

Oleg Valeryevich Ignatov

Deputy General Director for Economy and Finance

Does not own shares in OJSC Polyus Gold

Date of birth: 2 November 1969

In 1992 he graduated from the Moscow Machine-Instrument Institute with specialization in mechanic engineering; in 1998 graduated with honors from the State Financial Academy at the Government of the Russian Federation with the degree in financing and crediting.

- Worked in Unexim Bank and Rosbank where he was promoted from the department head to the Senior Vice-President.
- In 2002 he was appointed the Deputy General Director for finance of OJSC Chelyabenergo. From 2003 to 2005 was the First Deputy of the Mayor of Norilsk.
- From 2005 to 2008 he was the Deputy Director of the Polar Region Branch of OJSC MMC Norilsk Nickel for economy and finance.

Nikolay Vladimirovich Morozov

Deputy General Director for internal control and risk management

Does not own shares in OJSC Polyus Gold

Date of birth: 3 August 1967

In 1989, he graduated with honors from the Moscow State Institute of International Affairs with the degree in international economic affairs.

- 1989 – 1993: worked as a specialist in international economic affairs in the system of the Ministry of Foreign Affairs of Russia
- 1993 – 1994: Mosbiznesbank, leading economist of the External Affairs Correspondent Relationship Department of the Currency Operation and International Settlement Directorate
- 1994 – 1997: Client relations department, International Financial Company, chief specialist, deputy head of the department in the Credit Resource Directorate, head of the Finance and Economical Analysis Department
- 1997 – 1998: Unexim Bank, deputy head of the Department of planning and control of operational income and expenses of the Financial Directorate
- 1998 – 2003: Rosbank, member of the Management Board, head of the Internal Control Service
- 2003 – 2008: OJSC MMC Norilsk Nickel, head of the Control and Audit Department, Director of the Internal Control Department

Yury Nikolayevich Ryndin

Deputy General Director for procurement

Does not own shares in OJSC Polyus Gold

Date of birth: 6 December 1965

In 1991, he graduated from the Moscow State Engineering Construction Institute with the degree in industrial and civil construction.

- 1992 – 1993: International Financial Company, leading specialist, deputy head of the Social Service and Transport Department.
- 1993 – 1998: Unexim Bank, deputy head of the Social Service Department, head of the General Service Department

of Social Procurement Service, heard of the Procurement Division of the Administrative Department, manager of the Commercial Division of the Administrative Department

- 1998 – 2002: Rosbank, manager of the Commercial Division, director of the Administrative Department
- 2002 – 2008: was the Deputy General Director of OJSC MMC Norilsk Nickel, where he supervised the procurement activity of the Company

Boris Alekseevich Zakharov

Deputy General Director for Production

Does not own shares in OJSC Polyus Gold

Date of birth: 18 November 1954

In 1978, he graduated from the Moscow State Institute of Steel and Alloys with the degree in mineral resources processing.

- 1977 – 1985, 1992 – 1999: worked at the Norilsk Processing Plant, where he in various years worked as a mill operator, foreman, then senior foreman of the main production site of crushing and flotation workshop of the processing plant, was the deputy head and later the head of the crushing and flotation workshop
- 1985 – 1992: under the assignment of the Norilsk Mining Metallurgy Complex was holding the position of the Chief Engineer of the Erdent Mine in Mongolia
- 1999: he took the position of the engineer of Production Association of Processing Plants of OJSC MMC Norilsk Nickel
- 2003 – present: he has been the head of the Directorate of Planning and Coordination of Research and Engineering Development of OJSC MMC Norilsk Nickel
- November 2008 – present: he has been the Deputy General Director of CJSC Polyus for Production
- Candidate of Science (Engineering)

Vladimir Kushukovich Sovmen

President of CJSC Polyus, head of the Siberian Business-unit

Does not own shares in OJSC Polyus Gold

Date of birth: 22 April 1957

He graduated from the Khabarovsk Polytechnic Institute with a qualification as a Construction Engineer, specializing in Industrial and Civil Construction. He graduated from the Krasnoyarsk State University of Non-ferrous Metals and Gold with qualification Mining Engineer specializing in Open Mining Works.

- After graduation from the first Institute till 1983 he worked at Khabarovsk enterprise Kraitselinstroi in the capacity of the foreman of construction site, then the senior construction site supervisor
- 1983 – 1995: worked in the capacity of the head of the construction site of prospector’s team Polyus
- 1995 – 1996: he worked as the Vice-President for General Issues of the Krasnoyarsk AOZT AS Polyus
- 1996 – 2002: was the General Director – First Vice-President of the Krasnoyarsk AOZT AS Polyus
- 2002 – 2004: was the General Director of CJSC Polyus
- 2004: was appointed the First Vice-President – Executive Director of CJSC Gold Mining Company Polyus
- June 2007 – present: has been working as the General Director of CJSC Gold Mining Company Polyus
- October 2008 – present: has been working as the President of CJSC Gold Mining Company Polyus – Head of the Siberian Business-unit

Awards and titles:
Candidate of Science (Engineering)
Honorary citizen of Krasnoyarsk
Honorary Miner
Honored Builder of the Russian Federation

Mikhail Pavlovich Kazimirov

General Director of OJSC Matrosov Mine
Holding of shares in OJSC Polyus Gold: 50 ordinary registered shares of OJSC Polyus Gold as of 31 December 2008
Date of birth: 24 June 1951
He graduated from the Moscow Mining Institute, specializing in mining construction engineering. He defended a thesis of Candidate of Science in the Post-Graduate Department of the Moscow Mining Institution with the degree mining processing engineer.
Since 1975, he has worked as crew captain at the Matrosov Mine, which was included into the Severovostokzoloto Association, later was appointed the site supervisor.
From 1981 to 1985 was the Chief Engineer, then the Head of the Dukat Mine Building Directorate.

- 1985 – 1986: Chief Engineer and head of the Dukat Mine
- 1986 – 1989: General Director of the Iultinskiy Mine in Chukotka Administered the construction of the highly efficient underground mine Svetlyi
- 1990 – 1994: General Director of the Soviet-American joint venture Severovostokzoloto Alaska in Magadan
- 1994 – 1995: General Director of TOO Razvitie Mestorozhdeniy (Deposit Development)
- 1995 – 2002: General Director of ZAO «Razvitie Mestorozhdeniy Invest» and the Director for mining processing technologies and investments in the American company Astron Minerals Incorporated
- 2002: assumed the position of the Deputy General Director of the ZAO Gold Mining Company Polyus
- 2003: was assigned the General Director of the OJSC Matrosov Mine

Research:
He is the author of over 40 published research articles and the creator or four inventions. In 2002 he defended the thesis entitled Organizational and engineering mechanism of enhancement of efficiency and competitive capacity of gold mining from alluvial and technogenic deposits.

Valery Fedorovich Konstantinov

General Director of OJSC Lenzoloto
Does not own shares in OJSC Polyus Gold
Date of birth: 17 December 1954
In 1977 he graduated from the Irkutsk Polytechnic Institution with specialization Mining Mechanic Engineer

- 1977 – 1988: held the positions of the Head of the Mining Preparatory Workshop, the Chief Engineer and the Director of the CJSC Marakan mine of the Production Association Lenzoloto
- 1988 – 1990: was the Chairman of the Executive Committee of the Bodaibo City Soviet of People's Deputies
- 1990 – 1998: held the positions of the Deputy General Director for mining production of the Production Association Lenzoloto and later the Mining Production Director of AOZT Lenzoloto
- 1998 – 2006: held the positions of the Executive Director and later the Director of CJSC Marakan

- November 2006: the Board of Directors of ZAO ZDK Lenzoloto elected V.F. Konstantinov for the position of the General Director of the Company
- January 2007: the Council of Directors of OJSC Lenzoloto elected V.F. Konstantinov for the position of the General Director of OJSC Lenzoloto

V.F. Konstantinov was awarded the Badge of Honor For Valorous Labor in honor of the 30th anniversary of Marakan of the 1st degree, the Medal of the Order For Merit to the Motherland in the 2nd degree, the Gold Badge Miner of Russia. He has Diplomas of Merit of the Central Committee of the Communist Party of the USSR, the Council of Ministers of the USSR, the mayor of Bodaibo and the Bodaibo District.

Igor Yuryevich Sukhobaevskiy

The General Director of OJSC Aldanzoloto GRK

Does not own shares in OJSC Polyus Gold

Date of birth: 5 January 1972

In 1995, he graduated from the Norilsk Industrial Institution with specialization metallurgy engineer.

- 2000: he received the second degree of education in the same educational institution with a specialization in economics
- 1992 – 1999: he worked in the A.P. Zavenyagin NGMK where he was promoted from furnace-operator to the production deputy head of the smelting shop
- 1999 – 2001: he held the position of the deputy head of the smelting shop in the polar region branch of OJSC Norilsk Mining Company
- 2001 – 2007: he held the positions of the head of the smelting shop, Chief Engineer of the nickel plant of the polar region branch of MMC Norilsk Nickel
- 2007 – 2008: he held the positions of the Chief Engineer of the Nadezhdinskiy Metallurgical Plant named after B.I. Kolesnikov of the polar region branch of MMC Norilsk Nickel
- December 2008 – present: General Director of OJSC Aldanzoloto GRK

Candidate of Science (Engineering).

The pilot plant at the Natalka deposit

Gennady V. Tregub
Head of the Pilot plant (the Natalka deposit):

«The high-class equipment of the plant doesn't require much interference from people. That motivates people for professional growth»

14. SUSTAINABLE DEVELOPMENT

ENVIRONMENT PROTECTION AND ENVIRONMENTAL PRODUCTION SAFETY

The Company's management considers environmental protection to be an integral part of its business. In 2008, the Company performed a set of nature protection measures aimed at mitigating the adverse effect on the environment as well as the reasonable use of natural resources in the frame of environment protection legislation of the Russian Federation.

A system of monitoring of the quality of atmospheric air and water in bodies of water which are damaged by production activity was provided for at all units of the Company. The Company implemented measures aimed at arranging waste dumps with the purpose of mitigating negative pressure on the environment.

The biooxidaton technology improvement at the Olimpiada Mine enabled a significant reduction in cyanides consumption.

Works on introducing an environment management system (SEM) at the Olimpiada Mine in accordance with the principles of the international Standard ISO 14001:2004 were continued. The diagnostic audit of environment protection activity at the Olimpiada Mine with respect to compliance with principles of ISO 14001:2004 was performed. Managers and specialists were trained according to the SEM program.

OJSC Aldanzoloto GRK (Kuranakh Mine) took part in the contest The Best Enterprise – User of Natural Resources of the Republic of Sakha. Under the results of 2008, the Organizational Committee of the Republic of Sakha (Yakutia), OJSC Aldanzoloto GRK was recognized as the best in the nomination The Environment Management System, the Chief Environmentalist of the business unit was awarded with the diploma The Best Environmentalist of Yakutia of the year 2008.

Control over emissions of pollutants into the atmosphere by the sources of pollutant emission at the Company's units was regularly performed by subdivisions of the RF Federal Service for ecological, technological and atomic supervision of the (Rostekhnadzor) (FGU TsLATI). The volume of pollutant emissions into the atmosphere did not exceed the established standards of the temporarily agreed upon amounts of emissions (BSB) and the standard for maximum allowable emissions (PDV).

> Control over emissions of pollutants into the atmosphere by the sources of pollutant emission at the Company's units was regularly performed by subdivisions of the RF Federal Service for ecological, technological and atomic supervision of the (Rostekhnadzor) (FGU TsLATI)

In 2008, the Olimpiada Mine, based on the inventory of sources of pollutant emission into the atmosphere, developed draft standards of maximum allowable emissions (PDV) of pollutants into the atmosphere, with accounting of production development for a five-year prospect. It will enable the reduction of the risk in legal interaction with governmental bodies empowered to provide supervision for environment safety provision.

A complex of measures aimed at the reasonable use of water resources and the protection thereof from pollution was performed at the business units of the Company.

Water intake for domestic and industrial water supply was performed from surface water and underground sources.

Water supply and sewage at gold extraction plants was arranged according to the closed water turnover cycle. Emergency discharge of polluted effluents into surface water bodies was not executed in 2008.

Measures to prevent adverse effects on the environment caused by oil products leakage were taken at the Kuranakh Mine.

At the Olimpiada Mine in the heavy haulers workshop (TsBA), a unit for washing of automobiles was put into operation; the whole volume of polluted water goes through a cleaning system and returns to the closed water turnover cycle.

In 2008, all business units performed a set of repair operations at hydraulic engineering structures (enhancement of stability of tailing dump dams at gold extraction plants and hydraulic transportation systems).

One of the goals of the Company for the nearest future is reduction of probable production induced environmental load caused by industrial wastes. Over 90% of production wastes produced at the business units of the Company in 2008 refers to the 4th and 5th hazard classes for environment and human health: stripping, mine refuse, scrap metal.

Construction works have been accomplished at the following units of the Olimpiada Mine: a landfill for solid household waste (TBO); a landfill for industrial wastes; ash and refuse burnout disposal areas.

The landfill for solid household waste (TBO) was completed at the Nezhdaninskoye deposit. Sanitary and environmental measures have been taken, and laboratory research of the composition of wastes and inventory thereof have been executed. A draft of standards of wastes production and limits for the disposal thereof (PNOOLRO) has been developed.

Wastes of the 1st hazard class – exhausted

mercury bearing lamps – were not accumulated in the Company. They were removed and given out to recycling to external specialized structures.

Environmental production safety provision was performed by specialists of the Company who had undergone special training in the sphere of production environment protection, together with specialists providing production, financial, and innovative activity. Under the results of 2008, 36 specialists of the Company underwent training (seminars, courses) with specialization in the sphere of industrial environment protection.

INDUSTRIAL SAFETY

Industrial safety activities at the Company's business units are performed according to the requirements of Federal laws on industrial safety of hazardous production facilities, licensing of certain types of activity, and technical regulation, Regulations of the Ministry of Labor, the RF Labor Code, regulatory documents and internal documents of the Company.

With the aim of providing compliance with requirements of labor protection and performance of production control over the state of industrial safety and over performance of the said requirements, all business units have formed committees of production control over the state of industrial safety and labor protection at hazardous production units operation.

The tasks of these committees and their functional duties are determined in the Regulations developed on production control over compliance with requirements of industrial safety at hazardous production units operation.

In 2008, comprehensive, targeted and operational audits of compliance with requirements of labor protection, industrial safety, fire safety and sanitary condition at production facilities were being performed at all business units.

Heads of business units are elaborating measures on eliminating any detected infringements under the results of the audits, on the basis of issued acts and orders.

Business unit of the Company	Number of accidents		Total number of injured (including fatalities),	
	2008	2007	2008	2007
Krasnoyarsk business unit	9	13	10 (0)	14 (1)
Irkutsk hard-rock business unit	15	16	15 (1)	18 (4)
Irkutsk alluvial business unit	12	12	12 (1)	12 (2)
Yakutia business unit	4	3	4 (0)	3 (0)
OJSC Matrosov Mine	3	5	3 (0)	5 (0)
OJSC SVMC	0	5	0 (0)	5 (0)
Total:	43	54	44 (2)	57 (7)

Responsible specialists and authorized services act at all Business units of the Group; their duties include providing compliance with the requirements of state regulations and standards, as well as internal standards of the companies of the Group with respect to industrial safety and labor protection.

Declarations of industrial safety have been elaborated for all Business units in accordance with the Federal Law on Industrial Safety of Hazardous Production Units.

Assessing risks, the Company takes measures to create comfortable conditions for employees when the temperature outside is low, provision of compliance with sanitary standards of operations under the condition of air pollution at working zones of open pits and operations with chemical reagents. For the purpose of operational safety provision for employees of the open pit areas of the Olimpiada Mine, the means of gas protection are SGS and NIVA, which have been installed on mining equipment operating in open pit areas.

Special risks should include mining with explosives. To mitigate danger in this area, a plant producing emulsion explosives was brought into operation at the Olimpiada Mine in 2008; being a production unit with a high level of industrial safety, this plant enables to refuse from acquisition, transportation, storage and operation of hazardous standard explosives. Despite the economic consequences, the introduction of this resource-saving technology enabled the reduction of risks in the sphere of operational safety, and the unit provides for a high mechanization and production culture.

In 2008, 44 people suffered industrial injuries at the units of the Group, while in 2007 there were 57 people injured production sites. The number of accidents decreased as well: from 54 cases in 2007 to 43 cases in 2008.

At present, 24-hour hot meals are arranged for the employees at all main gold mining units to provde normal working conditions.

In accordance with the Regulations of the RF Ministry of Public Health, regularl medical checks of employees engaged in operations with harmful or hazardous working conditions are arranged.

Training in the sphere of labor protection and industrial safety by business units of the Company	Number of trainees, people		Time of training, hours	
	2008	2007	2008	2007
Krasnoyarsk business unit	1,945	211	254,470	12,040
Irkutsk hard-rock business unit	280	201	10,128	3,216
Irkutsk alluvial business unit	62	40	49,352	3,800
Yakutia business unit	73	126	1,460	5,040
OJSC Matrosov Mine	12	10	480	400
OJSC SVMC	0	3	0	560
Total:	2,372	591	315,890	25,056

Medical aid posts are established in all subdivisions of the Polyus Group, where they perform medical control over physical condition of employees before the shift beginning, within working hours and upon the end of work.
All employees of the Company undergo training on labor safety, safe methods and means of work performance; they have certificates according to their profession. Each newly hired employee is provided with instructions on labor protection, primary and secondary instructions at the work place, probation work, for the period of which such employee is to work with a skilled patron. When probation work is completed, there is a test of the employee's knowledge of labor protection and work skills. After passing the test, the newcomer is allowed to work independently.
For the Group in total, 2,372 people were trained in 2008, compared to 591 in 2007.
All units of the Company have equipped training classes where the training and education of employees of all professions is carried out.
In addition, the units of the Company have developed and issued local regulatory acts related to labor protection, including instruction, ordinances and orders. They include such documents as the Standard of the unit on the system of industrial safety and labor protection management, regulatory ordinances on organization of safe operation, control over technical condition and provision of timely repair of buildings and structures, on periodical three-step control over condition and protection of labor, on control over scheduled medical check, etc.
An example of information technologies' application is the implementation at Olimpiada Mine units of an electronic database of the availability of admissions to independent operation and the electric safety group of admission for employees, which enables the monitoring of the expiration of admission terms, timely performance of knowledge checks on labor protection and industrial safety, and exchange of admission certificates.
In 2008, all units of the Group performed prequalification preparation and qualification of managers and specialists of all levels in the sphere of labor protection and industrial safety in accordance with their job descriptions.
Approximately RUR 106.1 million were spent by the Group on labor protection and industrial safety measures, which is 104% of the same figure of 2007.

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All units of the Group have provided for a high safety level with respect to industrial buildings and structures, including hydraulic engineering structures. According to opinions on tailing dump safety, all of them have high margin of stability rate, a sufficient threshold level of dumps and admissible filtration. The operation of tailing facilities and its condition complies with the requirements of standards and regulatory documents.

SOCIAL RESPONSIBILITY AND CHARITY

In 2008, OJSC Polyus Gold prepared the second Sustainable Development report reflecting the Company's activity in the period of 2006 – 2007. The report was prepared on a voluntary basis with the use of recommendations and main principles of the Regulations on reporting in the sphere of Sustainable Development (GRI) (version 3.0) and industrial annex to GRI on the metallurgy and mining industry (GRI Mining and Metals Sector Supplement, Pilot Version 1.0).
Sustainable Development is a global process with the participation of leading international corporations and states. Adhering to the principles of Sustainable Development involves voluntary preparation and distribution of regular

reporting according to the Global Reporting Initiative (GRI) standard, including not only economical, but also social and environmental indices of the Company's activity.
The Sustainable Development Report for the Polyus Gold Group is, first of all, a possibility to establish feedback with society and the state, shareholders and investors, employees and business partners. Such interaction will enable us to adjust the Group's concept of Sustainable Development and extend the list of priorities in the sphere of social partnership and environment protection.
In the process of preparing the reports, the Company was guided by the best samples of such reporting in the world.
In accordance with Sustainable Development principles, the Group keeps on working in key spheres: concern for local communities in the regions of the Company's activity; concern for and support of employees of the Company – the creation of good working conditions at all units; implementation of a comprehensive program of personnel training and assistance in the career growth of the Company's employees; environmental responsibility and industrial safety.
Territories of the Company's activity are underpopulated and insufficiently developed with respect to the basic social and economical aspects, as they are situated far from regional centers and large cities. That is why the population is not active enough.

A lot of problems exist in such settlements: the young population moves away, the population ages, orphans, soldiers returning from service and re-adapting to normal life; unemployment, etc.
The Company provides diversified support to the regions of its main business locations and makes substantial efforts to provide numerous municipal structures, including in the sphere of public health, social security, education, culture, etc.

Grant contest Polyus Gold – CAF

In 2008, the charity program Grant Contest Polyus Gold – CAF continued; it was implemented by CAF of Russia together with OJSC Polyus Gold in 2007 and is aimed at supporting social initiatives, programs and projects of noncommercial organizations in the regions of the activity of OJSC Polyus Gold.

The main mechanism of the program's implementation is holding contests of non-commercial organizations' projects. The main source of funding is money granted by OJSC Polyus Gold in favor of CAF of Russia for the program's implementation.

The third stage of the program was realized in 2008. The events took place in Magadan and Tenkinskiy District of the Magadan Region, Bodaibo and the Bodaibo District, the Irkutsk Region, Irkutsk, Krasnoyarsk, the North-Yenisei District of the Krasnoyarsk region, Yakutsk, Neryungri, Aldan, the Aldan District, settlement of Nizhniy Kuranakh of the Republic of Sakha (Yakutia).

The budget of minor grants in these regions amounted to RUR 7,124. All in all, over 170 applications were submitted in the regions. According to the decision of the expert councils of the contest, the 35 most interesting projects were the winners; the following projects could be distinguished among them:

Liquidation of computer illiteracy Eureka: the project is aimed at creating conditions for training in the sphere of computer competence of inhabitants of the Mamakan settlement in the Irkutsk Region

Holidays in Biblio Park: the project is aimed at foundation of a Biblio Park at the territory adjacent to the city children's library in the town of Bodaibo in the Irkutsk Region

Children's Video Studio: the project is aimed at organization of active, socially acceptable and significant forms of children's occupation of the settlement of Artemovskiy in the Irkutsk Region

The Search Has No Borders: the project provides for the organization of a regional research expedition to the first gold mines of the North-Yenisei District of the Krasnoyarsk region with the aim of attracting youth to study local history

The Fall of Life: the project is aimed at organizing social and psychological aid and holding of cultural mass events for pensioners of the Severo-Yeniseiskiy settlement

Siberian Underground: organization of leisure activity for teenagers, including problem teenagers of the North-Yenisei District by means of their involvement into the work of the musical studio

Solnyshko (The Sun): the project is aimed at provision of additional education and psychological and pedagogical support for children with limited abilities in the territory of settlements of Novaya-Kalami, Teya, Severo-Yeniseiskiy

70 Steps along Magadan History: the project provides for development and holding of historical educational game for popularization of the history of the city and the region among children and youth (Magadan)

School Newspaper «SuperSkolka»: the project is aimed at expanding informational and educational space for children of Tenkinskiy District of the Magadan Region; the program provides for publishing of the unified newspaper in the region's schools

The School Station: the project is aimed at arrangement of a School Sitting-room in the settlement of Omchak of the Magadan Region with the purpose of organization of leisure activity for schoolchildren from remote settlements during the time of waiting for school transport

The Magadanka is a Salmon River!: the project is aimed at preservation of environmental pureness of the Magadanka river – a spawning river, flowing in the center of the Kolyma Territory capital

In 2009, the grant contest continued.

Joint project of OJSC Polyus Gold and the Charity Fund of the Chamber of Commerce and Industry of the Russian Federation

The Non-commercial organization Charity Fund Center of Assistance to Street Children of the Chamber of Commerce and Industry of the Russian Federation was founded under the initiative of figures of science and culture of Russia in March 2002. The budget revenues of the Fund are provided solely at the expense of charity donations of legal and natural persons. The Fund has created a unique database containing information on all orphanages situated in the territory of the Russian Federation. The assets raised are fully transferred to provide material aid through direct delivery to centers and other orphanages, boarding schools, shelter-care facilities, rehabilitation centers and other orphanage institutions of material values (clothes, footwear, furniture, engineering equipment, sport equipment, training workshop equipment, etc.). At the moment of is foundation the Fund provided material aid to 1,655 children's institutions in 82 constituent entities of the Russian Federation for the sum of over RUR 205 million.

The program of cooperation with the Charity Fund of the Chamber of Commerce and Industry of the Russian Federation Center of Assistance to Street Children which was named THE FIRST GOLD was initiated by OJSC Polyus Gold in 2005. The recipients of the aid were determined to cover all main regions with the presence of the Company. As a result, 17 children's institutions of the Krasnoyarsk region, the Irkutsk and Magadan Regions were selected. Sports gear and equipment for use in any weather conditions were given to orphans as a gift. OJSC Polyus Gold aspires not only to improve the living conditions in orphanages, but also provide orphans with the additional possibility to play various kinds of sports.

In 2008, the program covered new regions of the Company's activity and, first of all, the Republic of Sakha (Yakutia), where business units of the Group are situated. In addition, the Fund may direct up to 30% of the amount of annual donations as material aid to orphans in other regions of Russia.

In 2008, the donation provided by OJSC Polyus Gold was used for the following purposes:

- Acquisition of training equipment for professional training of orphans and children deprived of parent's patronage, as well as for the purchase of equipment to improve the material base of children's orphanage institutions in the Krasnoyarsk, Arkhangelsk, Kemerovo, Rostov, Saratov and Sverdlovsk regions;

- Realization of a joint project aimed at training and education in vocational schools, technical colleges, educational centers of leavers of children's orphanage institutions situated in the Republic of Sakha (Yakutia), and the Krasnoyarsk, Irkutsk and Magadan regions.

The Fund continued providing assistance to the State Educational Institution of intermediate vocational institution the Aldan Polytechnic Technical College, which is the base of providing those who leave orphanages and boarding schools with specializations needed at the mining sites of OJSC Aldanzoloto GRK and OJSC SVMC.

The first stage of the program had been completed by the end of the 2nd quarter of 2008. In 2008 school-year leavers of orphanages and boarding schools got down to education in well-equipped laboratories and workshops.

At present, the second stage of the program is being elaborated.

In the frame of the joint program with the Charity Fund of the Chamber of Commerce and Industry of the Russian Federation, Polyus Gold provided charity assistance to children who suffered as a result of tragic events in South Ossetia in August 2008. Over RUR 1,300,000 were transferred to the Ministry of Education and Science of the Republic of North Ossetia – Alania for the purchase of clothes and footwear for needy children. The most necessary things were purchased: coats, shirts, gym clothes, boots, training shoes, etc. – all in all 32 kinds of clothes and footwear.

In the frame of the comprehensive target program Health of Family – Health of State the Company provides charity assistance to ANO Family Sport and Health Improving Club Zvyaginets (Moscow). The purpose of the Zvyaginets club is to improve the physical and creative abilities of people and enhance family values by means of sports. In the frame of the program, assistance is rendered to children from needy families as well as to children with limited abilities. SAMBO and JUDO systems are the base of training of the club members.

OJSC Polyus Gold traditionally takes part in projects in the spheres of culture, arts and sports.

OJSC Polyus Gold traditionally takes part in projects in the spheres of culture, arts and sports. The most remarkable projects of 2008 are: participation as a General Sponsor in the organization and holding of the Fourth A.N. Skryabin International Piano Contest, which took place in the Moscow Conservatoire; charity aid to All-Russian Non-Governmental Organization Russian Football Union; General Sponsorship of the Fund of Student Basketball Support.

OJSC Polyus Gold strives to create partnership relations with interested parties in the regions, assistance in the creation of new projects, expansion of the range of interaction, application of more efficient approaches to solving of social and economic problems facing the Company and the society.

PERSONNEL DEVELOPMENT AND TRAINING

The Company's policy in the sphere of personnel development is aimed to ensure efficient and socially stable personnel at the Company's enterprises, capable of handling the current and expected tasks in accordance with the Company's development strategy.

The basic tools of the policy are the selection and adaptation of young specialists, employee professional training, management personnel training and development of the corporate culture.

In 2008, over 40% of the Company's employees took part in the training program. As a result, in 2008, around 25% of the trainees improved their qualification and were promoted. Around 80% of the professional training program was implemented at the corporate training facilities. Corporate seminar meetings were organized with the aim of coordinating activities, working out uniform approaches to the solution of business tasks, forming the agreed competence of the group CEO and specialists, and the participants of the seminars were the heads and specialists of the daughter and affiliated companies. In total, 13 seminars were held. The number of participants was increased by 16% as compared with the previous year.

Similarly, 14 internal corporate seminars were held, the topic being «The Increase in Efficiency». The specifics of these events were that Company CEOs with expertise in various functional spheres spoke at the seminars. This form of training contributes much to the solution of the knowledge management and formalization problem and helps to distribute knowledge amongst the group workers. In 2008, for the first time a video conference system was used by the Company to organize internal corporate seminars. The seminars organized as video conferences made it possible to expand the audience and make the business unit workers a part of the common informational field.

As the Company has a wide geography of its activity and many of its enterprises are located far from the scientific and educational centres, the Company organised a remote training system on the basis of the Internet and the Internet techniques.

Within the framework of developing a united informational and educational medium, the Company developed a set of training materials for a remote training entitled «Our Work is Gold». On the basis of this course, an adaptation program was created for newcomers. Sets of training and methodological materials for remote education were acquired and adapted for the remote education system: «Personnel Motivation», «Is it easy to be a manager», MS Office course (Word, Excel, Outlook, PowerPoint), «Successful Negotiations», «The Basic Principles of Industrial Safety», «Project Management (a basic course)». Therefore, in 2008, the Group's informational and educational medium was developed and helped to make educational services more accessible for the Company's employees.

In 2008, the Company developed and approved a corporate program aimed to attract young specialists entitled «Learn the Worth of Gold!» and the Group's enterprises started implementing it. The approved program is to create the conditions for a long-term and mutually beneficial cooperation with universities and to prepare young specialists adapted for the Company's industrial and social environment. General cooperation agreements were entered into with such universities as Siberian Federal University, Irkutsk Technological University and North-East University (Magadan). In ac-

cordance with the approved program, in 2008 over 250 students were trained at the Group's enterprises and acquired working experience. Around 100 graduates were employed and got a steady job. Cooperation with universities includes such forms of interaction as the attraction of professors and teachers to the implementation of the Company's employee training program, participation of the university specialists in the scientific research work, participation of the leading specialists and heads of the enterprises in the university educational activity.
As the quality of management is directly connected with the level and quality of training of the top managing personnel, the Company devotes a great deal of attention to the development of managers. A personnel reserve was formed by the Company in order to ensure a planned appointment to managing vacancies and to minimize the adaptation period for newly appointed CEOs. The Company implements a development program for the managers included in the personnel reserve. For the first time, one of the Company's business units organized a Manager Development Center wherein the heads of that business unit participated. The Development Center was conducted by the advisers of CJSC ECOPSY Consulting. On the basis of the results of the Development Center, each participant was ensured a feedback from the consulting psychologist discussing the personal, business and professional qualities, «strong» points and development zones, and recommendations were given with regard to further development and higher management efficiency.
Within the framework of development of the corporate culture, a Group Corporate Ethics Code was approved. The approval of the Code was preceded by a long period of investigation into the existing corporate culture, the working out of the basic principles of mutual relations within the Group and with business partners, the agreement on different opinions and the observance of interests of different personnel categories. The Code reflects the moral and ethical standards shared by the majority of the Group's personnel.

DIRECTORS' RESPONSIBILITY STATEMENT

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

(a) the consolidated financial statements for the year 2008, prepared in accordance with International Financial Reporting Standards 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 (the «Polyus Group»); and

(b) the management report for the year 2008 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.

General Director EVGUENI I. IVANOV
30 April 2009

15. Management report (Management's discussion and analysis of financial condition and results of operations) for 2008

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

The following discussion and analysis represents the 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 2008, 31 December 2007 and 31 December 2006;
- the Polyus Group's liquidity, solvency and capital sources;
- significant events affecting the Polyus Group's operating performance for these periods; and
- description of principal risks

15.1. THE POLYUS GROUP'S OPERATING RESULTS

15.1.1 EXTERNAL MARKET FACTORS AFFECTING THE POLYUS GROUP'S FINANCIAL RESULTS

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

The Polyus Group's revenue from gold sales is denominated in USD, whereas up to 80% of the Polyus Group's expenses are denominated in RUR, which means that movements in the RUR/USD exchange rate impact on the Polyus Group. Many 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.

In the periods under discussion, prices for these products, and the RUR/USD exchange rate, demonstrated significant movements, which influenced the Polyus Group's financial results:

Average price/ rate	2008	2007	2006
Oil (Brent brand) (USD per barrel)[(1)]	98.7	72.5	65.1
Steel (hot rolled) (USD per tonne)[(2)]	924	645	575
Average USD/RUR rate	24.86	25.58	27.19
Period end USD/RUR rate	29.38	24.55	26.33

1. Source: Bloomberg.

2. Source: Metaltorg, spot price FOB Russia.

Summary of performance results

The following table shows the summary of performance results of the Polyus Group's operations in 2008, 2007 and 2006 related to financial statements:

USD' 000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)[1]	2006 (restated)[1]	%	%
Gold sales	1,062,331	849,023	734,559	25.1	15.6
Other sales	24,987	18,096	18,127	38.1	(0.2)
Cost of gold sales	(558,118)	(449,216)	(426,527)	24.2	5.3
Cost of other sales	(25,061)	(25,866)	(18,816)	(3.1)	37.5
Gross profit	504,139	392,037	307,343	28.6	27.6
Gross profit on gold sales	504,213	399,807	308,032	26.1	29.8
Gross profit margin	46.4%	45.2%	40.8%	–	–
Selling, general and administrative expenses	(134,960)	(261,776)	(79,678)	(48.4)	228.5

USD' 000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)[1]	2006 (restated)[1]	%	%
Profit before income tax	122,471	177,107	1,228,391	(30.8)	(85.6)
Pre-tax margin	11.3%	20.4%	163.2%	–	–
Income tax expense	(62,110)	(85,299)	(73,080)	(27.2)	16.7
Profit for the year	60,361	91,808	1,155,311	(34.3)	(92.1)
Net profit/(loss) attributable to minority interest	8,854	5,999	(414)	47.6	–
Net profit attributable to shareholders of the parent company	51,507	85,809	1,155,725	(40.0)	(92.6)
Net profit margin	5.6%	10.6%	153.5%	–	–
Earnings per share – basic and diluted (USD)	0.29	0.49	0.75	(41.0)	(34.7)

The following table shows the summary of performance results of the Polyus Group's operations in 2008, 2007 and 2006 related to non-GAAP financial measures:

USD' 000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)[1]	2006 (restated)[1]	%	%
Operating profit[(2)]	347,164	113,715	208,077	205.3	(45.3)
Operating profit margin	31.9%	13.1%	27.6%	–	–
EBITDA[(3)]	436,470	331,154	300,686	31.8	10.1

[1] *Refer to Note 5 of consolidated financial statements for the year ended 31 December 2007 (approved on 3 February 2009).*

[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 EBITDA calculation refer to section 15.2.1 of the management report.*

15.1.2. GOLD SALES

The following table shows the results and breakdown of the Polyus Group's gold sales for the years ended 2008, 2007 and 2006:

USD' 000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Gold sales (USD thousands)	1,062,331	849,023	734,559	25.1	15.6
Gold sales (thousand troy ounces)	1,226	1,210	1,216	1.3	(0.5)
In the domestic market (thousand troy ounces)	1,226	1,050	875	16.8	20.0
In the domestic market (%)	100	87	72	–	–
For export (thousand troy ounces)	–	160	341	–	(53.1)
Weighted-average gold selling price (USD per troy ounce)	867.3	701.7	604.1	23.6	16.2
Average evening fixing price in London (USD per troy ounce)(1)	872.0	695.4	603.5	25.4	15.2
Excess/(deficit) of average selling price over/(under) average evening fixing price (USD per troy ounce)	(4.7)	6.3	0.6	–	–

1. Source: LBMA

In 2008, the Polyus Group's revenue from gold sales reached a historical high level and was USD 1,062,331 thousand, an increase of 25.1% as compared to 2007.

The increase in revenue resulted primarily from favourable gold prices, as production and sales volumes in physical units remained relatively constant. In 2008, the Polyus Group produced 1,222 thousand troy ounces (38.0 tonnes) of refined gold, showing a slight growth over 2007 levels when it produced 1,214 thousand troy ounces (37.8 tonnes). The slight growth in production resulted from increased output at the Olimpiada mine, which became possible after Mill No.3 reached its' target production capacity in late 2008, and which was partly offset by the shut down of Mill. No.1 after the depletion of oxidized ores at the Olimpiada deposit. Among the other factors that influenced the increase in output in 2008 were the increased average grade of the ore processed at the Kuranakh mine and acquisition of a new alluvial enterprise. The Polyus Group sold 1,226 thousand troy ounces in 2008, compared to 1,210 thousand troy ounces sold in 2007.

During 2008, the global gold price was rather volatile, reaching its highest level of USD 1,011.25 (London evening fixing) in March and the lowest of USD 712.5 in October. In the period under review, the average evening fixing price in London was USD 872.0, compared to USD 695.4 in the previous period. However, for the whole year, the global price of gold increased by only 3% between the start of the year and the end of the year, while it grew more than 30% during 2007. On 2 January 2008, the first business day in the market, the gold price was USD 846.75 per troy ounce, and on 30 December 2008, the last business day in the market, the gold price was USD 869.75 per troy ounce.

Following its policy to sell gold at spot market prices (without using any type of hedging instruments) the Polyus Group reflected the benefit of an increasing gold price in the financial results for 2008 in full. The average selling price in 2008 was USD 867.3 per troy ounce as compared to USD 701.7 per troy ounce in 2007.

In 2008, all the gold produced was sold in the domestic market, while in 2007 export accounted for 13% of sales in USD terms. The Polyus Group decided not to continue working under export contracts in the reporting period because export sales are less profitable due to transportation and other related expenses.

15.1.3. COST OF GOLD SALES

The following table shows the results of the Polyus Group's cost of gold sales for the years ended 2008, 2007 and 2006:

USD' 000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Cash operating costs[1]	587,332	442,224	348,212	32.8	27.0
Labour	207,403	144,008	104,358	44.0	38.0
Consumables and spares, out of which:	239,522	200,601	152,854	19.4	31.2
Materials and spares	*150,503*	*137,956*	*103,617*	9.1	33.1
Fuel	*89,019*	*62,645*	*49,237*	42.1	27.2
Utilities, out of which:	26,646	23,340	24,897	14.2	(6.3)
Power	*25,753*	*19,494*	*14,617*	32.1	33.4
Other	*893*	*3,846*	*10,280*	(76.8)	(62.6)
Tax on mining	72,588	51,138	42,361	41.9	20.7
Outsourced mining services	15,105	8,826	10,680	71.1	(17.4)
Refining costs	5,383	3,569	3,462	50.8	3.1
Sundry costs	20,685	10,742	9,600	92.6	11.9
Amortisation and depreciation of operating assets	98,999	87,196	73,718	13.5	18.3
Change in deferred stripping costs..........	(112,804)	(68,065)	5,230	65.7	–
Change in gold-in-process and refined gold	(6,879)	(12,621)	(7,951)	(45.5)	58.7
Change in provision for land restoration.......	(8,530)	482	7,318	–	(93.4)
Cost of gold sales	558,118	449,216	426,527	24.2	5.3

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 2008, cost of gold sales increased by 24.2%, or USD 108,902 thousand, to USD 558,118 thousand.

Cash operating costs

The principal reason for the increase in cost of gold sales was the increase in cash operating costs within all the Polyus Group's production entities. During 2008, cash operating costs included in cost of sales were USD 587,332 thousand.

The largest item included in cash operating costs in 2008 and 2007 was labour expenses (35% of cash operating costs). Labour expenses for production staff were USD 207,403 thousand in 2008, an increase from USD 144,008 thousand in 2007. The 44% increase occurred mainly on account of the Krasnoyarsk business unit, including an accrued compensation payment relating to strong operational results.

The second largest item included in cash operating costs (26% of cash operating costs) was expenses for consumables and spares, which include materials and spares (parts for trucks, excavators and for construction machinery, expenses on rolled metal products and cables, technological materials for plants and other materials and spare parts used during the mining, concentration and smelting) and fuel.

The cost of materials and spare parts consumed in 2008 was USD 150,503 thousand as compared to USD 137,956 thousand in 2007, representing an increase of 9%. The increase was primarily the result of the growth in ore processing. The major contributor of the increase was the Olimpiada mine. The cost of a number of materials and spare parts, purchased by the Polyus Group in the reporting year also increased, primarily due to world-wide changes in underlying commodity prices (including oil products and hot rolled steel) especially in the first half of the year.

A significant portion of consumables and spares is fuel, mainly diesel oil, fuels and lubricants for trucks and excavators and fuel for oil-fired power plant operating at Nezhdaninskoye deposit and the diesel power plant at the Olimpiada mine. The Polyus Group total expenses on fuel grew by 42% from USD 62,645 thousand in 2007 to USD 89,019 thousand in 2008, consistent with growth in world prices for oil products.

As an example the Group provides a comparative table which shows the main consumables and spares procured by the Krasnoyarsk business unit, which cost of gold sales contributes for almost 54% of Group's cost of gold sales:

USD' 000	Unit of measurement	2008		2007	
		Volume	Cost, USD'000	Volume	Cost, USD'000
Spare parts for tipper trucks and digging machines			10,371		12,958
Grinding balls	tonne	11,020	13,511	6,580	5,505
Pipes for current operations			1,212		1,198
Spare parts for road-building machines			3,428		1,787
Rolled metal products for current operations			1,859		784
Summer diesel fuel	tonne	45,600	31,954	50,075	29,588
Winter diesel fuel	tonne	30,400	24,182	33,952	22,740
Ai-80 gasoline	tonne	360	316	360	289
Ai-92 gasoline	tonne	420	417	300	285
Explosives			15,575		17,202
Cyanides	tonne	19,565	62,232	8,639	18,377
Total			165,057		110,713

The purchase of consumables and spare parts by the Krasnoyarsk business unit in USD terms increased by 49% from USD 110,713 in 2007 to USD 165,057 in 2008. The volume of purchases in physical items increased primarily due to purchases of grinding balls and cyanides due to Mill No.3 achieving its project capacity of 5 mtpa, as well as purchases of gasoline for the construction on the Titimukhta and Blagodatnoye mines. In monetary terms the increase primarily reflected purchases of spare parts for road-building machines and rolled metal products. These increases were also due to construction works, including road building, carried out at the Krasnoyarsk business unit, which required additional machinery and spares. In 2008, an explosive workshop was constructed at the Olimpiada mine, which led to a reduction in explosives costs.

USD' 000	Unit of measurement	2008	2007	2008 against 2007, %
Grinding balls	USD/tonne	1,226	837	46.5
Summer diesel fuel	USD/tonne	701	591	18.7
Winter diesel fuel	USD/tonne	795	670	18.7
Ai-80 gasoline	USD/tonne	877	804	9.1
Ai-92 gasoline	USD/tonne	994	951	4.6
Cyanides	USD/tonne	3,181	2,127	49.6

During the reporting period the prices for cyanides and grinding balls increased substantially. The growth of purchase prices for grinding balls resulted from a 43% increase in hot rolled steel prices. Rising costs for diesel fuel and gasoline reflected the global trend of oil products prices growth in the first half of 2008.

In 2008, due to the growth in the gold price, applied to a slightly increased sales volume, the Polyus Group paid USD 72,588 thousand in mining tax, which was USD 21,450 thousand more than in 2007. In accordance with Chapter 26 of the Tax Code of the Russian Federation, the tax on mining base includes concentrate or any other semi-product containing precious metal obtained by extraction of this metal from ore, alluvial or industrial deposits, such as the gold produced by the Polyus Group. Concentrates and other semi-products containing gold are subject to the tax at the rate equal to 6% of the cost of these semi-products. The cost is determined based on selling prices for the relevant tax period.

Amortisation and depreciation of operating assets

Amortisation and depreciation of operating assets included in cost of sales increased by 13.5% from USD 87,196 thousand in 2007 to USD 98,999 thousand in 2008. The increase was due to commissioning of new fixed assets, mainly in the Krasnoyarsk business unit. This amount included amortisation of the mineral rights in the amount of USD 15,842 thousand.

15.1.2. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following table sets forth the selling, general and administrative expenses of the Polyus Group for the years ended 2008, 2007 and 2006:

USD '000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Salaries	73,742	76,291	44,019	(3.3)	73.3
Taxes other than mining and income taxes	18,318	20,724	11,322	(11.6)	83.0
Professional services	13,321	8,288	6,820	60.7	21.5
Depreciation	3,782	3,969	4,759	(4.7)	(16.6)
Share option plan	–	132,548	–	–	–
Other	25,797	19,956	12,758	(29.3)	56.4
Total	134,960	261,776	79,678	(48.4)	228.5

During 2007, the Polyus Group's selling, general and administrative expenses decreased by 48% from USD 261,776 thousand in 2007 to USD 134,960 in 2008. This decrease was mainly a result of the absence in 2008 of expenses relating to the exercise of the share option plan in the amount of USD 132,548 thousand, reflected in 2007 administrative expenses, which more than offset increases in other costs.

Salaries

As a result of the consistent introduction of a cost-cutting programme, for the first time in its history the Polyus Group cut administrative staff labour costs on the year-to-year basis. These expenses decreased by USD 2,549 thousand or 3% from 2007 to USD 73,742 thousand in 2008.

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 only includes non-recoverable VAT), unified social tax and other taxes. In 2008, the Polyus Group paid USD 18,318 thousand in federal and regional taxes other than tax on mining and income tax, which was 12% less than in 2007, primarily due to a decrease of non-recoverable VAT. In 2007, the amount of non-recoverable VAT was significantly higher at CJSC Polyus (Krasnoyarsk business unit), because of contributions it made to the share capital of new subsidiaries in non-monetary form.

The amount of property tax increased substantially as a result of commissioning of property related to the new projects development and the modernization of existing production facilities.

The following table shows the components of taxes, other than mining and income taxes, for 2008, 2007 and 2006:

USD '000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Taxes, other than mining and income taxes	18,318	20,724	11,322	(11.6)	83.0
VAT	3,100	10,092	3,377	(69.3)	198.8
Property tax	11,561	8,231	5,135	40.5	60.3
Other taxes	3,657	2,401	2,810	52.3	(14.6)

Professional services

In 2008, professional services expenses increased by USD 5,033 thousand from USD 8,288 thousand in 2007 to USD 13,321 thousand in 2008. The increase in professional services expenses was due to consulting services provided on a proposal to carve out the exploration assets.

Other selling, general and administrative expenses

Other selling, general and administrative expenses are presented with rent expenses, communication services, repair and maintenance costs. Rent expenses increased from USD 1,799 thousand in 2007 to USD 4,609 thousand in 2008, primarily as a result of the revision of terms of the rent agreement for the Moscow head office. The following table shows the components of other selling, general and administrative expenses for 2008, 2007 and 2006:

USD '000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Other	25,797	19,956	12,758	29.3	56.4
Rent expenses	4,609	1,799	1,445	156.2	24.5
Repair and maintenance	1,541	1,734	1,025	(11.1)	69.2
Communication services	1,749	1,278	1,415	36.9	(9.7)
Other	17,898	15,145	8,873	18.2	70.7

15.1.5. RESEARCH AND EXPLORATION EXPENSES

In 2008, research and exploration costs decreased by USD 1,258 thousand, or 20%, from USD 6,217 thousand in 2007 to USD 4,959 thousand in 2008, reflecting the Group's decision to substantially reduce exploration works due to the deterioration of global market conditions in the second half of the year.

15.1.6. OTHER EXPENSES, NET

In the period under review, other operating income was USD 5,569 thousand compared to USD 7,696 thousand in the previous period. In 2008, deferred consideration amounted to USD 3,152 thousand and other operating income totaled USD 2,417 thousand.-In 2007 other operating income comprised changes in the allowance for reimbursable VAT in the amount of USD 3,641 thousand and an interest payable written off as a result of an amicable settlement with a creditor totaling USD 4,055 thousand.

Other operating expenses increased by 26%, from USD 18,025 thousand in 2007 to USD 22,625 thousand in 2008. This was largely due to a significant increase in charity contributions to USD 7,135 thousand, changes in the allowance for obsolescence of inventories and inventories written off in the sum of USD 2,243, as well as changes in the allowance for reimbursable VAT totaling USD 7,078, which were partly offset by a substantial decrease in loss on disposal of property, plant and equipment (a decrease of USD 5,873), change in allowance for doubtful debts (a decrease of USD 1,337 thousand), tax fines and penalties (a decrease of USD 585 thousand) and other operating expenses (a decrease of USD 1,608 thousand).

15.1.7. FINANCE COSTS, INCOME (LOSS) FROM INVESTMENTS AND FOREIGN EXCHANGE GAIN/(LOSS)

The following table sets forth the components of financial and investment activity in 2008, 2007 and 2006:

USD '000	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Finance costs	(4,417)	(6,629)	(6,453)	(33.4)	2.7
Income/(loss) from investments	(217,591)	61,537	1,102,111	–	(94.4)
Foreign exchange gain/(loss)	(2,685)	8,484	(75,344)	–	–

In 2008, finance expenses decreased by approximately one third and amounted to USD 4,417 thousand. This was a result of redemption of short-term borrowings in the first half of the reporting year.

In 2008, the Polyus Group recognized a net loss from investments totaling USD 217,591 thousand.

During 2008, the Group incurred losses from investments in securities held for trading under asset management agreements by the Managing Company Rosbank. These investments are carried at fair value through profit and loss. As a result of significant declines in financial markets, a USD 178,377 thousand loss in the value of the securities was reflected in the Polyus Group consolidated income statement. Moreover, the Polyus Group holds an investment share in Management Company Rosfund which is accounted for as available-for-sale investments. During the year, the Polyus Group disposed of USD 51,230 thousand of its shares which resulted in a loss on disposal of investments in the amount of 16,230 thousand and cash proceeds of USD 35,000 thousand. The decrease in fair value of this investment is considered to be permanent, and impairment has been recognized through a reduction in the investment revaluation reserve and as investment impairment in the income statement in the sum of USD 100,090 thousand

In July 2008 the Polyus Group subsidiary OJSC Lenzoloto disposed of its 6.7% stake in OJSC Vysochaishy resulting in a gain of USD 30,000 thousand. In 2008 the Polyus Group also received interest income on bank deposits, loans under repurchase agreements and promissory notes for the total amount of USD 47,106 thousand as compared to USD 51,493 thousand in the previous period.

During 2008, as a result of exchange rate movements the Polyus Group recognized a foreign exchange loss of USD 2,685 thousand, USD 2,604 thousand of which related to investing activities, while in 2007 foreign exchange gain totaled USD 8,484 thousand.

15.1.8. INCOME TAX

During 2008, the Polyus Group accrued USD 62,110 thousand in income tax, which was 27% less than in 2007. This was largely affected by the reduction in the statutory income tax rate from 24% to 20% starting from 1 January 2009, which led to a recalculation of deferred tax liabilities. The effective income tax rate (ratio of current and deferred tax expense to IFRS income before tax) in 2008 was 51%, whereas the statutory income tax rate in Russia established in 2008 was 24%. The difference between the statutory and the effective tax rates was mainly because of deferred tax assets not recognized on loss from investments under asset management agreements in the sum of USD 42,810 thousand, as well as a significant amount of non-deductible items for tax purposes and other permanent differences in the sum of USD 7,396 thousand. .

15.1.9. OTHER SALES AND COST OF OTHER SALES

Revenue received by the Polyus Group from the sale of products other than gold and services grew by 38% in the reporting period and amounted to USD 24,987 compared to USD 18,096 thousand in the previous period. This revenue includes sales of electricity, rent services sales, revenue from transportation, handling and storage services, and other sales. The growth occurred mainly on account of sales of electricity, housing maintenance and gold mining under contractors' agreement. In 2008, other sales revenue was slightly lower than cost of their sales which resulted in a net loss from other sales in the amount of 74 thousand, compared to a net loss of USD 7,770 in 2007. Cost of other sales also included fuel and materials expenses and payroll costs in non-mining activities.

15.2. 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.

15.2.1. EBITDA

«EBITDA» is defined by Polyus Gold as profit before finance costs, income tax, income (losses) from in vestments, 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 2008, 2007 and 2006:

USD '000	Years ended 31 December		
	2008	2007 (restated)	2006 (restated)
Profit for the year	60,361	91,808	1,155,311
+ Income tax charged	62,110	85,299	73,080
+ Depreciation and amortisation for the year	86,927	82,066	79,025
+ Interest expense	4,417	6,629	6,453
– Interest payable written off	–	(4,055)	–
– Interest income	(47,106)	(51,493)	(107,616)
– Gain on disposal of investments	(13,770)	–	(980,462)
+ Loss/(gain) from investments in listed companies held for trading	178,377	(9,898)	(7,234)
+ Impairment of available-for-sale investments	100,090	–	–
– Foreign exchange (gain)/loss	2,685	(8,484)	75,344
+ Loss from disposal of property, plant and equipment and work-in-progress	548	6,421	1,494
+ Impairment of property, plant and equipment	1,831	313	383
+ Reversal of environmental obligations	–	–	2,094
+ Change of provision for VAT receivable	–	–	2,814
+ Charge from share option plan obligations	–	132,548	–
EBITDA	436,470	331,154	300,686

The Polyus Group's EBITDA in 2008 was USD 436,470 thousand, which was USD 105,316 thousand or 32% more than in 2007, reflecting growth in gold selling prices.

15.2.2. 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 2008, 2007 and 2006:

USD '000, unless otherwise indicated	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Cost of gold sales	558,118	449,216	426,527	24.2	5.3
– property, plant and equipment depreciation	(98,999)	(87,196)	(73,718)	13.5	18.3
– provision for annual vacation payment	(6,124)	(4,190)	(2,663)	46.2	57.3
– provision for land rehabilitation	8,530	(482)	(7,318)	–	(93.4)
+ non-monetary changes in inventories(1)	1,140	2,383	1,349	(52.2)	76.6
+ non-monetary changes in deferred stripping works(2)	17,490	10,429	–	67.7	–
TCC	480,155	370,160	344,177	29.7	7.5
Gold sales, thousand troy ounces	1,226	1,210	1,216	1.3	(0.5)
TCC, USD/oz	392	306	283	28.0	8.1
TCC, RUR/oz	9,737	7,825	7,695	24.4	1.7

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 2008, TCC per troy ounce grew by 24% on a RUR basis and by 28% on a USD basis.

The increase in TCC was mainly due to the fact that cash operating costs increased by 33% for the year while the volume of sales accounted for on the basis of troy ounces changed insignificantly. See paragraph 1.3 above («Cost of gold sales»).

15.2.3. ANALYSIS OF PROFITABILITY INDICATORS

Adjusted net profit is defined as net profit attributable to shareholders of the parent company adjusted for the charge from stock option plan obligations in 2007 and the gain on disposal of Gold Fields shares in 2006. 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 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 2008, 2007 and 2006:

USD'000, unless otherwise indicated	Years ended 31 December			2008 against 2007	2007 against 2006
	2008	2007 (restated)	2006 (restated)	%	%
Net profit attributable to shareholders of the parent company	51,507	85,809	1,155,725	(40.0)	(92.6)
+ Charge from share option plan obligations	–	132,548	–	(100.0)	–
- Gain on disposal of investments	(13,770)	–	(980,462)	–	–
+ Loss/(gain) from investments in listed companies held for trading	178,377	(9,898)	(7,234)	–	36.8
+ Impairment of available-for-sale investments	100,090	–	–	100.0	
Adjusted net profit	316,204	208,459	168,029	51.7	24.1
Assets (average for the year)	3,426,156	3,527,817	3,452,244	(2.9)	2.2
Equity attributable to shareholders of the parent (average for the year)	3,009,254	3,043,901	2,979,152	(1.1)	2.2
Non-current and current loans and borrowings (average for the year)	10,455	17,955	20,544	(41.8)	(12.6)
Adjusted return on assets, %	9.23	5.91	4.87	–	–
Adjusted return on equity, %	10.51	6.85	5.64	–	–
Adjusted return on invested capital, %	10.47	6.81	5.60	–	–

Adjusted return on assets equalled to 9.23 percentage points, adjusted return on equity equalled to 10.51 percentage points and adjusted return on invested capital equalled to 10.47 percentage points. In 2008 the asset base slightly decreased, while loans and borrowings were redeemed. At the same time, the Group's net profit adjusted for loss from investments showed a growth of 52%. This led to a considerable increase in profitability indicators.

15.3. 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 2008, 2007 and 2006:

	Years ended 31 December								
	2008			2007			2006		
	Revenue	Production	Sales	Revenue	Production	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	761,318	873	877	603,649	861	856	516,076	854	855
Irkutsk hard rock business unit	21,466	25	25	23,231	32	33	18,517	32	31
Irkutsk alluvial business unit	154,906	181	181	124,111	179	179	103,984	172	172
Yakutia business unit	124,640	144	144	98,032	142	142	95,982	157	158
Group total(1)	1,062,331	1,222	1,226	849,023	1,214	1,210	734,559	1,215	1,216

1. Totals may not add due to the rounding error.

15.3.1. KRASNOYARSK BUSINESS UNIT (OLIMPIADA MINE)

USD'000, unless otherwise indicated	2008
Revenue	761,318
Cost of sales	(298,903)
Gross profit	462,415
Gross profit margin	61%
TCC, USD per troy ounce	293

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

Refined gold output at the Olimpiada mine totaled 873 thousand troy ounces (27.1 tonnes) in 2008, compared to 861 thousand troy ounces (26.8 tonnes) in 2007. The enhanced production was related to Mill No.3 achieving its projected capacity of 5 mtpa as well as the processing of additional volumes of oxidized ore from Vostochny Pit of Olimpiada mine and ore from the Olenye deposit which was mined in 2007.

In 2008, gold sales of the Krasnoyarsk business unit were USD 761,318 thousand, as compared to USD 603,649 thousand in 2007. In the reporting year the entity sold 877 thousand troy ounces (27.3 tonnes), which includes 873 thousand troy ounces (27.1 tonnes) produced during the year, as well as 4 thousand troy ounces (0.2 tonnes) of gold produced in the previous year.

In 2008, the Olimpiada mine was successfully transitioned to sulphide ores processing. Whereas in 2006 sulphide ores represented 71% of the total volume of ores processed, this figure increased to 84% in 2007 and to 94% in 2008.

Despite full conversion to the processing of sulphide ores in 2008, in the period under review the Krasnoyarsk business unit TCC indicator remains one of the lowest in the world gold industry. The gross profit margin in 2008 was 61%.

15.3.2. IRKUTSK ALLUVIAL GOLD BUSINESS UNIT (ALLUVIAL DEPOSITS)

USD'000, unless otherwise indicated	2008
Revenue	163,024
Cost of sales	(137,591)
Gross profit	25,434
Gross profit margin	16%
TCC, USD per troy ounce	633

In 2008, gold production at the alluvial deposits in the Irkutsk region totaled 181 thousand troy ounces (5.6 tonnes), while in 2007 the alluvial deposits produced 179 thousand troy ounces (5.57 tonnes) of gold. The main factors that influenced alluvial gold production in the reporting period were organisational improvements within the Polyus Group's main alluvial enterprise and the acquisition of a new alluvial enterprise, as well as favorable weather conditions.

During the reporting period all of the gold produced by the Irkutsk alluvial business unit was sold. As a result, the positive gold price movements resulted in a 25% increase in revenues over the 2007 levels to USD 163,024 in 2008. The gross profit margin was 16%.

Alluvial deposits' TCC amounted to USD 633 per troy ounce 2008, compared to USD 607 per troy ounce in 2007. The slight increase of 4% was principally due to increase of salaries and mining tax.

15.3.3. YAKUTIA BUSINESS UNIT (KURANAKH MINE)

USD'000, unless otherwise indicated	2008
Revenue	128,988
Cost of sales	(117,639)
Gross profit	11,348
Gross profit margin	9%
TCC, USD per troy ounce	681

In 2008, the Kuranakh mine in the Sakha Republic (Yakutia) produced 144 thousand troy ounces (4.5 tonnes) of refined gold, compared to 142 thousand troy ounces (4.4 tonnes) in 2007. A slight growth in production was due to an increase of the average gold grade in the ore processed from 1.37 to 1.44 grammes per tonne.

In 2008, the gold sales revenue of the Yakutia business unit totaled USD 124,640 thousand compared to USD 98,032 thousand in 2007. The revenue growth related mainly to the growth of the selling price. The gross profit margin equalled 9%.

The Kuranakh mine's TCC amounted to USD 681 per troy ounce in 2008, compared to USD 452 per troy ounce in 2007. Transportation costs represent a large part of the Yakutia business unit's TCC due to dispersion of deposits of the Kuranakh ore field. In 2008, the growth in prices for materials and spare parts for trucks led to a substantial increase in transportation costs and repair and maintenance costs. TCC also increased because of growth in labour and fuel costs.

The Kuranakh mill was commissioned in 1965 and is one of the oldest in the industry. Obsolescence of its production facilities have resulted in a gradual reduction of profitability. The Polyus Group is in the process of modernizing the mill in order to increase its capacity from 3.6 mtpa to 4.5 mtpa. The main stages of its modernization process are expected to be completed in the second quarter of 2009.

15.3.4. IRKUTSK HARD ROCK BUSINESS UNIT (ZAPADNOYE MINE)

USD'000, unless otherwise indicated	2008
Revenue	44,016
Cost of sales	(39,313)
Gross profit	4,703
Gross profit margin	11%
TCC, USD per troy ounce	895

In 2008, refined gold production of the Zapadnoye mine was 25 thousand troy ounces (0.767 tonnes), compared to 32 thousand troy ounces (1 tonne) in 2007. The main reasons for the reduction in output were decreases in the average gold grade of the ore processed and in the volumes of ore processed, the latter resulting from the impact of the modernization programme carried out with the aim of improving the plant's technological processes.

In the reporting period the Irkutsk hard rock business unit sold all the gold produced within the year.

Gold sales revenue decreased from USD 23,231 thousand in 2007 to USD 21,466 thousand in 2008 and the gross profit margin equalled 11%.

The Zapadnoye mine's TCC amounted to USD 895 per troy ounce in 2008, compared to USD 537 per troy ounce in 2007. The growth in TCC reflected an increase in labour and power expenses, growth of material expenses through inflation and an increase in repair and maintenance costs. The increase in costs was due to a decrease in the recovery rate of the ore processed and tariff growth. Although, a 2-weeks plant downtime due to roller engine breakage resulted in a decrease in production while the Group continued fixed costs accrual (fixed part of salaries, electricity costs).

The Zapadnoye mill was commissioned in 2004 and the Polyus Group is in the process of improving mining technology at the mill. The Polyus Group believes that the application of modern technologies and transportation systems should allow the Zapadnoye mine to become a profitable enterprise in the near future.

15.4. REVIEW OF FINANCIAL SUSTAINABILITY AND SOLVENCY

15.4.1. ANALYSIS OF BALANCE SHEET ITEMS

The table below shows extracts of the Polyus Group's consolidated balance sheet as at 31 December 2008, 2007 and 2006:

	As at 31 December		
USD '000	2008	2007 (restated)	2006 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	1,772,319	1,783,432	1,395,605
Deferred stripping costs	163,988	82,061	10,382
Deferred stripping costs	54,510	13,971	12,940
Total non-current assets	1,990,817	1,879,464	1,418,927
Current assets			
Inventories	233,001	224,209	169,471
Investments in securities and other financial assets	285,236	1,270,918	1,238,429
Cash and cash equivalents	398,826	226,174	294,197
Other current assets[(2)]	170,982	172,685	161,160
Total current assets	1,088,045	1,893,986	1,863,257
TOTAL ASSETS	3,078,862	3,773,450	3,282,184
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	2,756,733	3,261,774	2,826,027
Minority interest	37,808	47,187	32,647
TOTAL EQUITY	2,794,541	3,308,961	2,858,674
Total non-current liabilities	182,623	281,950	252,175
Current liabilities			
Short-term borrowings	–	20,909	15,001
Trade and other payables and accrued expenses	83,527	105,583	70,513
Other current liabilities[(3)]	18,171	56,047	85,821
Total current liabilities	101,698	182,539	171,335
TOTAL LIABILITIES	284,321	464,489	423,510
TOTAL EQUITY AND LIABILITIES	3,078,862	3,773,450	3,282,184

1. Other non-current assets consist of investments in securities and other financial assets and the long-term portion of reimbursable value added tax.

2. Other current assets consist of reimbursable value added tax, accounts receivable, advances paid to suppliers, income tax receivable and other current assets.

3. Other current liabilities consist of contingent consideration on acquisition of subsidiaries, dividends payable, minority interest liability, income tax payable and other taxes payable.

15.4.1.1. ASSETS

Non-current assets

The table below analyses the Polyus Group's property, plant and equipment at 31 December 2008, 2007 and 2006:

USD '000	Years ended 31 December		
	2008	2007 (restated)	2006 (restated)
Exploration and evaluation assets	214,920	301,238	133,811
Mining assets [(1)]	1,218,349	1,253,565	1,061,939
Building, structures and utilities	471,987	353,043	256,757
Machinery, equipment and transport	313,250	366,071	291,238
Mineral rights	433,112	534,451	513,944
Non-mining assets	39,814	41,084	37,350
Capital construction-in-progress	299,236	187,545	162,505
Total property, plant and equipment	1,772,319	1,783,432	1,395,605

In 2008, the Polyus Group's assets structure underwent significant change. Whereas in 2007 non-current assets accounted for 50% of all the assets, in 2008 their share reached 65%. This change was primarily due to an almost twofold increase in capitalised deferred stripping costs and a substantial reduction in current assets, mainly relating to decreases in securities investments.

In the period under review the Polyus Group was actively involved in construction and mine development works. As a result, the value of capital construction-in-progress showed a substantial increase, growing from USD 187,545 thousand in 2007 to USD 299,236 thousand in 2008. Mining assets account for the most significant group of assets in the Polyus Group. In the reporting year, the value of mining assets declined by 3% from USD 1,253,565 thousand in 2007 to USD 1,218,349 thousand. in 2008. Additions and transfers from capital construction-in-progress were partly offset by re-estimation of decommissioning liability and disposals. Exploration and evaluation assets decreased by 29% and amounted to USD 214,920 thousand as of the year end. This was due to the reduction in exploration work, throughout the Polyus Group, as well as a transfer in assets from exploration to mining assets. The value of non-mining assets decreased by 3% and amounted to USD 39,814 thousand, principally due to exchange rate movements. Material RUR depreciation led to a net USD 344,839 thousand drop in the value of property, plant and equipment. As a result, the closing balance of the Polyus Group's property plant and equipment totaled USD 1,772,319 thousand as at 31 December 2008, compared to USD 1,783,432 thousand as at 31 December 2007.

Capitalised deferred stripping costs grew significantly from USD 82,061 thousand as at 31 December 2007 to USD 163,988 thousand as at 31 December 2008. This increase was due to continued stripping works and deferral of costs at the Krasnoyarsk business unit in respect of accessing the sulphide ore body after the depletion of the oxidized ores of Olimpiada.

Current assets

Current assets of the Polyus Group decreased by 43% from USD 1,893,986 thousand as at 31 December 2007 to USD 1,088,045 thousand as at 31 December 2008, mostly due to a USD 985,682 decrease in investments in securities and other financial assets.

As at 31 December 2008, the value of short-term investments in securities and other financial assets totaled USD 285,236 thousand, compared to USD 1,270,918 thousand as at 31 December 2007. The major reason for the substantial decrease in short-term investments was a 48% decline in equity investments available-for-sale and a 78% decrease in investments in listed companies held for trading.

In 2008, available-for-sale investments included a share in Rosfund which declined by USD 191,803 thousand. During 2008, the Polyus Group dis-

posed of USD 51,230 thousand of the share in Rosfund, which resulted in a loss of USD 16,230 thousand as well as a disposal of USD 5,558 thousand of investment revaluation reserve. The decrease in the fair value of this investment over the purchase price was also offset by investment revaluation reserve for the sum of USD 31,349 thousand. The further impairment was recognised as a loss from investments of USD 100,090 thousand.
Investments in listed companies held for trading are represented by financial assets under the trust management of Rosbank and are carried at fair value. In the beginning of 2008, their value totaled USD 187,628 thousand. During 2008, a significant part of these investments was withdrawn. The Polyus Group recognized losses from investments in listed companies held for trading in the amount of USD 178,377 thousand in the income statement. At the end 2008, the value of these investments totaled USD 40,628 thousand.
The Polyus Group sold certain promissory notes receivable during 2008. Thus, their value decreased by USD 74,937 thousand to USD 35,928 thousand as of the year end. In addition, by the end of 2008, the Polyus Group withdrew its investment bank deposits, disposed of loans under repurchase agreements and closed its investment deposit in Rosbank.

Released funds were partly used for the capital expenditure programme and working capital financing, repayment of borrowings, dividends payment, acquisition of stakes in subsidiaries, and partly deposited in current bank accounts. As a result of this redistribution the Group's cash and cash equivalents increased by 76% from USD 226,174 thousand at 31 December 2007 to USD 398,826 thousand 31 December 2008.
Inventories increased by 4% to USD 233,001 thousand as at 31 December 2008. Stores and materials (net of allowance for obsolescence), which accounted for 78% of the total inventories value at 31 December 2008, increased by 8% and equalled to USD 182,100 thousand as at 31 December 2008. The volumes of grinding balls, spare parts, and rolled metal products purchased for mining equipment, as well as cyanides, increased both in terms of volume and costs. This was because Mill No. 3 at the Olimpiada mine increased its capacity up to projected 5 mtpa, and the volumes of gasoline procured increased due to active construction works within the Polyus Group. At the same time, the cost of gold under processing fell from USD 54,961 thousand as at 31 December 2007 to USD 49,052 thousand as at 31 December 2008.

15.4.1.2. CAPITAL AND LIABILITIES

Since 1 January 2007, the Polyus Group has been financed by equity capital and has had no significant bank debt.

Share capital and reserves

As at 31 December 2008, share capital and reserves were USD 2,794,541 thousand, compared to USD 3,308,961 thousand as at 31 December 2007. This decline was primarily due to the reduction in translation and investment revaluation reserves. During 2008, the translation reserve decreased by USD 469,133 thousand due to the changes in the RUR/USD exchange rate. In addition, the investment revaluation reserve was eliminated as a result of the recognition of an impairment of available-for-sale investments in the sum of USD 36,907 thousand.
During 2008, the value of the Polyus Group treasury shares and additional paid-in capital decreased by USD 5,523 thousand and USD 1,510 thousand respectively. This was related to the acquisition of 95,314 treasury shares by management under the share option plan. As at 31 December 2008 the value of treasury shares was USD 724,927 thousand, and the additional paid-in capital totaled USD 2,116,655 thousand .
During the period, the Polyus Group' retained earnings decreased by USD 3,014 thousand, reflecting a net profit attributable to the parent company of USD 51,507 thousand less dividends paid of USD 22,258 thousand (in respect of 2007 results), adjustments in connection with the increase in the share capital of subsidiaries and change of shareholding structure of subsidiaries in a net amount of USD 32,263 thousand.

Non-current liabilities

In 2008, deferred tax liabilities which account for the largest portion of non-current liabilities totaled USD 148,244 thousand which is 26% less than in the previous year (USD 200,609 thousand). This change related to the partial tax recognition in the income statement for the period of USD 22,893 thousand, as well as exchange rate movements, which led to a decrease in deferred tax liabilities of USD 29,472 thousand. Environmental obligations decreased by 58% from USD 81,341 thousand as at 31 December 2007 to USD 34,379 thousand as at 31 December 2008. This was primarily due to a substantial re-estimation of decommissioning assets and provision for land restoration in the total amount of USD 48,305 thousand, as well as a weakening of the Russian rouble.

Current liabilities

In 2008, borrowings were all repaid. Trade payables decreased by USD 3,733 thousand to USD 17,918 thousand. Other payables and accrued expenses as at 31 December 2008 were USD 65,609 thousand compared to 83,932 thousand as at 31 December 2007. Accrued annual leave payments totaled USD 18,542 thousand at the end of the reporting period, compared to USD 16,482 thousand at the end of the previous period. The Polyus Group outstanding amounts on payroll settlements as of the year end were USD 37,159 thousand, reflecting a 32% increase over 2007 levels. The 44% increase mainly comes from the Krasnoyarsk business unit, where a bonus for successful achievement of operational targets was accrued. Other payables reduced by 68%, which was mostly due to settlement of outstanding accounts relating to the Rosbank asset management agreements and the final settlement of share option plan liabilities by Jenington.

Of the unsettled liabilities under the share option plan, 50% were partly settled, and the remaining 50% were cancelled and written through the income statement. At the beginning of the period these liabilities amounted to USD 5,357 thousand, which corresponds to the fair value of the option for 0.1% of the Polyus Gold Shares.

At a General Shareholders' meeting which took place on 26 June 2008,the decision was made to pay out dividends based on 2007 results. During 2008 the Group paid out USD 22,258 thousand as dividends to Polyus Gold shareholders.

In May 2008, Polyus Gold's subsidiary, CJSC Polyus, purchased 2.7% of OJSC Matrosov Mine shares in addition to its stake of 94.8% as of 31 December 2007. Thus, the total percentage of CJSC Polyus ownership in Matrosov Mine increased to 97.5%. Under Russian legislation, the Polyus Group was obliged to make an offer to purchase the remaining shares held by Matrosov Mine's minority shareholders. Following a squeeze-out offer made in July 2008, CJSC Polyus consolidated 100% of OJSC Matrosov Mine shares in October 2008. During the year 2008, the Polyus Group also consolidated its stake in OJSC Aldanzoloto GRK (as at 31 December 2007 CJSC Polyus ownership in OJSC Aldanzoloto GRK totaled 99.37%). Thus, accumulated reserve on contingent consideration on acquisition of subsidiaries was redeemed by the end of the reporting year. Following the transaction, the Polyus Group recognized a decrease in minority interest in the amount of USD 10,073 thousand in its consolidated statement of changes in equity for the year ended 31 December 2008.

Current tax liabilities as at 31 December 2008 were USD 18,171 thousand, which is 46% less than at 31 December 2007. The decrease mainly occurred on account of income tax and VAT liabilities. Current income tax liabilities reduced by 89% from USD 12,663 thousand to USD 1,344 thousand as a result of significant amounts of current income tax prepaid in the Krasnoyarsk business unit. The amount of VAT payable decreased by 81% to USD 1,417 thousand, compared to USD 7,420 thousand in the previous period, which resulted mainly from reduction in non-recoverable items as compared to the previous year. This was partly offset by a substantial increase in social tax liabilities mainly caused by compensations payable liability accrued by 31 December 2008.

15.4.2. CASH FLOW ANALYSIS

The following table shows extracts of the Polyus Group's consolidated cash flow statement for the years ended 31 December 2008, 2007 and 2006:

USD '000	Years ended 31 December		
	2008	2007 (restated)	2006 (restated)
Operating activities			
Profit before income tax	122,471	177,107	1,228,391
Adjustments[1]	308,564	159,594	(918,134)
Operating profit before working capital changes	431,035	336,701	310,257
Changes in working capital	(145,947)	(40,197)	(69,771)
Cash flows from operations	285,088	296,504	240,486
Interest paid	(2,434)	(1,671)	(3,552)
Income tax paid	(90,421)	(50,187)	(89,897)
Net cash generated from operating activitiesv	192,233	244,646	147,037
Investing activities			
Capital expenditures, acquisition of subsidiaries and deferred stripping costs[2]	(629,842)	(459,394)	(625,005)
Other investments spendings/proceeds[3]	700,728	90,648	1,320,495
Net cash (used in)/generated from investing activities	70,886	(368,746)	695,490
Net cash generated from/(used in) financing activities	(43,588)	42,337	(632,895)
Effect of translation to presentation currency	(46,879)	13,740	56,157
Net (decrease)/increase in cash and cash equivalents	172,652	(68,023)	265,789
Cash and cash equivalents at beginning of the year	226,174	294,197	28,408
Cash and cash equivalents at end of the year	398,826	226,174	294,197

1. Adjustments for non-cash items include: the share option plan, amortisation and depreciation, expensed stripping costs, finance costs, loss on disposal of property, plant and equipment, change in allowance for doubtful debts, impairment of advances paid to suppliers (reversed)/recognised, change in provision for land restoration, impairment of property, plant and equipment, change in allowance for reimbursable value added tax, income from investments, foreign exchange (gain)/loss, net and other items.

2. Capital expenditures, acquisition of subsidiaries and deferred stripping costs include purchases of property, plant and equipment, acquisition of shares in subsidiaries, deferred stripping costs capitalised, proceeds from sale of property, plant and equipment and proceeds from sale of shares in subsidiaries.

3. Other investments spendings/proceeds include repayment of contingent consideration, proceeds from sale of shares in Gold Fields, dividends received, interest received, purchase of promissory notes and other financial assets and proceeds from sale of promissory notes and other financial assets.

In 2008, the Polyus Group generated income before tax of USD 122,471 thousand. Operating profit before working capital changes amounted to USD 431,035 thousand, which was 28% higher than in the previous year. In the reporting period, net cash provided by operating activities decreased by USD 52,413 thousand to USD 192,233 thousand. The decrease in net cash inflow from operations resulted mainly from a substantial increase in current income tax expense and working capital financing. The increase of the latter costs was a result of increased prices on fuel, materials and spares, as well as an increase in the physical volume of purchases.

During 2008, the Polyus Group substantially increased its capital expenditures, acquisition of subsidiaries and deferred stripping costs. In the period under review these expenses totaled USD 629,842 thousand, compared to USD 459,394 thousand in the previous period. However, while capital expenditures were high, the Polyus Group had cash inflow from investments as it closed its positions on the Rosbank promissory notes and a number of deposits and trust management contracts for a total amount of USD 664,151 thousand. As a result, in 2008 the Polyus Group received USD 70,886 thousand in investment activities, while in 2007 it used USD 368,746 thousand in investment activities. Total change of net cash flows from investment activities was USD 439,632 thousand.

Cash outflow from financing activities in the year ended 31 December 2008 totaled USD 43,588 thousand compared to cash received from financing activities in the amount of USD 42,337 thousand in the year ended 31 December 2007. The major cash outflows during the reporting year were repayment of borrowings and dividend payments. In 2008, the Polyus Group repaid the loan obtained by its associated company OJSC SVMC for the total amount of USD 19,034 thousand. In accordance with the General Shareholders meeting decision, in 2008 the Group paid out dividends based on year 2007 results. This resulted in a cash outflow of USD 24,266 thousand.

15.4.3. 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 2008, 2007 and 2006:

USD '000	Years ended 31 December		
	2008	2007 (restated)	2006 (restated)
+ Purchase of property, plant and equipment	481,504	382,802	267,551
– Proceeds from sale of property, plant and equipment	(5,747)	(17,952)	(12,030)
Net capital expenditures	475,757	364,850	255,521
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	39,156	–	307,667
+ Repayment of contingent consideration on acquisition of subsidiaries	19,616	38,228	61,817
– Proceeds from disposal of subsidiary, net of cash disposed of	–	(1,320)	–
Acquisition of subsidiaries, net of adjustments above	58,772	36,908	369,484
+ Deferred stripping costs capitalised	95,313	57,636	–
+ Interest expenses capitalised	–	–	–
Total capital expenditures, acquisition of subsidiaries and deferred stripping costs	629,842	459,394	625,005

In 2008, the Polyus Group spent USD 629,842 thousand on total capital expenditures, acquisition of subsidiaries and deferred stripping costs. This was 37% more than in 2007, mostly due to an increase in the amounts expended on purchase of property, plant and equipment, acquisition of subsidiaries as well as deferred stripping costs capitalisation. In the reporting period, the Polyus Group continued implementing its extensive capital expenditures programme and spent USD 475,757 thousand on property, plant and equipment, including equipment for mills under construction, mining and construction equipment and rolled metal products. The largest share of the Group's capital expenditures was spent on the development of the Blagodatnoye project, reconstruction of Mill No.1 at Olimpiada to process Titimukhta ores and Olimpiada transition to sulphide ores processing as well as modernization programme carried out at the Kuranakh mine. During the period under review, the Group spent USD 39,156 thousand on acquisitions and increased ownership in its subsidiaries, mainly consolidating 100% interest in OJSC Matrosov Mine. In 2008, stripping costs capitalised were USD 95,313 thousand, compared to USD 57,636 thousand in 2007, due to the costs incurred on deferred stripping relating to the transition of production from oxidized ores to sulphide ores at the Olimpiada mine.

15.4.4. CASH SOURCES AND CASH EXPENDITURE AND IMPAIRMENT

At the beginning of 2008, the Polyus Group's available highly liquid asset position totaled USD 1,497 million, which included USD 1,271 million of short-term investments and USD 226 million of cash and cash equivalents. By the end of the year, the Group's highly liquid asset position was reduced by USD 813 million and amounted to USD 684 million. We have prepared an analysis of the liquid asset movement for the year in a format that differs from IFRS, as we believe it provides useful information in a combined format for users. This format should not be considered as an alternative to IFRS. The table below shows liquid asset sources, outflows and impairment of investments during 2008.

USD million	Cash	ST investments	
1. Total cash and short-term investments at the beginning of the year, of which:			1,497
1.1 Cash and cash equivalents at 1 January 2008	226		
1.2 Short-term investments at 1 January 2008		1,271	
Movement in short-term investments during the year:		*(634)*	
1.2.1 Disposal of bank deposits classified as investments		*(277)*	
1.2.2 Proceeds from investments in listed companies held for trading (Rosbank MC)		*(160)*	
1.2.3 Proceeds from investments in listed companies held for trading (AKB Rosbank)		*(37)*	
1.2.4 Proceeds from Rosbank promissory notes		*(125)*	
1.2.5 Disposal of available-for-sale investments (part of Rosfund Share)		*(35)*	
2. Cash sources raised during the year	272		
2.1 Cash sources from investing activities	80		
2.1.1. Interest received	44		
2.1.2 Proceeds from sale of Vysochaishy	30		
2.1.3 Proceeds from sale of property, plant and equipment	6		
2.2 Cash sources from operating activities	192		
2.2.1 Net inflow before working capital changes	431		

USD million	Cash	ST investments	
2.2.2 Increase in inventories	(102)		
2.2.3 Increase in VAT reimbursable	(49)		
2.2.4 Income tax paid	(90)		
2.2.5 Other, net	2		
3. Cash expenditure during the year	(687)		
3.1 Cash expenditure in investing activities	(643)		
3.1.1 Purchase of property, plant and equipment	(482)		
3.1.2 Deferred stripping at the Olimpiada mine	(95)		
3.1.3 Increase of ownership in OJSC Matrosov Mine and OJSC Aldanzoloto GRK	(39)		
3.1.4 Repayment of contingent consideration on acquisition of subsidiaries	(20)		
3.1.5 Other, net	(7)		
3.2 Cash expenditure in financing activities	(44)		
3.2.1 Repayment of borrowings	(19)		
3.2.2 Dividends paid	(22)		
3.2.3 Other, net	(3)		
4. Foreign exchange loss due to RUR depreciation	(47)		
5. Total cash and short-term investments before impairment and foreign exchange loss			1,035
6. Impairment of investments in listed companies held for trading		(178)	
7. FOREX loss on investments in listed companies held for trading		(10)	
8. Impairment of available-for-sale investments		(100)	
9. Loss on sale of Shares of Rosfund		(16)	
10. Investments revaluation reserve		(37)	
11. Other		(10)	
12. Total cash and short-term investments at the end of the year			684
12.1 Cash and cash equivalents	399		
12.2 Short-term investments in securities		285	

The line 1.2 of the table above presents movements in short-term investments during the year as a result of converting funds from a number of investment instruments held by the Group, namely bank deposits, equity investments under asset management of AKB Rosbank and Rosbank Management Company, promissory notes and available-for-sale investments represented by a Share in Rosfund. As Polyus Gold considers short-term investments as highly liquid assets, these movements do not influence the total position of the Group's highly liquid assets.

During the year Polyus Gold generated USD 272 million of cash, out of which USD 80 million related to investing activities and USD 192 million represents the net cash flow from operations.

Total cash spending in 2008 equaled USD 687 million. The cash spent was used in investing and financing activities. Cash spent on investing activities was mainly represented by capital expenditures, consolidation 100% stakes in OJSC Matrosov Mine and OJSC Aldanzoloto GRK and cash deferred stripping costs at the Olimpiada mine. Cash spent by the Group in financing activities represents primarily repayment of borrowings received and dividends payment based on 2007 results.

Due to adverse movements in the RUR/USD exchange rate, the Polyus Group incurred a foreign exchange loss of USD 47 million. As a result, by the end of the year the cash position of the Polyus Group before impairment totaled USD 1,035 million.

Following the deterioration of the global financial markets, investments in various securities had to be marked to market such that the Polyus Group recognized an impairment of investments in the amount of USD 351 million. As a result, the highly liquid asset position at the end of 2008 totaled USD 684 million (represented by USD 399 million of cash and cash equivalents and by USD 285 million of short-term investments in securities).

15.5. 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. Whilst the current global financial crisis has added further risks to those traditionally faced by the mining industry, 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, not least 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 regulation of risk levels. The Company has developed internal documents governing the process though which risks should be managed. Such documents require that each business unit has a designated risk manager, develops a list of basic risks, and takes measures aimed at lowering risk levels.

15.5.1 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 money 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 costs associated with securing credit resources. This may lead to adjustments in the implementation times for a number of major projects.

Risk of the government's rejection to take part in the implementation of projects

As a result of the current economic recession, it is likely that the Government of the Russian Federation will have to revisit the priorities of the Investment Fund project with due regard for its social consequences and regional effects.

The absence of accurate forecasts with regard to the economic development rate and the indefinite macroeconomic trends may lead to a partial reduction of the investment budget and may limit the Government's ability to co-finance a number of the Company's projects, which may lead to such projects being indefinitely postponed.

15.5.2 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 the ore and mineral reserves depends to a certain extent on the statistic conclusions made on the basis of the results of restricted volumes of drilling and other analyses that may turn out to be incorrect. Ore and mineral reserves evaluation and classification may also be affected by the changes in the end product prices. 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.

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 stalled and unplanned production activity 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 such projects. Technical, production and operational risks include construction delays, 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 offered 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 transactions 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.

15.5.3 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, 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 effected both through long-term contracts and at spot prices. Gold prices are quoted in international markets in US dollars. Accordingly, the economic results of the Company calculated in the national currency depend, to a considerable extent, on the fluctuations in gold prices and the ruble/dollar exchange rates. The gold market is cyclical and sensitive to any economic changes. The price of gold is subject to substantial fluctuations under the influence of factors beyond control of the Company. A substantial continued price reduction may result in profitability reduction of the 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 rates of price indexes. The observable RUR devaluation results in increasing the ruble equivalent of income of the Company and partially compensates for losses generated by inflation-related price growth. Nevertheless, in the future, as the market conditions change, possible exchange rate and inflation adjustments may result in an adverse impact on the financial standing and performance of the Company.

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.

15.5.4 REGULATORY RISKS

The activities of the Company may be adversely impacted by the failure to obtain, or the termination or non-renewal o,f 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, as well as 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 standard requirements. Any comments or reports made by state regulatory and supervisory authorities as a result of inspections of operative and industrial activities of the Company are scrutinized.

Tax Legislation Risks

As with all Russian mining companies, the Company pays a significant amount of taxes. The tax obligations of the Company can result in uncertainties due to the imperfection of tax legislation. The risks include: ambiguous interpretation of law, inconsistent application of legislation, amendments to tax legislation or practice change. 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. The current level of tax risks faced by the Company is regarded as immaterial.

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, as well as ejecting operational waste and hazardous substances into the environment, soil disturbance, potential harm to wildlife and other factors.

The Company aims to comply with its environmental obligations and follows the principles and requirements of Russian and international standards, agreements, conventions and protocols. 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 change industrial process and increase in environmental charges.

16. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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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 2008

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company «Polyus Gold» and its subsidiaries (the «Group»).

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group at 31 December 2008 and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards («IFRS»).

In preparing consolidated financial statements, management is responsible for:

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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- aking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were approved on 17 April 2009 by:

Ivanov E.I.
General Director

Ignatov O.V.
Deputy General Director

Moscow, Russia
17 April 2009

INDEPENDENT AUDITORS' REPORT

TO SHAREHOLDERS OF OPEN JOINT STOCK COMPANY «POLYUS GOLD»:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company «Polyus Gold» and its subsidiaries (hereinafter refer to as the «Group»), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.
Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russia

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of US Dollars)

	Notes	2008	2007
Gold sales		1,062,331	849,023
Other sales		24,987	18,096
Total revenue		1,087,318	867,119
Cost of gold sales	5	(558,118)	(449,216)
Cost of other sales		(25,061)	(25,866)
Gross profit		504,139	392,037
Selling, general and administrative expenses	6	(134,960)	(261,776)
Research and exploration expenses		(4,959)	(6,217)
Other expenses, net	7	(17,056)	(10,329)
Finance costs	8	(4,417)	(6,629)
(Loss)/income from investments	9	(217,591)	61,537
Foreign exchange (loss)/gain, net		(2,685)	8,484
Profit before income tax		122,471	177,107
Income tax	10	(62,110)	(85,299)
Profit for the year		60,361	91,808
Attributable to:			
Shareholders of the parent company		51,507	85,809
Minority interest		8,854	5,999
		60,361	91,808
Earnings per share			
Weighted average number of ordinary shares in issue during the year		178,138,065	175,739,670
Basic and diluted (US cents)		29	49

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

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

(in thousands of US Dollars)

	Notes	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,772,319	1,783,432
Deferred stripping costs		163,988	82,061
Inventories	13	39,063	-
Investments in securities and other financial assets	12	4,095	2,147
Long-term portion of reimbursable value added tax	11	9,188	11,824
Other non-current assets		2,164	-
		1,990,817	1,879,464
Current assets			
Inventories	13	233,001	224,209
Reimbursable value added tax		104,872	108,926
Accounts receivable	14	15,513	13,477
Advances paid to suppliers	15	14,558	26,204
Investments in securities and other financial assets	12	285,236	1,270,918
Income tax prepaid		17,545	3,398
Other current assets	16	18,494	20,680
Cash and cash equivalents	17	398,826	226,174
		1,088,045	1,893,986
TOTAL ASSETS		3,078,862	3,773,450
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	18	6,871	6,871
Additional paid-in capital		2,116,655	2,118,165
Treasury shares	18	(724,927)	(730,450)
Investments revaluation reserve		-	36,907
Translation reserve		(43,406)	425,727
Retained earnings		1,401,540	1,404,554

	Notes	2008	2007
Equity attributable to shareholders of the parent company		2,756,733	3,261,774
Minority interest		37,808	47,187
		2,794,541	3,308,961
Non-current liabilities			
Deferred tax liabilities	19	148,244	200,609
Environmental obligations	20	34,379	81,341
		182,623	281,950
Current liabilities			
Consideration on acquisition of subsidiaries		-	22,197
Short-term borrowings	21	-	20,909
Trade payables	22	17,918	21,651
Other payables and accrued expenses	23	65,609	83,932
Income tax payable		1,344	12,663
Other taxes payable	24	16,827	21,187
		101,698	182,539
TOTAL LIABILITIES		284,321	464,489
TOTAL EQUITY AND LIABILITIES		3,078,862	3,773,450

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of US Dollars)

	Notes	2008	2007
Operating activities			
Profit before income tax		122,471	177,107
Adjustments for:			
Amortisation and depreciation		86,927	82,066
Finance costs		4,417	6,629
Loss on disposal of property, plant and equipment		548	6,421
Impairment of property, plant and equipment		1,831	313
Change in provision for land restoration		(8,530)	482
Change in allowance for reimbursable value added tax		7,078	(3,641)
Loss/(income) from investments		217,591	(61,537)
Foreign exchange loss/(gain), net		2,685	(8,484)
Share option plan		-	132,548
Other		(3,983)	4,797
Operating profit before working capital changes		431,035	336,701
Increase in inventories		(101,665)	(42,015)
Increase in accounts receivable		(4,734)	(1,717)
Decrease in advances paid to suppliers		8,140	2,098
(Increase)/decrease in other current assets and reimbursable value added tax		(49,038)	1,067
(Decrease)/increase in trade payables		(3,500)	715
Increase in other payables and accrued expenses		5,884	14,117
Decrease in other taxes payable		(1,034)	(14,462)
Cash flows from operations		285,088	296,504
Interest paid		(2,434)	(1,671)
Income tax paid		(90,421)	(50,187)
Net cash generated from operating activities		192,233	244,646
Investing activities			
Increase of ownership in subsidiaries	4	(39,156)	-
Proceeds from disposal of subsidiary, net of cash disposed of		-	1,320

	Notes	2008	2007
Repayment of consideration on acquisition of subsidiaries		(19,616)	(38,228)
Purchase of property, plant and equipment		(481,504)	(382,802)
Deferred stripping costs capitalised		(95,313)	(57,636)
Proceeds from sale of property, plant and equipment		5,747	17,952
Interest received		43,967	26,696
Purchase of promissory notes and other financial assets		(7,390)	(1,447,102)
Proceeds from sale of promissory notes and other financial assets		664,151	1,511,054
Net cash generated from/(used in) investing activities		70,886	(368,746)
Financing activities			
Proceeds from borrowings		-	7,109
Repayments of borrowings		(19,034)	(2,725)
Repayments of finance lease obligations		(1,622)	(3,434)
Proceeds from issuance of Company's shares from treasury shares	18	1,334	64,051
Dividends paid to shareholders of the Company	18	(22,258)	(21,722)
Dividends paid to minority shareholders of the Group's subsidiary		(2,008)	(942)
Net cash (used in)/generated from financing activities		(43,588)	42,337
Effect of translation to presentation currency		(46,879)	13,740
Net increase/(decrease) in cash and cash equivalents		172,652	(68,023)
Cash and cash equivalents at beginning of the year		226,174	294,197
Cash and cash equivalents at end of the year	17	398,826	226,174

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of US Dollars)

	Notes	Equity attributable to shareholders of the parent company							Minority interest	Total
		Share capital	Additional paid-in capital	Treasury shares	Investments re-valuation reserve	Translation reserve	Translation reserve	Total		
Balance at 31 December 2006		6,871	2,190,661	(995,557)	19,620	261,794	1,342,638	2,826,027	32,647	2,858,674
Increase in fair value of available-for-sale investments	12	-	-	-	17,287	-	-	17,287	-	17,287
Translation of foreign operations		-	-	-	-	(44,412)	-	(44,412)	-	(44,412)
Effect of translation to presentation currency		-	-	-	-	211,977	-	211,977	3,088	215,065
Total income recognised directly in equity		-	-	-	17,287	167,565	-	184,852	3,088	187,940
Profit for the year		-	-	-	-	-	85,809	85,809	5,999	91,808
Total recognised income and expense for the year		-	-	-	17,287	167,565	85,809	270,661	9,087	279,748
Dividends to shareholders of the parent company	18	-	-	-	-	-	(21,722)	(21,722)	-	(21,722)
Dividends to minority shareholders in the Group's subsidiaries		-	-	-	-	-	-	-	(942)	(942)
Increase in minority interest due to increase in share capital of a subsidiary		-	-	-	-	-	(2,171)	(2,171)	2,171	-
Increase in minority interest due to disposal of preferred shares of a subsidiary		-	-	-	-	-	-	-	4,224	4,224
Issuance of shares from treasury shares under share option plan	18	-	(72,496)	265,107	-	(3,632)	-	188,979	-	188,979
Balance at 31 December 2007		6,871	2,118,165	(730,450)	36,907	425,727	1,404,554	3,261,774	47,187	3,308,961

	Notes	Equity attributable to shareholders of the parent company							Minority interest	Total
		Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Translation reserve прибыль	Total		
Decrease in fair value of available-for-sale investments	12	-	-	-	(16,739)	-	-	(16,739)	8,190	(8,549)
Translation of foreign operations		-	-	-	-	214,920	-	214,920	-	214,920
Effect of translation to presentation currency		-	-	-	-	(683,746)	-	(683,746)	(7,528)	(691,274)
Total loss recognised directly in equity		-	-	-	(16,739)	(468,826)	-	(485,565)	662	(484,903)
Profit for the year		-	-	-	-	-	51,507	51,507	8,854	60,361
Realised gain on disposal of available-for-sale investments		-	-	-	(20,168)	-	-	(20,168)	(8,190)	(28,358)
Total recognised income and expense for the year		-	-	-	(36,907)	(468,826)	51,507	(454,226)	1,326	(452,900)
Dividends to shareholders of the parent company	18	-	-	-	-	-	(22,258)	(22,258)	-	(22,258)
Dividends to minority shareholders in the Group's subsidiaries		-	-	-	-	-	-	-	(2,008)	(2,008)
Decrease in minority interest due to increase in ownership in subsidiaries	4	-	-	-	-	-	(30,887)	(30,887)	(10,073)	(40,960)
Increase in minority interest due to change of shareholding structure of subsidiaries	4	-	-	-	-	-	(1,376)	(1,376)	1,376	-
Issuance of shares from treasury shares under share option plan	18	-	(1,510)	5,523	-	(307)	-	3,706	-	3,706
Balance at 31 December 2008		6,871	2,116,655	(724,927)	-	(43,406)	1,401,540	2,756,733	37,808	2,794,541

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

ORGANISATION

Open Joint Stock Company «Polyus Gold» (the «Company» or «Polyus Gold») was incorporated in Moscow, Russian Federation, on 17 March 2006. The Company was formed as a result of a spin-off from OJSC «Mining and Metallurgical Company Norilsk Nickel» («Norilsk Nickel»). The principal activities of the Company and its subsidiaries (the «Group») are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation. The Group also performs research, exploration and development works, primarily at the Natalka deposit located in the Magadan region and the Nezhdaninskoe deposit located in the Sakha Republic. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 29.

STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards («IFRS»). IFRS include standards and interpretations approved by the International Accounting Standards Board («IASB»), including International Accounting Standards («IAS») and interpretations issued by the International Financial Reporting Interpretations Committee («IFRIC»).

BASIS OF PRESENTATION

The entities of the Group maintain their accounting records in accordance with the laws,
accounting and reporting regulations of the jurisdictions, in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.
The consolidated financial statements of the Group are prepared on the historical cost basis, except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.
The consolidated financial statements for the year ended 31 December 2007 contained herein as comparative financial information represent amounts that were restated as reflected in the separate financial statements for the year ended 31 December 2007 that were issued on 3 February 2009.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the preparation of the consolidated financial statements, the Group has adopted all of the new and revised International Financial Reporting Standards that are relevant to its operations and effective for the annual reporting periods reported herein.
The following amendments issued by IASB and interpretations issued by IFRIC that were effective for the current period: Amendment to IAS 39 Financial instruments: Recognition and Measurment for reclassifications of financial assets; Amendment to IFRS 7 Financial Instruments – Disclosures for disclosures relating to reclassifications of financial assets; IFRIC 11 IFRS 2 – Group and Treasury Share Transactions; IFRIC 12 Service Concession Arrangements; IFRIC 13 Customer Loyalty Programmes; IFRIC 14 IAS 19 – The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction; IFRIC 16 Hedges of a Net Investment in a Foreign Operation. The adoption of these amendments and interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the consolidated financial statements.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED

At the date of approval of the Group's consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective for 2008:

Standards and interpretations	Effective for annual periods beginning on or after
IAS 1 Presentation of Financial Statements (amendment)	1 January 2009
IAS 16 Property, Plant and Equipment (amendment)	1 January 2009
IAS 19 Employee Benefits (amendment)	1 January 2009
IAS 20 Government Grants and Disclosure of Government Assistance (amendment)	1 January 2009
IAS 23 Borrowing Costs (amendment)	1 January 2009
IAS 27 Consolidated and Separate Financial Statements (amendment)	1 July 2009
IAS 28 Investments in Associates (amendment due to revision of IFRS 3)	1 July 2009
IAS 29 Financial Reporting in Hyperinflationary Economies (amendment)	1 January 2009
IAS 31 Interest in Joint Ventures (amendment due to revision of IFRS 3)	1 July 2009
IAS 32 Financial Instruments: Presentation (amendment)	1 January 2009
IAS 36 Impairment of Assets (amendment)	1 January 2009
IAS 38 Intangible Assets (amendment)	1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement (amendment)	1 January 2009
IAS 40 Investment Property (amendment)	1 January 2009
IAS 41 Agriculture (amendment)	1 January 2009
IFRS 1 First-time Adoption of International Financial Reporting Standards (amendment)	1 January 2009
IFRS 2 Share-based Payment (amendment)	1 January 2009
IFRS 3 Business Combinations (revised on applying the acquisition method)	1 July 2009
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (amendment)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IFRIC 15 Agreements for the Construction of Real Estate	1 January 2009
IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18 Transfers of Assets from Customers	1 July 2009

Management anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of these standards and interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

SUBSIDIARIES

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interest in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest includes interest at the date of the original business combination and minority's share of changes in net assets since the date of the combination. Losses applicable to minority interest in excess of the minority's interest in the subsidiary's net assets are allocated against the interest of the Group except to the extent that a minority has a binding obligation and is able to make an additional investment to cover the losses.

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

ACCOUNTING FOR ACQUISITIONS FROM THIRD PARTIES

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

Goodwill is reviewed for impairment at least annually and if impairment has occurred, it is recognised in the income statement in the period during which the circumstances are identified and is not subsequently reversed. On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

FUNCTIONAL AND PRESENTATION CURRENCY

The individual financial statements of the Group entities operating in the Russian Federation are prepared in their functional currency, Russian Rouble («RUR»).

Functional currency of subsidiaries of the Group operating in Cyprus and the British Virgin Islands is United States of America Dollar («USD»).

The Group has chosen to present its consolidated financial statements in the USD, as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is made as follows:

- all assets, liabilities, both monetary and non-monetary are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the years presented;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within Translation reserve;

- in the statement of cash flows, cash balances at beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction. Resulting exchange differences are presented as Effect of translation to presentation currency.

	2008	2007
31 December	29.3804	24.5462
Average for the year	24.8553	25.5772

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. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet 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 income statement.

PROPERTY, PLANT AND EQUIPMENT

ESTIMATED ORE RESERVES

Estimated proved and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The majority of the Group's reserves are estimated in accordance with the JORC code or using the Russian Resource Reporting Code for alluvial gold reserves.

MINERAL RIGHTS

Mineral rights are recorded as assets when acquired as part of a business combination and are then amortised within mining assets on a straight-line basis over the life of mines based on estimated proved 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 a gold resource.

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;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration licence areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out below.

MINING ASSETS

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

Mining assets are amortised on a straight-line basis over the life of mines of 7 to 20 years, which is based on estimated proved and probable ore reserves. Amortisation is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

NON-MINING ASSETS

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

- buildings, structures, plant and equipment 2% to 10%;
- transport 9% to 25%;
- other assets 10% to 20%.

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 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 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 proved 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 prospectively as changes in accounting estimates.

Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. Such deferred costs are then charged against profit and loss to the extent that, in subsequent periods, the current ratio falls short of the life-of-mine ratio. The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or a change in circumstances indicate that the carrying value may not be recoverable. Amortization 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 the extreme weather conditions, and gold at these locations can only be mined during certain months of the year.
Costs incurred in preparation for future seasons, usually during winter months, are deferred until summer of the following year. Such expenditures mainly include excavation costs and mine specific administration costs, and are recognised on the balance sheet 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, change in provision for land restoration and change in gold-in-process and refined gold.

GOLD-IN-PROCESS AND STOCKPILES

Costs that are incurred in or benefit the production process are accumulated as stockpiles and gold in process. Net realisable value tests are performed at least annually and represent the estimated future sales price of the product, based on prevailing spot metal prices, less estimated costs to complete production and bring the product to sale.

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

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpiles are verified by periodic surveys.

STORES AND MATERIALS

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

FINANCIAL ASSETS

Financial assets are recognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.
The Group's financial assets are classified into the following categories:

- financial assets as 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 assets 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 resultant gain or loss recognised in the income statement. Together with any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 27.

HELD-TO-MATURITY INVESTMENTS

Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.
Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets mainly include investments in listed and unlisted shares.
Listed shares held by the Group that are traded in an active market are stated at fair value. Fair value of AFS is determined as follows:

- the fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in
the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in the consolidated income statement for the period.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the balance sheet 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 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 balance sheet 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 income statement.
With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

FINANCIAL LIABILITIES

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

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 balance sheet 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.
The Group contributes to the Pension Fund of the Russian Federation on behalf of all its employees. These contributions are recognised in the income statement when employees have rendered services entitling them to the contribution.
The Group does not maintain any separate retirement benefit 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. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 balance sheet date.
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in

the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities
are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet 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 balance sheet 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 are recognised as an expense or income in the income statement,
except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, 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 is recognised when the risks and rewards of ownership are transferred to the buyer. Gold sales revenue represents the invoiced value of gold shipped to customers, net of value-added tax. Revenues from sale of by-products are netted off against production costs.

OTHER REVENUE

Other revenue consists of sales of electricity, transportation, handling and warehousing services, and other. Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements. Revenue from service contracts are recognised when the services are rendered.

OPERATING LEASES

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

DIVIDENDS

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable. Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

SEGMENT INFORMATION

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

ENVIRONMENTAL OBLIGATIONS

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement as finance costs. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary with correspondence to property, plant and equipment.

Provision for land restoration, representing the cost of restoring land that arises when environmental disturbance is caused by the development or ongoing production of a mining property, is estimated at the net present value of the expenditures expected to settle the obligation. Change in provision and unwinding of discount on land restoration are recognised to the consolidated income statement and included in cost of production.

Ongoing restoration costs are expensed when incurred.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates. The most significant areas requiring the use of management estimates and assumptions relate to recent volatility in global and Russian financial markets; useful economic lives of property, plant and equipment; deferred stripping costs; recognition of exploration and evaluation assets; impairment of tangible assets; calculation of allowances; environmental obligations, renewal of a license and income taxes.

RECENT VOLATILITY IN GLOBAL AND RUSSIAN FINANCIAL MARKETS

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that certain assets may be not be recovered at their carrying amount in the ordinary course of business. In addition, in development of certain of the Group's critical estimates and areas of critical judgement, management uses projected cash flows. These projected cash flows are dependent on various assumptions including historical experience and growth rates. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group.

USEFUL ECONOMIC LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proved 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 proved 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 deferred stripping costs include the following:

- change of estimates of proved 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.

EXPLORATION AND EVALUATION ASSETS

Management's judgment is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploitation or sale. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities, and some of its licensed properties contain gold reserves under the definition of ore reserves under internationally recognised reserve reporting methodology. A number of licensed properties have no resource delineation. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

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 aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

ENVIRONMENTAL OBLIGATIONS

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

RENEWAL OF A LICENSE

The Group's geological research license for Kyutchus deposit expires on 31 October 2009. If the license is not renewed the Group will have to write off costs of USD 18,563 thousand incurred in connection with this project as at 31 December 2008. The consolidated financial statements are prepared based on management's expectation that either the term of this license will be extended, or the Group will obtain an exploration and production license for the same area.

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 balance sheet 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. INCREASE OF OWNERSHIP IN SUBSIDIARIES

OJSC «MATROSOV MINE»

On 7 September 2007, the Group acquired 100% of additional shares issued by OJSC «Matrosov Mine» for a cash consideration of USD 72,085 thousand (at 7 September 2007 exchange rate), bringing its ownership in the company from 93.3% to 94.8%. This transaction resulted in an increase of minority interest by USD 2,171 thousand.

During 2008, the Group has acquired the remaining shares of Matrosov mine from minority shareholders for cash consideration of USD 38,909 thousand, bringing its ownership to 100%. This transaction resulted in a decrease of minority interest by USD 9,292 thousand.

OJSC «ALDANZOLOTO GRK»

During 2008, the Group has acquired the remaining shares of OJSC «Aldanzoloto GRK» from minority shareholders for cash consideration of USD 247 thousand, bringing its ownership to 100%. This transaction resulted in a decrease of minority interest by USD 781 thousand.

CJSC «ZDK LENZOLOTO»

During 2008, the Group acquired 100% of additional shares issued by CJSC «ZDK Lenzoloto» for
a cash consideration of USD 24,728 thousand, bringing its ownership in the company from 64.1% to 66.2%. This transaction resulted in an increase of minority interest by USD 1,376 thousand.

5. COST OF GOLD SALES

	2008	2007
Cash operating costs	587,332	442,224
Consumables and spares	239,522	200,601
Labour	207,403	144,008
Tax on mining	72,588	51,138
Utilities	26,646	23,340
Outsourced mining services	15,105	8,826
Refining costs	5,383	3,569
Sundry costs	20,685	10,742
Amortisation and depreciation of operating assets	98,999	87,196
Deferred stripping costs capitalised	(112,804)	(68,065)
(Decrease)/increase in provision for land restoration	(8,530)	482
Increase in gold-in-process and refined gold	(6,879)	(12,621)
Total	558,118	449,216

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Salaries	73,742	76,291
Taxes other than mining and income taxes	18,318	20,724
Professional services	13,321	8,288
Depreciation	3,782	3,969
Share option plan	-	132,548
Other	25,797	19,956
Total	134,960	261,776

7. OTHER EXPENSES, NET

	2008	2007
Donations	7,135	3,868
Change in allowance for reimbursable value added tax	7,078	(3,641)
Impairment of property, plant and equipment	1,831	313
Loss on disposal of property, plant and equipment	548	6,421
Other	464	3,368
Total	17,056	10,329

8. FINANCE COSTS

	2008	2007
Unwinding of discount on decommissioning obligations (refer to note 20)	4,329	3,975
Interest on borrowings	88	2,654
Total	4,417	6,629

9. (LOSS)/INCOME FROM INVESTMENTS

	2008	2007
(Loss)/income from financial assets at fair value through profit and loss		
(Loss)/income from investments in listed companies held for trading	(178,377)	9,898
Loss from available-for-sale investments		
Gain on disposal of available-for-sale investments	13,770	-
Impairment of available-for-sale investments	(100,090)	-
Income from held-to-maturity investments		
Interest income on promissory notes	5,493	6,813
Income from loans given		
Interest income on bank deposits	31,646	30,836
Interest income on loans under repurchase agreements	9,967	13,844
Other	-	146
Total	(217,591)	61,537

10. INCOME TAX

	2008	2007
Current tax expense	85,003	77,017
Deferred tax (benefit)/expense	(22,893)	8,282
Total	62,110	85,299

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% to 24%.

A reconciliation of statutory income tax at the rate effective in the Russian Federation, location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:

	2008	2007
Profit before income tax	122,471	177,107
Income tax at statutory rate of 24%	29,393	42,506
Effect of different tax rates of subsidiaries operating in other jurisdictions	21,089	27,839
(Benefit arising from a previously unrecognised taxable losses of subsidiaries)/taxable losses of subsidiaries not carried forward	(8,929)	10,866
Effect of change in statutory income tax rate	(29,649)	-
Deferred tax asset not recognised on loss from investments	42,810	-
Tax effect of non-deductible expenses and other permanent differences	7,396	4,088
Income tax at effective rate of 51% (2007: 48%)	62,110	85,299

At 31 December 2008, as a result of the change in income tax rate in the Russian Federation from 24% to 20% that was substantially enacted on 26 November 2008 and that will be effective from 1 January 2009, deferred tax liabilities for all Group's subsidiaries registered on the territory of the Russian Federation have been remeasured by using 20% income statutory tax rate.

11. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost					
Balance at 31 December 2006	133,930	1,281,171	50,755	168,258	1,634,114
Additions	151,457	144,342	7,920	101,865	405,584
Transfers	-	88,622	-	(88,622)	-
Disposals	-	(30,749)	(896)	(552)	(32,197)
Disposed of on disposal of subsidiary	(239)	(765)	(984)	(1)	(1,989)
Effect of translation to presentation currency	16,090	101,622	3,944	12,768	134,424
Balance at 31 December 2007	301,238	1,584,243	60,739	193,716	2,139,936
Additions	138,366	104,876	13,734	248,748	505,724
Transfers	(181,811)	261,400	-	(79,589)	-
Change in decommissioning liabilities	-	(35,491)	-	-	(35,491)
Disposals	-	(10,078)	(1,335)	(658)	(12,071)
Effect of translation to presentation currency	(42,873)	(310,450)	(11,903)	(57,826)	(423,052)
Balance at 31 December 2008	214,920	1,594,500	61,235	304,391	2,175,046

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2006	(119)	(219,232)	(13,405)	(5,753)	(238,509)
Charge for the year	-	(99,244)	(5,991)	-	(105,235)
Disposals	-	7,124	234	-	7,358
Impairment loss	-	(295)	(18)	-	(313)
Disposed of on disposal of subsidiary	122	760	713	1	1,596
Effect of translation to presentation currency	(3)	(19,791)	(1,188)	(419)	(21,401)
Balance at 31 December 2007	-	(330,678)	(19,655)	(6,171)	(356,504)
Charge for the year	-	(121,689)	(6,692)	-	(128,381)
Disposals	-	4,995	781	-	5,776
Impairment loss	-	(1,831)	-	-	(1,831)
Effect of translation to presentation currency	-	73,052	4,145	1,016	78,213
Balance at 31 December 2008	-	(376,151)	(21,421)	(5,155)	(402,727)
Net book value					
31 December 2007	301,238	1,253,565	41,084	187,545	1,783,432
31 December 2008	214,920	1,218,349	39,814	299,236	1,772,319

Mining assets at 31 December 2008 included mineral rights of USD 433,112 thousand
(31 December 2007: USD 534,451 thousand).

Amortisation and depreciation capitalised during the year ended 31 December 2008 amounted to USD 41,454 thousand (2007: USD 23,169 thousand).

The balance of property, plant and equipment at 31 December 2008 was recorded net of value added tax («VAT») incurred on acquisition of exploration and evaluation and mining assets of USD 9,188 thousand (31 December 2007: USD 11,824 thousand). This VAT is reimbursable when the respective assets are put into operation. Management of the Group believes that VAT amounts are recoverable in full.

In 2008, the Group reclassified capitalised exploration and evaluation assets related to Natalka, Verninskoe, Blagodatnoe and Titimukhta deposits to mining assets in the amount of USD 181,811 thousand as the works reached a stage that permitted a reasonable assessment the technical feasibility and commercial viability of extracting a gold resource.

Impairment loss recognised in respect of property, plant and equipment for the year ended 31 December 2008 in the amount of USD 1,831 thousand (2007: USD 313 thousand) was attributable to the greater than anticipated wear and tear and certain production assets.

12.1. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2008	2007
Non-current		
Loans advanced	3,772	1,731
Other	323	416
Total non-current	4,095	2,147
Current		
Available-for-sale equity investments	208,680	400,483
Equity investments in listed companies held for trading	40,628	187,628
Promissory notes receivable	35,928	110,865
Bank deposits	-	280,648
Loans under repurchase agreements	-	201,719
Investment deposit in Rosbank	-	89,575
Total current	285,236	1,270,918

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, CARRIED AT FAIR VALUE

Equity investments in listed companies held for trading were acquired by Managing Company Rosbank (the «Bank»), a related party, on behalf of the Group under Assets management agreements.

AVAILABLE-FOR-SALE INVESTMENTS, CARRIED AT FAIR VALUE

At 31 December 2008 and 2007, available-for-sale equity investments mainly represented investment in shares of Rosfund, SPC (Cayman Islands) acquired in July 2006. The principal amounts invested by the Group to Rosfund, SPC shares as of 31 December 2008 was USD 308,770 thousand (31 December 2007: USD 360,000 thousand).

In 2008, the Group sold 14.2% of shares of Rosfund, SPC for USD 35,000 thousand. As a result of this transaction the Group recognised loss in the amount of USD 16,230 thousand in the consolidated income statement.

As a result of recent volatility in global and Russian financial markets, and the uncertainty surrounding long-term recovery, the decline in the fair value of investment in shares of Rosfund, SPC below its cost in 2008 in the amount of USD 100,090 thousand was assessed as not recoverable and was recognised in the consolidated income statement. Fair value of AFS investment in Rosfund, SPC was determined based on quoted market prices of securities, included in the portfolio as at 31 December 2008. Increase in the fair value of this investment in 2007 in the amount of USD 17,287 thousand was recognised directly in equity and reversed in 2008.

In July 2008 a subsidiary of the Group sold 350,000 ordinary shares of OJSC «Vysochaishy» for cash consideration for USD 30,000 thousand. As a result, the Group has recognised realised gain in the consolidated income statement for the same amount.

INVESTMENTS, CARRIED AT AMORTISED COST

Promissory notes at 6.0% per annum are repayable on demand.

LOANS AND RECEIVABLES, CARRIED AT AMORTISED COST

At 31 Decemeber 2007 bank deposits at 5.75-8.60% per annum were denominated in RUR and matured in November 2008. Bank deposits were fully repaid in 2008.

At 31 December 2007 loans under repurchase agreements, acquired by Managing Company Rosbank, a related party, on behalf of the Group under Assets management agreements, had effective interest rates at 9.88%. These loans were fully repaid in 2008.

At 31 December 2007 investment deposit in Rosbank primarily represented promissory notes purchased and held by the Bank on behalf of the Group. The principal amount of this deposit of USD 83,362 thousand was guaranteed by the Bank. The deposit was fully repaid in 2008.

13. INVENTORIES

	2008	2007
Inventories expected to be recovered after twelve months		
Stockpiles	39,063	-
Total	39,063	-
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	49,052	54,961
Refined gold at net production cost	1,849	1,283
Total metal inventories	50,901	56,244
Stores and materials at cost	185,313	170,373
Less: Allowance for obsolescence	(3,213)	(2,408)
Total	233,001	224,209

In July 2008 a subsidiary of the Group acquired a license for exploration and gold extraction from stockpiles. Total consideration paid for the license amounted to USD 50,000 thousand. These stockpiles were recognised in the consolidated financial statements as non-current inventories.

14. ACCOUNTS RECEIVABLE

	2008	2007
Accounts receivable from third parties	19,593	21,699
Accounts receivable from related parties (refer to note 25)	15	135
	19,608	21,834
Less: Allowance for doubtful debts	(4,095)	(8,357)
Total	15,513	13,477

The Group sells gold produced to three customers on advance payment terms. At 31 December 2008 and 2007 the Group did not have any outstanding amounts receivable in respect of gold sales.
Accounts receivable balance included amounts receivable from the customers of non-mining subsidiaries of the Group in respect of sale of other goods, electricity and other services.
In 2008 the average credit period for the customers of non-mining subsidiaries was 78 days (2007: 30 days). The Group has fully provided for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

The procedure of accepting a new customer includes check by security department for a business reputation, licenses and certifications. At 31 December 2008, the Group's largest customers individually exceeding 5% of the total balance represented 24% (31 December 2007: 55%) of the outstanding balance of accounts receivable.

At 31 December 2008 included in the Group's accounts receivable were balances of USD 3,185 thousand (31 December 2007: USD 4,956 thousand) which were past due but which were not impaired. The Group does not hold any collateral over these amounts. The average age of these receivables was 166 days (31 December 2007: 177 days).
Aging of past due but not impaired receivables:

	2008	2007
Less than 90 days	1,054	1,726
91-180 days	720	1,021
181-365 days	1,411	2,209
Total	3,185	4,956

Movement in the allowance for doubtful debts:

	2008	2007
Balance at beginning of the year	8,357	7,366
Receivable balances written off	(3,229)	-
Recognised in income statement	1,008	2,790
Amounts recovered during the year	(1,390)	(2,331)
Effect of translation to presentation currency	(651)	532
Balance at end of the year	4,095	8,357

15. ADVANCES PAID TO SUPPLIERS

	2008	2007
Advances paid to third parties	14,533	26,088
Advances paid to related parties (refer to note 25)	25	116
Total	14,558	26,204

At 31 December 2008, advances paid to third parties were presented net of impairment loss of USD 2,085 thousand (31 December 2007: USD 2,459 thousand).

16. OTHER CURRENT ASSETS

	2008	2007
Deferred expenditures	14,938	13,751
Other prepaid taxes	3,556	6,929
Итого	18,494	20,680

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

17. CASH AND CASH EQUIVALENTS

		2008	2007
Bank deposits		278,449	63,005
Current bank accounts	– RUR	25,645	40,113
	– foreign currencies	81,409	690
Other cash and cash equivalents		13,323	22,366
Total		398,826	226,174

Bank deposits are denominated in RUR, USD and EURO and bear interest of 1.25-17.00% per annum with original maturity within three months.

18. SHARE CAPITAL

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

In November 2006 the Company bought 17,146,780 ordinary shares from shareholders for a total consideration of USD 995,557 thousand. Treasury shares which are held by a subsidiary of the Group have been recorded at cost and presented as a separate component in equity.

The immediate shareholders of the Company at 31 December 2008 and 2007 were as follows:

	31 December 2008		31 December 2007	
Shareholders	Number of shares	% held	Number of shares	% held
CJSC «ING Bank Evrazia» (nominal)	67,863,260	38.1%	59,982,175	33.7%
NP «National Deposit Centre» (nominal)	56,725,589	31.8%	16,541,447	9.3%
CJSC «Depositary and Clearing Company» (nominal)	16,483,146	9.3%	14,183,547	8.0%
Bristaco Holdings Co. Limited	10,986,194	6.2%	24,866,670	14.0%
OJSC «Rosbank» (nominal)	10,744,173	6.0%	14,795,364	8.3%
Lovenco Holdings Co. Limited	-	-	24,866,670	14.0%
CJSC «KM Invest»	-	-	14,100,053	7.9%
Other	15,348,984	8.6%	8,720,106	4.8%
	178,151,346	100.0%	178,056,032	100.0%

At 29 June 2007 the Company declared dividends of RUR 3.23, or USD 0.13 (at 29 June 2007 exchange rate) per share for the year ended 31 December 2006. Dividends in the amount of USD 21,722 thousand (net of USD 2,147 thousand attributable to treasury shares) were paid to shareholders at 31 August 2007.

At 26 June 2008 the Company declared dividends of RUR 2.95, or USD 0.13 (at 26 June 2008 exchange rate) per share for the year ended 31 December 2007. Dividends in the amount of USD 22,258 thousand (net of USD 1,559 thousand attributable to treasury shares) were paid to shareholders at 31 August 2008.

SHARE OPTION PLAN

The Group granted 4,765,693 options to management in June 2007 at an exercise price of USD 14 per share. Share options granted under the share option plan are exercisable during three years from the date of grant.

The total fair value of the options granted was USD 132,548 thousand, which was recognised at the date of grant as the options were fully vested. The total fair value was recorded as an expense in selling, general and administrative expenses in the consolidated income statement. Fair value of the options was determined based on an internally developed model which included assumptions that the Group considered appropriate in estimating the fair value of the share-based payment awards.

In July 2007, management exercised 4,575,065 options for a total cash consideration of USD 64,051 thousand. Treasury shares of the Company were issued to management upon exercise of the options resulting in a decrease in treasury shares of USD 265,107 thousand and decrease in additional paid-in-capital of USD 72,496 thousand.

In February 2008, management exercised 95,314 options for a total cash consideration of USD 1,334 thousand. Treasury shares of the Company were issued to management upon exercise of the options resulting in a decrease in treasury shares of USD 5,523 thousand and decrease in additional paid-in-capital of USD 1,510 thousand. The remaining unsettled options were cancelled in 2008. At 31 December 2008 there were nil shares outstanding under the share option plan (31 December 2007: 190,628 shares).

19. DEFERRED TAX LIABILITIES

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

	2008	2007
Net liability at beginning of the year	200,609	178,860
Recognised in the income statement	6,756	8,282
Revaluation of available-for-sale investments	7,200	-
Effect of change in statutory income tax rate	(29,649)	-
Recycled from equity on disposal of investments classified as available-for-sale	(7,200)	-
Effect of translation to presentation currency	(29,472)	13,467
Net liability at end of the year	148,244	200,609

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:

	2008	2007
Property, plant and equipment	132,083	192,537
Deferred stripping costs	32,798	19,695
Investments valuation	-	(377)
Inventory valuation	4,542	4,930
Accrued operating expenses	(20,889)	(13,942)
Valuation of receivables	(290)	(2,234)
Total	148,244	200,609

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 135,279 thousand (2007: USD 111,591 thousand), because management believes that it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

20. ENVIRONMENTAL OBLIGATIONS

DECOMMISSIONING OBLIGATIONS

	2008	2007
Balance at beginning of the year	63,656	55,480
New obligations raised	2,784	-
Change in estimate	(38,275)	-
Unwinding of discount on decommissioning obligations (refer to note 8)	4,329	3,975
Effect of translation to presentation currency	(5,674)	4,201
Balance at end of the year	26,820	63,656

PROVISION FOR LAND RESTORATION

	2008	2007
Balance at beginning of the year	17,685	16,033
New obligations raised	290	-
Change in estimate	(10,030)	-
Charge to the income statement	1,210	482
Effect of translation to presentation currency	(1,596)	1,170
Balance at end of the year	7,559	17,685
Total environmental obligations	34,379	81,341

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

	2008	2007
Discount rates	15.0%	5.7-7.0%
Expected mine closure dates	2010-2050	2010-2050

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

	2008	2007
Due from second to fifth year	1,013	1,626
Due from sixth to tenth year	1,216	2,008
Due from eleventh to fifteenth year	29,261	68,226
Due from sixteenth to twentieth year	2,601	1,975
Due thereafter	288	7,506
Total	34,379	81,341

21. SHORT-TERM BORROWINGS

	2008	2007
USD-denominated borrowings	-	11,900
RUR-denominated borrowings	-	7,408
Obligations under finance lease	-	1,601
Total	-	20,909

At 31 December 2007, USD-denominated short-term borrowings included loans from Flemicort Consulting Inc. at the effective interest rate of 8% per annum maturing in January 2008.
At 31 December 2007, RUR-denominated short-term borrowings included loans from Rosbank Management Company, a related party, at the effective interest rate of 7% per annum, secured by investments in listed companies held for trading maturing in January 2008.

22. TRADE PAYABLES

	2008	2007
Trade payables to third parties	17,918	17,753
Trade payables to related parties (refer to note 25)	-	3,898
Total	17,918	21,651

In 2008 the average credit period for payables was 16 days (2007: 18 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.

The table below summarises the maturity profile of the Group's trade payables at 31 December 2008 and 2007 based on contractual undiscounted payments:

	2008	2007
Due within three months	16,232	18,919
Due from three to six months	1,113	2,563
Due from six months to twelve months	573	169
Total	17,918	21,651

23. OTHER PAYABLES AND ACCRUED EXPENSES

	2008	2007
Other payables, including:		
Wages and salaries payable	37,159	28,069
Other accounts payable	9,908	31,037
Interest payable	-	2,987
Total other payables	47,067	62,093
Accruals, including:		
Accrued annual leave	18,542	16,482
Unsettled liabilities under share option plan	-	5,357
Total accruals	18,542	21,839
Total	65,609	83,932

The table below summarises the maturity profile of the Group's other payables as at 31 December 2008 and 2007 based on contractual undiscounted payments:

	2008	2007
Due within three months	45,850	58,281
Due from three to six months	1,217	3,812
Total	47,067	62,093

24. OTHER TAXES PAYABLE

	2008	2007
Social taxes	7,063	4,321
Tax on mining	3,781	3,682
Property tax	2,259	3,213
Value added tax	1,417	7,420
Other taxes	2,307	2,551
Total	16,827	21,187

Contribution to Pension Fund of the Russian Federation for the year ended 31 December 2008 amounted to USD 29,502 thousand (2007: USD 25,816 thousand).

25. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. During 2008 and 2007 related party transactions included only transactions with entities under common control. The terms of these transactions would not necessarily be on similar terms had the Group entered into the transactions with third parties.

As a result of change of shareholders of OJSC «MMC Norilsk Nickel», this company and its subsidiaries are no longer considered related parties for the Group from 24 April 2008. As a result of change of shareholders of Rosbank, this company and its subsidiaries are no longer considered related parties for the Group from 13 February 2008.

During the years ended 31 December 2008 and 2007, Group entered into the following transactions with related parties:

	2008	2007
Gold sales	57,753	540,755
Purchase of goods and services	15,392	202,744
Income from investments	567	3,750
Sale of property, plant and equipment	-	16,287
Cash and cash equivalents	-	86,414
Investments in securities and other financial assets	-	201,404
Accounts receivable	15	135
Advances paid to suppliers	25	116
Trade payables	-	3,898
Other payables	6	2,590

The amounts outstanding are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

The Group has Assets management agreements with Managing Company Rosbank, a related party, which acts on behalf of the Group. The principal amounts invested by the Group under these agreements at 31 December 2008 amounted to USD 159,971 thousand (31 December 2007: USD 311,657 thousand) were not guaranteed by the Bank.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2008	2007
Short-term employee benefits	8,792	28,377
Share-based payment	-	132,548
Total	8,792	160,925

26. CONTINGENCIES

CAPITAL COMMITMENTS

The Group's budgeted capital expenditures commitments for the year ended 31 December 2009 amounted to USD 270,128 thousand, including USD 97,892 thousand of contractual capital commitments.

OPERATING LEASES: GROUP AS A LESSEE

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2057.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2008 were as follows:

Due within one year	4,399
From one to five years	6,767
Thereafter	14,519
Total	25,625

LITIGATION

The Group has a number of insignificant claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

COMPLIANCE WITH LICENSES

The business of the Group depends on the continuing validity of its licenses, particularly subsoil licenses for the Group's exploration and mining operations, the issuance of new licences and the Group's compliance with the terms of its licenses. Russian regulatory authorities exercise considerable discretion in the timing of licenses issuances and renewals and the monitoring of a licensee's compliance with the terms of a license. Requirements imposed by these authorities, including requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Accordingly, licenses that may be needed for the operations of the Group may be invalidated or may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion.

The legal and regulatory basis for the licensing requirements is subject to frequent change, which increases the risk that the Group may be found in non-compliance. In the event that the licensing authorities discover a material violation by the Group, the Group may be required to suspend its operations or incur substantial costs in eliminating or remediating the violation, which could have a material adverse effect on the Group's business and financial condition.

INSURANCE

The insurance industry is not yet well developed in the Russian Federation and 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 2008 of approximately USD 436 thousand (31 December 2007: USD 347 thousand). This amount had not been accrued at 31 December 2008 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 of the Russian Federation. 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

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

27. 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 short-term borrowings (disclosed in note 21), cash and cash equivalents (disclosed in note 17) and equity attributable to shareholders of the parent company, comprising issued capital, reserves and retained earnings. As at 31 December 2008 and 2007 cash and cash equivalents balance exceeded borrowings of the Group. Management of the Group believes that currently there are no risks associated with the capital structure.

MAJOR CATEGORIES OF FINANCIAL INSTRUMENTS

The Group’s principal financial liabilities comprise borrowings and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various financial assets such as accounts receivable and loans advanced, cash and cash equivalents, and promissory notes and other investments.

	2008	2007
Financial assets		
Financial assets at fair value through profit or loss, carried at fair value		
Equity investments in listed companies held for trading	40,628	187,628
Held-to-maturity financial assets, carried at amortised cost		
Promissory notes receivable	35,928	110,865
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	398,826	226,174
Accounts receivable	15,513	13,477
Loans advanced	3,772	1,731
Bank deposits	-	280,648
Loans under repurchase agreement	-	201,719
Investment deposit in Rosbank	-	89,575
Available-for-sale financial assets, carried at fair value		
Available-for-sale equity investments	208,680	400,483
Total financial assets	703,347	1,512,300
Financial liabilities		
Trade payables	17,918	21,651
Other payables	47,067	62,093
Consideration on acquisition of subsidiaries	-	22,197
Short-term borrowings	-	20,909
Total financial liabilities	64,985	126,850

The main risks arising from the Group's financial instruments are commodity price, equity investments price, foreign currency, credit and liquidity risks. Due to the fact that the amount of borrowings is not significant, management believes that the Group is not exposed to interest rate risk.

COMMODITY PRICE RISK

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of gold. A decline in gold prices could result in a decrease in profit and cash flows. Management of the Group regularly monitors gold price, market forecasts and believes that current trend of price increase will continue in the future.

The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

EQUITY INVESTMENTS PRICE RISK

The Group is exposed to equity investments price risk. Presented below is the sensitivity analysis illustrating the Group's exposure to equity investments price risks at the reporting date. Management of the Group has decided to use the range of market prices of 10% higher/lower for the sensitivity analysis as the effect of such variation is considered to be significant and appropriate in the current market situation.
If market prices for equity investments had been 10% higher/lower:

- profit before tax for the year ended 31 December 2008 would increase/decrease by USD 4,063 thousand (2007: USD 18,763 thousand) as a result of changes in fair value of securities held-for-trading ; and
- investment revaluation reserve within equity balance would increase/decrease by USD 20,868 thousand (2007: USD 40,048 thousand) as a result of changes in fair value of securities available-for-sale.

The Group normally places the investments under Assets management agreements with asset management companies who, in turn, utilize a variety of risk management activities in relation to the investments.

FOREIGN CURRENCY RISK

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits are adversely impacted by appreciation of RUR against USD. In assessing this risk management takes into consideration changes in gold price. In 2007 favourable changes in market price of gold mitigated the adverse effect of appreciation of RUR against USD.
The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2008 and 2007 were as follows:

	Assets		Liabilities	
	2008	2007	2008	2007
USD	499,415	35,764	1,108	81,234
EURO	40,312	-	3,542	-
Total	539,727	35,764	4,650	81,234

Currency risk is monitored on a monthly basis by performing sensitivity analysis in order to verify that the potential loss is at an acceptable level.
The table below details the Group's sensitivity to changes of exchange rates of the RUR to USD and EURO by 10% which is the sensitivity rate used by the Group for internal reporting purposes. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	2008	2007
Profit or loss (RUR to USD)	49,831	(4,547)
Profit or loss (RUR to EURO)	3,677	-

CREDIT RISK

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks, loans advanced, promissory notes and trade and other receivables.

Prior to dealing with new counterparty, management assesses the credit worthiness and liquidity of potential customer. Information available from the major rating agencies is used in evaluating the creditworthiness of foreign banks. The eligible counterparty should have rating above A level. For Russian banks the credit limits are established using financials analysis and the overall market experience. Bank should be solvent, liquid and have efficient system of risk management.

Although the Group sells all the gold produced to three customers, the Group is not economically dependant on these customers because of the high level of liquidity in the gold commodity market. Buyers of gold are required to make advance payments, therefore credit risk related to trade receivables is minimal. At 31 December 2008 and 2007, the Group did not have any outstanding trade receivables for gold sales.

Other receivables include amounts receivable from the customers of non-mining subsidiaries of the Group in respect of sale of other goods, electricity 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.

The Group has a concentration of cash and cash equivalents with a related party commercial bank, that at 31 December 2008 represented nil per cent (31 December 2007: 38 %) of total cash and cash equivalents.

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.

The maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on contractual payments is presented in notes 22 and 23.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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 12, 14 and 17) and financial liabilities (refer to notes 21, 22 and 23) recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature.

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

AGREEMENT WITH KINROSS GOLD

At 26 January 2009, the Group signed an agreement with Kinross Gold Corporation on intention and possible set-up of a new company for joint-development of Nezhdaninskoye deposit. The final decision will be made based on the results of feasibility studies that are expected to be performed within 18 months. The shares of the Group and Kinross Gold Corporation in the new company in case of positive decision would be 51% and 49%, respectively.

29. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	2008	2007
CJSC «Gold Mining Company Polyus»	Russian Federation	Mining	100.0	100.0
OJSC «Aldanzoloto GRK»	Russian Federation	Mining	100.0	99.4
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	64.1
CJSC «Lensib»	Russian Federation	Mining	40.4	39.1
CJSC «Svetliy»	Russian Federation	Mining	55.6	53.8
CJSC «Marakan»	Russian Federation	Mining	55.6	53.8
CJSC «Dalnaya Taiga»	Russian Federation	Mining	54.3	52.6
CJSC «Sevzoto»	Russian Federation	Mining	43.0	41.7
CJSC «GRK Sukhoy Log»	Russian Federation	Mining	100.0	100.0
OJSC «Matrosov Mine»	Russian Federation	Mining (development stage)	100.0	94.8
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 (exploration stage)	100.0	100.0
OJSC «Polyus Geologorazvedka»[2]	Russian Federation	Geological research	100.0	100.0
Polyus Exploration Ltd. [2]	British Virgin Islands	Geological research	100.0	100.0
Jenington International Inc.	British Virgin Islands	Market agent	100.0	100.0
Polyus Investments Ltd.	Cyprus	Market agent	100.0	100.0

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

[2] *Established by the Group in 2007*

17. LIST OF TERMS AND ABBREVIATIONS

Balance mineral resources – material volume, which manifests the availability of metal at a sufficient probability level, the economic value of which is confirmed by the State Committee of Reserves

Biooxidation – oxidation of sulphide minerals exposed to bacteria with metal extraction through desalination

Cut-off grade – a minimally acceptable sample value which determines economic value of mineral; unit cut-off grade- unit value which optimizes net value generated by developing property

Cyanidation (cyanide desalination) – a way of extracting uncovered gold or silver from crushed or milled ore by dissoluting them in a weak cyanide mixture; may be performed using crushed ore in containers or in piles in the open air

Dore, Dore alloy – unrefined gold; commercial end product of gold extraction factory which is produced by alloying the products of the prior processes of ore enrichment

Flotation – process of physical segregation during which minerals attach to bubbles and resurface as other minerals sink

State Reserves Commission (State Reserves Commission of the Federal Agency for Subsoil Usage) – State commission for mineral reserves; set up in 1927, SRC controls usage of mineral resources on behalf of the RF Ministry of Ecology and Natural Resources

JORC Code – Australian – Asian reporting code for mineral resources and ore reserves developed by the Joint committee on ore reserves of Australian Asian Institute of Mining and Metallurgy, Australian Institute of Geological Sciences and Mineral Council of Australia; the currently valid Code is dated 2004

Mineral resources – the Russian equivalent of the Western notion of mineral resources and ore reserves; mineral resources are subdivided into the categories of A, B, C1, depending on the extent of their certainty and technological exploration degree

Mineral resources (the JORC Code) – define mineral resources as concentration or assembly of minerals in or on earth crust with economical attractiveness inherent in it in such a form and in such a quantity, which provide for substantiated prospective of their economically justified extraction; they are subdivided into the categories of the Measured, Indicated and Inferred, depending on their exploration degree

Off-balance mineral reserves – material volume which manifests metal availability to a sufficient extent of certainty, but its economic extraction profitability has not been proved

Open pit – open surfacing excavation; among these are open-pit coal mines and open pits

Ore body – mineralized body, which is either profitably exploited, or which manifests reasonable certainty of profitable exploitation

Ore field – A collection of mines that exploit a common mineral deposit or cluster of closely related mineral deposits

Ore resources (reserves) – the JORC Code defines ore reserves as a part of measured or indicated mineral reserves to be minable on an economically profitable basis; ore reserves a subject of respective studies, such as Feasibility Study using real mountainous technical, metallurgical, economic, market-related, legal, environmental, social and administrative factors; these studies, at the moment of developing reporting documentation, suggest that excavation may be reasonably justified

Oxidated ore – ore exposed to the process of natural oxidation

Ore stock pile – excavated ore stored at the surface which is to be processed or delivered

Sulphide ore – ore in its primarily mineralized state, which has not been exposed to natural oxidation.

ADRs	American depositary receipts
g/t	gram per tonne
kg	kilogram
km	kilometre
k oz	thousand troy ounces
m	meter
m^2	square meter
m^3	cubic meter
m oz	million troy ounces
t	tonne