Future growth

Polyus Gold International
Annual Report 2011

Our mission

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

Contents

1

Brief description of Polyus Gold International

1

Brief description of Polyus Gold International Limited

The Group is the largest gold producer in the Russian Federation, one of the largest producers of the metal in Kazakhstan and amongst the leading gold mining companies in the world by resource base and production volume.

In the Russian Federation, the Group mines gold and carries out geological exploration in 4 regions:

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

Polyus Gold International Limited was created following the reorganisation of Open Joint Stock Company ("OJSC") Polyus Gold and KazakhGold Group Limited, which was completed on 25 July 2011. The reorganisation was effected through the acquisition of substantially all of the share capital of Polyus Gold by KazakhGold (previously a subsidiary 65% owned by Polyus Gold), through a series of transactions, including a Private Exchange Offer for the ordinary shares and American Depositary Receipts ("ADRs") of Polyus Gold and the exercise of options to acquire shares and ADRs of Polyus Gold, held by Polyus Gold's principal shareholders (see Management report for more details on the reorganisation).

The flagship mine of the Group is Olimpiada - the largest gold mine and one of the largest gold deposits in Russia. Olimpiada mine contributed 38% of the Group's total gold output in 2011, and represents a 35% stake in the Group's JORC proved and probable reserves and 30% in the Group's measured, indicated and inferred resources.

The Natalka mine, which is currently under construction, is expected to become the largest mine for the Group. The Natalka deposit has 32 million ounces of proved and probable reserves and 60 million ounces of measured, indicated and inferred resources.

PGIL's Global Depositary Receipts ("GDRs") are traded on the Main Market of the London Stock Exchange ("LSE"), and on the over-the-counter ("OTC") market in the USA. As at 31 December 2011, the Group's market capitalisation was US$9.1 billion.

In this Annual Report the terms Polyus Gold International ("PGIL") and Group refer to Polyus Gold International Limited together with its subsidiaries, whose financial results are consolidated by Polyus Gold International Limited when preparing the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

1

Brief description of Polyus Gold International Limited

continued

The Group's commitment to operational excellence and its social and environmental responsibilities

The Group believes its operational excellence to be integral to the success of its business and strives to adhere to the best-in-class industry standards in order to achieve a low cash cost position and create additional value for its shareholders. The Group is committed to be:

— a modern, transparent company, with world class corporate governance standards;

— a people-oriented company, that provides development opportunities, follows the safety standards and which is able to attract, motivate and retain the best employees and management available;

— a socially responsible company that contributes to stable social development and environmental balance in the areas where it conducts its operations and which is committed to identifying and mitigating the environmental impact of its operations by implementing planned procedures across its asset base throughout the life cycle of mining activity; and

— an innovative company maintaining a sustainable competitive advantage achieved through continuous technological improvements.

In addition, the Group appreciates the benefits of becoming an internationally recognised public company whose securities are traded on one of the world's leading stock exchanges with access to the international capital markets.

1

Brief description of Polyus Gold International Limited

continued

The Group

The Group is focused on organic growth through the effective implementation of expansion projects and the construction and launch of new mines, underpinned by its access to international capital markets. The Group wants to become one of the world's leading gold mining companies by 2016, maintain its competitive cost structure, and significantly increase its mineral resource base.

While the Group's primary focus will be on developing its organic growth pipeline, it will consider sustainable M&A options that will reinforce its asset portfolio, offer attractive growth potential and geographic diversification. The Group aims to achieve gold production of approximately 2.8 million ounces by 2015 and 4.1 million ounces by 2020.

Key assets of Polyus Gold International Limited

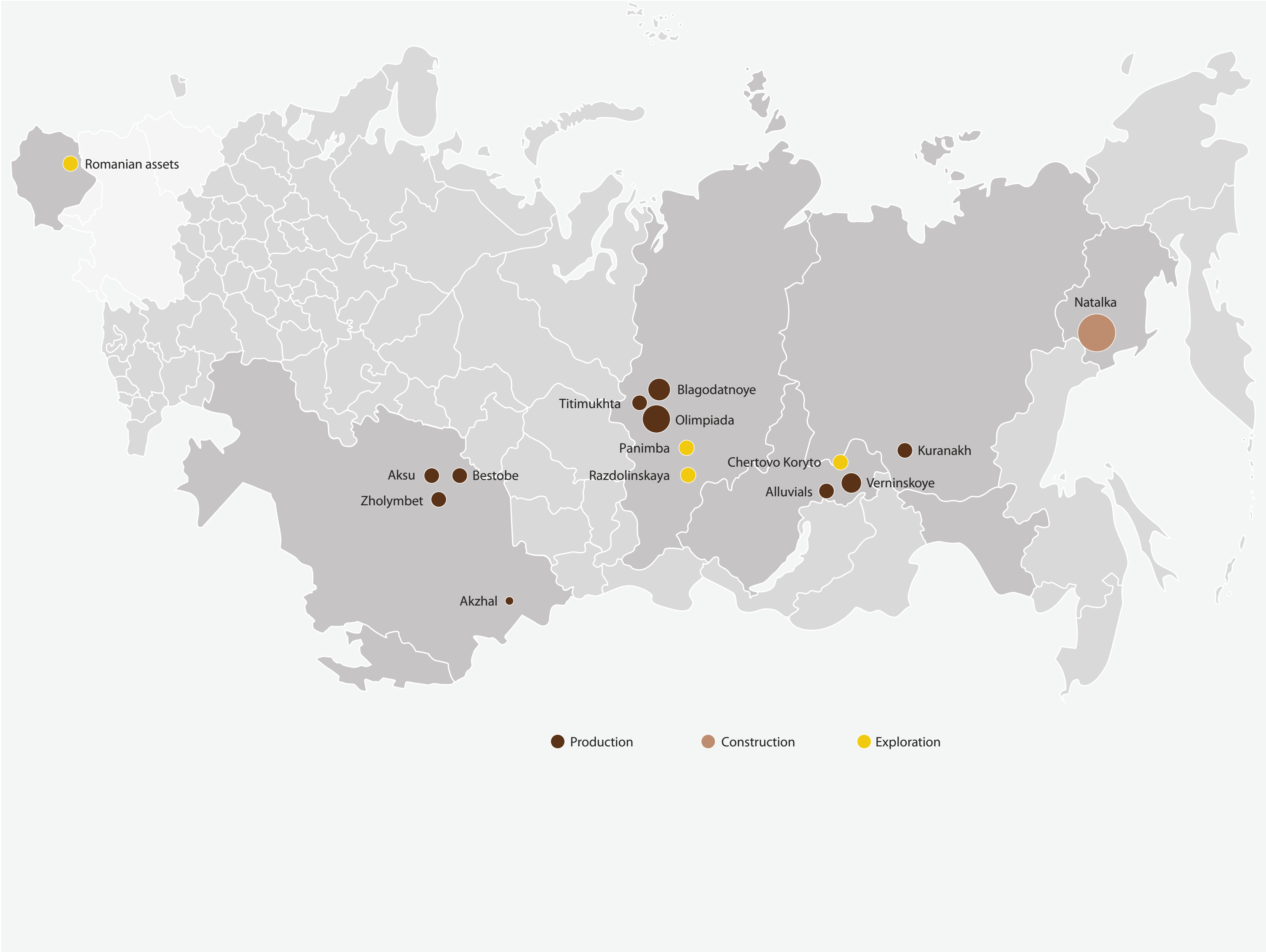
Region/deposit	Status of the asset's development as at 31 December 2011	Gold production in 2011, thousand ounces	Owner	Share of Polyus Gold International Limited in the license owner as at 31 December 2011
RUSSIAN FEDERATION				
KRASNOYARSK REGION				
Olimpiada	Production	566	CJSC Polyus	95.3%
Biagodatnoye	Production	363	CJSC Polyus	95.3%
Titimukhta	Production	109	CJSC Polyus	95.3%
Panimba & Razdolinskaya	Pre-feasibility	–	LLC Krasnoyarsk Exploration	95.3%
IRKUTSK REGION				
Group of alluvial deposits	Production	210	CJSC ZDK Lenzoloto	38.4%-63%[1]
Verninskoye	Production	10[2]	OJSC Pervenets	95.3%
Chertovo Koryto	Feasibility study preparation	–	CJSC Tonoda	95.3%
Zapadnoye	Depleted	3	OJSC Pervenets	95.3%
REPUBLIC OF SAKHA (YAKUTIA)				
Kuranakh	Production	117	OJSC Aldanzoloto GRK	95.3%
MAGADAN REGION				
Natalka	Construction	–	OJSC Matrosov Mine	95.3%
REPUBLIC OF KAZAKHSTAN AND ROMANIA[3]				
Zholymbet	Production	44	JSC MMC Kazakhaltyn	100%
Bestobe	Production	46	JSC MMC Kazakhaltyn	100%
Aksu	Production	21	JSC MMC Kazakhaltyn	100%
Akzhal	Production	6	JSC MMC Kazakhaltyn	100%
Romanian assets[4]	Suspended	–	Romaltyn Mining S.R.L.; Romaltyn Exploration S.R.L.	100%

In addition, the Group recognises the benefits of becoming an internationally recognised public company whose securities are traded on one of the world's leading stock exchanges with access to the international capital markets.

[1] Licenses for alluvial deposits are held by various entities that are not directly owned by Polyus Gold International Limited. The holdings range from 40.3% to 66.1%. The Group has the power to govern the financial and operating policies of theses entities, and therefore the Company consolidates the financial results of all of these entities and accounts for all of their reserves in the Group's reserves.
[2] The metal produced before the Verninskoye mine was launched was produced at Pervenets pilot plant, which was commissioned to fine-tune the production process for the Verninskoye mine.
[3] Management intends to sell assets in Kazakhstan and Romania. Production data for the Kazakhstan business unit includes gold in sludge, flotation and gravity concentrates and other semi-products.
[4] CIL gold treatment plant, Baia Mare Central Dam, Camarzana North, Alunis-Piatra Handal and Poprad deposits

1

Locations of the key assets of Polyus Gold International Limited



2

2011 highlights

Gold production growth for four consecutive years

In 2011, Polyus Gold International produced 1.495 million ounces of gold, compared to 1.386 million ounces in the previous year, showing a planned 8% YoY increase. The major contributor to the increase was the Blagodatnoye mine that came on stream in 2010 and continued to enhance its production in the reporting year.

Polyus' gold output in 2007 – 2011

2

2011 highlights

Production development and new projects

— The Verninskoye mine commissioned in 4Q 2011, on schedule
— Production process optimization at the Olimpiada mine is continuing
— Titimukhta expansion to 2.4 mtpa starts (from the current 2.2 mtpa)
— Mining fleet upgrade implemented at alluvials
— Natalka: project development is on track, to be commissioned in late 2013

Production and finance

— Gold production increased by 8% to 1,495 thousand ounces
— Gold sales increased 37% to US$2,341 million
— Net profit increased by 57% to US$558 million
— Earnings per share amounted to US Cents 16
— Adjusted EBITDA increased to US$1,111 million, or by 55%
— Gross profit margin and Adjusted EBITDA margins were 50% and 46%, respectively
— Total cash costs (TCC) per ounce of gold sold amounted to US$661 per ounce
— Cash margin grew to US$917 per ounce, or by 33%[1]
— Operating cash flows increased by 72% to US$765 million, compared to US$445 million in 2010
— Capital expenditure in 2011 was US$341 million

Exploration and reserves growth

— Following the completion of reserves audits at Verninskoye, Olimpiada, and Natalka, the Group's proved and probable reserves increased by 16% from 78.2 in 2010 to 90.5 million ounces of gold
— The new reserves underpin the Group's position as having the third largest gold reserves in the world
— 144 thousand meters drilled (82 thousand meters in Russia and 62 thousand meters in Kazakhstan); US$32 million invested in exploration

Corporate development

— Reorganisation of OJSC Polyus Gold and KazakhGold Group Limited successfully completed
— High profile, UK corporate governance code compliant Board created (independent non-executive Chairman and independent chairs for all the Board sub-committees)
— Mandatory tender offer ("MTO") to all the remaining shareholders of OJSC Polyus Gold completed

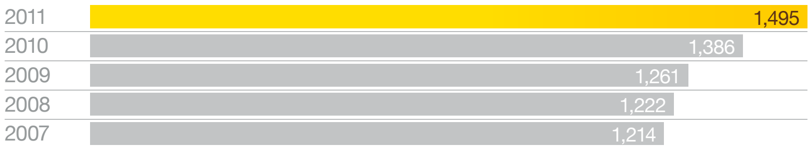
[1] Cash margin is the difference between the average realised price and total cash costs per troy ounce of gold sold.

2

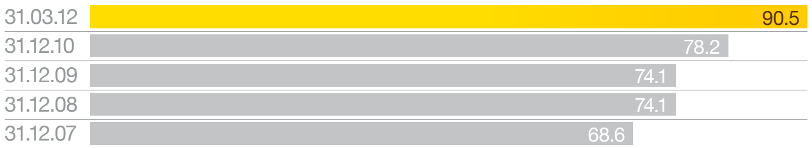
2011 highlights

continued

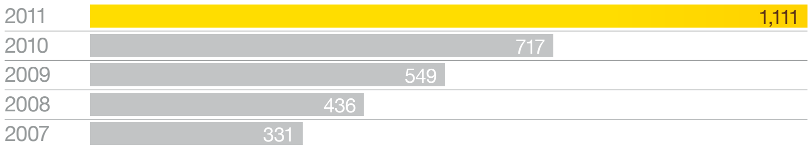
Gold production of the Group in 2007-2011, thousand ounces



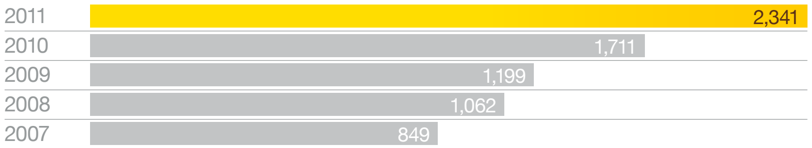
Proved and probable reserves (JORC compliant), million ounces



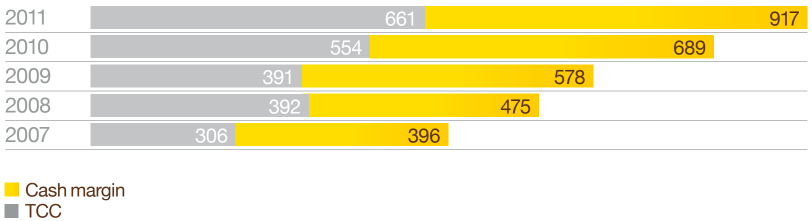
Adjusted EBITDA of the Group in 2007-2011, US$ million



Gold sales of the Group in 2007-2011, US$ million



Total cash costs and cash margin of the Group in 2007-2011, US$/ounce



3

Chairman's statement

The third year in a row of a new mine launch

The Verninskoye mine was commissioned on schedule in 4Q 2011. Construction of the facility began in 2009. In 2 years, the Company's specialists built a gold processing plant with a design capacity of 2.2 million tonnes of ore per year on a greenfield site, procured all the necessary mining and haulage equipment, built roads, warehouses, a camp and a tailings facility.

Polyus' combined processing capacity in 2008 – 2011

3

Chairman's statement

Robert Buchan
Chairman of the Board

"I am pleased to report that in 2011 Polyus Gold International achieved all the key targets set for the year on the operational, financial, project development and corporate fronts."

Dear shareholders,

At the beginning of 2011, the Group committed to produce 1.5 million ounces of gold in the year, and this goal was achieved.

The plan to commission Verninskoye in the fourth quarter of 2011 was also implemented. This is the fourth consecutive commissioning of a plant on time – Mill No.3 in 2007, Titimukhta in 2009, Blagodatnoye in 2010, and now Verninskoye – which shows once again that the Group is well-positioned to bring its existing development projects into production.

On the corporate front, we delivered on our plan to complete the reorganisation between Polyus and KazakhGold.

In 2011, the Group continued to operate in a favourable market environment, with gold prices reaching new record levels. A non-hedging policy helped to fully reflect the gold price increase in the Group's revenues and achieve a competitive profitability level.

In 2011, PGIL continued to further strengthen its management team. In particular, in October 2011, German Pikhoya was appointed Chief Executive Officer of PGIL with Oleg Ignatov as Chief Financial Officer. Anthony James Nieuwenhuys was appointed Chief Operating Officer in May 2011, all bringing extensive experience in mining operations to the Group

In 2011, the Group continued to upgrade and expand its production facilities. During the year, the Group invested US$341 million in growth and exploration activities, and the investment budget for the current year is substantially higher.

The Group's commitment to sustainable development is as significant as ever. In the regions where we operate we create employment, as well as support local communities through various sponsorship and charitable programmes. Our capital investments bolster the development of local industries, and we strive to be one of the best employers in the communities and regions where we operate. Improving industrial safety and reducing the environmental impact of our operations remains one of our primary focus areas.

On behalf of the Board, I would like to thank PGIL's management and employees for their commitment and professionalism, and the shareholders for supporting our efforts aimed at further enhancing PGIL's position in the international gold mining arena.

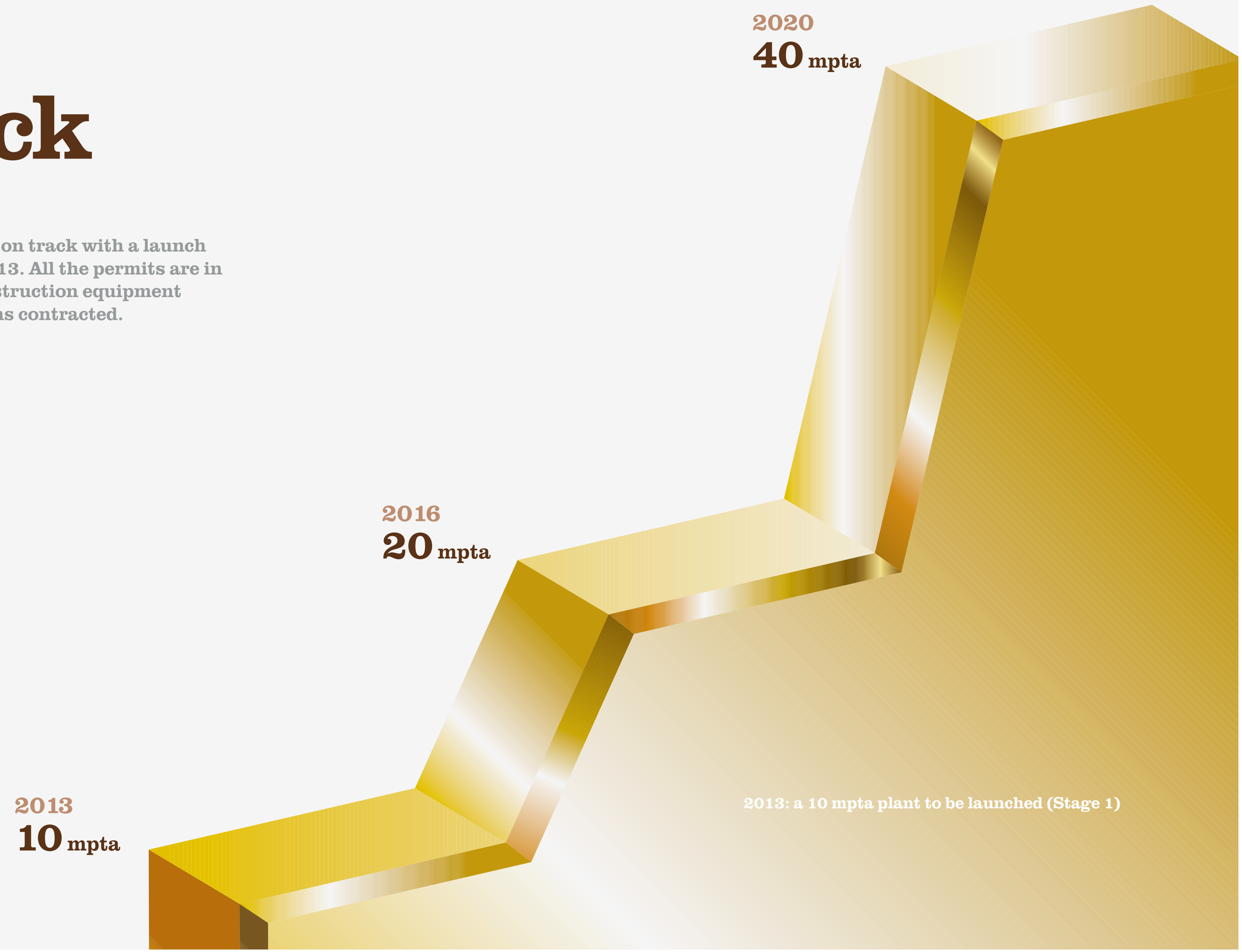
Robert Buchan
Chairman of the Board
London, 30 March 2012

4

Chief Executive's statement

Natalka is on track

The giant Natalka development project is on track with a launch date of a 10 mpta plant expected in 4Q 2013. All the permits are in place; construction camp was set up; construction equipment supplies underway; critical long-lead items contracted.



3 stages of the Natalka project

4

Chief Executive Officer's statement

German Pikhoya
Chief Executive Officer

"I am pleased to report that 2011 was a successful year for the Group, with the Verninskoye mine commissioned on time, a corporate reorganisation completed, and production targets achieved."

Dear shareholders of Polyus Gold International Limited.

In the year the Group produced 1,495 thousand ounces of refined gold[1], compared to 1,386 thousand ounces in the previous year, realising a planned 8% year-on-year increase. A major driver of the increase was the successful ramp-up of Blagodatnoye, which came on stream in July 2010. The Blagodatnoye mine operated at its designed recovery rate in 2011 and exceeded its designed processing capacity. Another contributor to the growth was Titimukhta, where the ongoing upgrading work began showing good results. In addition, efforts aimed at improving the efficiency of the alluvial operations resulted in increased gold output. At our operating mines in Kazakhstan, ongoing upgrades at the production facilities also resulted in a significant production increase.

Technological issues at the Olimpiada mine continued to be a major operational challenge in 2011. We are continuing to improve the recoveries of sulphide ore processing at the mine. In 2011, we implemented measures aimed at improving the overall recovery efficiency of the difficult ore. Our efforts resulted in a 4% increase in recovery compared to 2010. In 2012 the Group's focus will be on strengthening of the bio-oxidation workshop at Mill No. 3. Six new reactors will be added aiming at stabilizing the bio-oxidation process.

In 2011, the Group's:
— gold sales increased by 37% to US$2,341 million, reflecting improved gold prices and increased production volumes;
— gross profit on gold sales amounted to US$1,179 million, compared to US$816 million in the previous year;
— operating profit for 2011 amounted to US$839 million, compared to US$582 million in 2010;
— net profit and Adjusted EBITDA for the year amounted to US$558 million and US$1,111 million, respectively; and
— total cash costs per ounce of gold sold increased by 19% and amounted to US$661. In spite of the increase in costs, the Group maintained high levels of profitability, with its Adjusted EBITDA and net profit margins amounting to 46% and 23%, respectively.

In 2011, the Group continued to enhance its mineral reserves base. Following the completion of new JORC audits at Verninskoye, Natalka, Olimpiada and Panimba and Razdolinskaya, the Group now ranks third in the global gold mining industry in proved and probable reserves.

The Group took another important step in project development in 2011 – Verninskoye mine was commissioned in the fourth quarter, in accordance with a revised plan. It needs to be noted that the construction of the Verninskoye mine was performed under difficult conditions, when the principal supplier of the project, a well-known and well-respected company, failed to deliver equipment on time.

[1] Including 117 thousand ounces of gold produced by Kazakhaltyn (Kazakhstan operations) in the form of sludge, flotation and gravitation concentrates and other semi-products.

4

Chief Executive Officer's statement

continued

Verninskoye is the fourth largest mining project commissioned by the Group since going public, and we can definitely say that we have learnt from every new mine commissioned. We have a vast portfolio of investment projects and I have confidence in their timely implementation.

The Natalka mine development is on track: procurement has started (mills and plant equipment ordered); the construction camp is expected to be in place by end of spring 2012. The planned mine commissioning date is December 2013.

At the Blagodatnoye mine, a programme to expand the plant's capacity to 8 mtpa commenced in 2011. Improvements were made in the process at Titimukhta. To summarise, we have been actively upgrading and/or expanding programmes throughout the Group's operating units throughout in 2011.

2011 was an important year in terms of the Group's corporate development. In July 2011, OJSC Polyus Gold completed its corporate reorganisation with KazakhGold Group, after which Polyus Gold International Limited was created. PGIL GDRs started trading on the LSE in July 2011. A new, experienced Board of Directors was formed in full compliance with the UK corporate governance code.

On behalf of the management, I would like to thank the employees of Polyus Gold International Limited for the Group's successful performance in 2011, and the shareholders for their continued support of the management's initiatives.

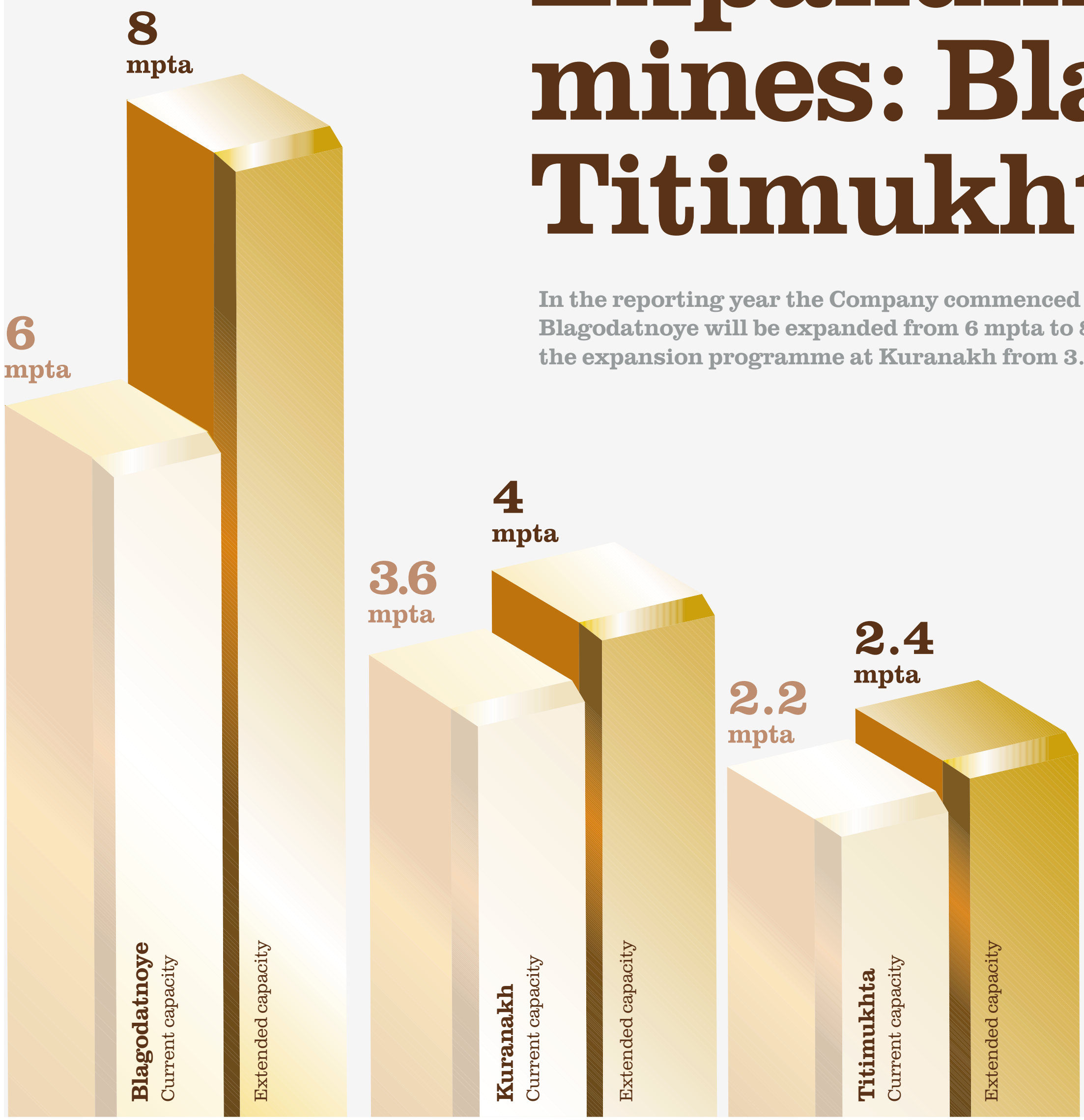
German Pikhoya
Chief Executive Officer
London, 30 March 2012

5

Operating review

Expanding the operating mines: Blagodatnoye, Titimukhta and Kuranakh

In the reporting year the Company commenced production facilities expansion projects at Blagodatnoye and Titimukhta. Blagodatnoye will be expanded from 6 mpta to 8 mpta, and the Titimukhta project – from 2.2 mpta to 2.4 mpta. In addition, the expansion programme at Kuranakh from 3.6 mpta to 4.0 mpta is close to completion.



The current and expanded capacities of Blagodatnoye, Titimukhta and Kuranakh, in million tonnes of ore per annum

5.1

Description of production facilities and operating results for 2011

The Group produced 1,495 thousand ounces of refined gold[1] in 2011, compared to 1,386 thousand ounces in 2010, showing 8% year-on-year growth. The increase in production is primarily a result of ramping-up the Blagodatnoye mine in the Krasnoyarsk Region, which reached the projected recovery rate in the reporting year and exceeded designed throughput capacity.

Another operation in the Krasnoyarsk Region – Titimukhta – also increased throughput after ongoing grinding circuit upgrade work. A considerable contribution to production was made by the Group's Alluvial operations, where replacement of the mining fleet and haulage equipment was completed prior to a longer than usual mining season, as well as by operations in Kazakhstan, where an upgrade of production facilities continued.

A number of factors significantly complicated operations of the Group's production units in 2011. First, Olimpiada mine, the Group's largest producing unit, faced processing difficulty with the processing of sulphide ores going back to 2010.The Group embarked on implementing a series of measures aimed at increasing the recovery efficiency of bio-leaching process. The Group continued this work in 2011. However, a delay in commissioning the final concentration step of primary concentrate, from gravity concentrate of Mills No. 2 and 3 (completed in December 2011) and difficulty encountered in commissioning the second stage of biopulp centrifuges, being introduced for liquid solid separation, resulted in failure to reach higher gold recovery efficiency. As a result, the expected recovery rate was not achieved.

Other factors that affected the Group's operating results in 2011 included a reduction in average grade of ore processed at Olimpiada and Titimukhta, as well as continued elimination of mining and processing challenges at the Kuranakh mine.

In 2011, the Group's operating mines and development projects moved a total of 54.2 million cubic meters of rock, which is 5% less than in 2010. This is related to the reduction in mining output due to an optimised mine plan at Olimpiada and depletion of reserves at the Zapadnoye mine.

In 2011 the Group mined 21.1 million tonnes of ore compared to 23.3 million tonnes of ore mined in 2010. The decrease in mining was also related to factors experienced at Olimpiada and Zapadnoye described above, as well as to reduced volumes mined at the Kazakhstan operations.

Ore processing in 2011 equaled 21.4 million tonnes, compared to 19.8 million tonnes in 2010. The increase was due to full ramp up of the Blagodatnoye mine. The Olimpiada mine processed some ore from stockpiles and, in spite of a decrease in mining, volumes of ore processed increased to 8.1 million tonnes in 2011 compared to 7.4 million tonnes in 2010.

Refined gold production by the Group's subsidiaries

Refined gold production (in thousand ounces)

	2011	2010	% change
Olimpiada mine	566	581	-2.7%
Titimukhta	109	100	9.1%
Blagodatnoye mine	363	251	44.4%
Kuranakh mine	117	120	-3.2%
Zapadnoye mine	3	19	-86.7%
Pervenets pilot plant (Verninskoye and Pervenets ores)[2]	10	7	48.2%
Alluvials	210	197	6.8%
Kazakhstan operations[3]	117	110	5.9%
Total gold production	**1,495[4]**	**1,386**	**7.9%**

[1] Including 117 thousand ounces of gold produced by Kazakhaltyn (Kazakhstan operations) in the form of sludge, flotation and gravitation concentrates and other semi-products.
[2] Processing of ore of the Verninskoye and Pervenets deposits. See page 32 of this report for more details.
[3] Gold production by Kazakh Altyn (Kazakhstan operations) in the form of sludge, flotation and gravitation concentrates and other semi-products.
[4] Totals may differ due to rounding

5.1

Description of production facilities and operating results for 2011

continued

Ore mining and processing

Total rock moved (in thousand m^3)

	2011	2010	% change
RUSSIAN FEDERATION			
Krasnoyarsk Region	40,833.7	41,273.8	-1.1%
Olimpiada mine	16,937.0	22,053.3	-23.2%
Titimukhta	10,374.3	8,072.5	28.5%
Blagodatnoye mine	13,522.4	11,148.0	21.3%
Republic of Sakha (Yakutia)			
Kuranakh mine	10,357.0	9,831.0	5.3%
Irkutsk Region	2,274.3	4,504.9	-49.5%
Zapadnoye mine	77.1	2,461.9	-96.9%
Verninskoye mine	1,956.7	2,043.0	-4.2%
Pervenets mine	240.5	–	–
REPUBLIC OF KAZAKHSTAN			
Kazakhstan operations, total	697.4	1,264.4	-44.8%
Total rock moved	54,162.4	56,874.1	-4.8%

5.1

Description of production facilities and operating results for 2011

continued

Ore mining (in thousand tonnes)

	2011	2010	% change
RUSSIAN FEDERATION			
Krasnoyarsk Region	15,847.4	17,423.7	-9.0%
Olimpiada mine	7,040.5	9,516.1	-26.0%
Average grade in ore mined (g/t)	3.43	3.19	7.5%
Titimukhta	2,327.2	2,345.0	-0.8%
Average grade in ore mined (g/t)	2.07	2.00	3.9%
Blagodatnoye mine	6,479.7	5,562.6	16.5%
Average grade in ore mined (g/t)	2.08	1.99	4.3%
Republic of Sakha (Yakutia)			
Kuranakh mine	3,558.0	3,476.0	2.4%
Average grade in ore mined (g/t)	1.28	1.33	-3.7%
Irkutsk Region	800.6	683.4	17.2%
Zapadnoye mine	60.0	434.7	-86.2%
Average grade in ore mined (g/t)	1.94	1.73	12.0%
Verninskoye mine	725.7	248.7	191.8%
Average grade in ore mined (g/t)	2.56	2.32	10.2%
Pervenets mine	14.9	–	–
Average grade in ore mined (g/t)	2.70	–	–
REPUBLIC OF KAZAKHSTAN			
Kazakhstan operations, total	**850.7**	**1,757.4**	**-51.6%**
Underground operations	599.6	445.5	34.6%
Open pit operations	251.1	1,311.9	-80.9%
Average grade in ore mined (g/t)	4.67	2.65	76.3%
Total ore mining	**21,056.8**	**23,340.5**	**-9.8%**

5.1

Description of production facilities and operating results for 2011

continued

Ore processing (in thousand tonnes)

	2011	2010	% change
Krasnoyarsk Region	16,475.6	14,297.0	15.2%
Olimpiada mine	8,050.7	7,377.3	9.1%
Sulphide ore	8,050.7	7,353.9	9.5%
Mixed type ore	–	23.4	–
Average grade in ore (g/t)			
Olimpiada mine	3.43	3.77	-8.9%
Sulphide ore	3.43	3.76	-8.8%
Mixed type ore	–	6.05	–
Recovery (%)			
Olimpiada mine			
Sulphide ore	69.12	66.37	4.1%
Mixed type ore	–	76.71	–
Titimukhta			
Ore processing	1,919.8	1,557.2	23.3%
Average grade in ore (g/t)	2.11	2.36	-10.4%
Recovery (%)	83.81	84.11	-0.4%
Blagodatnoye mine			
Ore processing	6,505.1	5,362.5	21.3%
Average grade in ore (g/t)	2.09	1.98	5.9%
Recovery (%)	84.51	76.73	10.1%
Republic of Sakha (Yakutia)			
Kuranakh mine			
Ore processing	3,376.0	3,298.0	2.4%
Average grade in ore (g/t)	1.29	1.34	-3.8%
Recovery (%)	85.13	85.15	0.0%

5.1

Description of production facilities and operating results for 2011

continued

Ore processing (in thousand tonnes) continued

	2011	2010	% change
Irkutsk Region	309.2	635.3	-51.3%
Zapadnoye mine			
Ore processing	155.3	448.9	-65.4%
Average grade in ore (g/t)	0.79	1.76	-55.4%
Recovery (%)	55.11	69.67	-20.9%
Verninskoye mine			
Ore processing	139.0	147.4	-5.7%
Average grade in ore (g/t)	2.88	1.82	57.8%
Recovery (%)	72.70	60.37	20.4%
Pervenets mine			
Ore processing	14.9	39.0	-61.8%
Average grade in ore (g/t)	2.70	2.63	2.3%
Recovery (%)	72.55	79.49	-8.7%
Republic of Kazakhstan			
Ore processing at plant	893.9	756.8	18.1%
Average grade in ore (g/t)	3.93	3.73	5.3%
Recovery (%)	83.8	83.4	0.4%
Ore processing at HL	348.8	817.6	-57.3%
Average grade in ore (g/t)	0.84	1.19	-29.7%
Kazakhstan operations total	1,242.7	1,574.4	-21.1%
Ore processing total	21,403.4	19,804.7	8.1%

Sand washing (alluvials)

	2011	2010	% change
Sand washed (million m^3)	9.86	8.89	11.0%
Average grade (g/m^3)	0.67	0.69	-3.4%

5.1

Description of production facilities and operating results for 2011

continued

Krasnoyarsk business unit

Olimpiada mine (Mills No. 2 and No. 3)

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

Gold produced at the Olimpiada mine is refined by the Krasnoyarsk Non-Ferrous Metal Works.

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

Characteristics of the deposits and the types of ores

Only one ore type – primary sulphide ore – remains at the deposit, following the depletion of oxidized reserves. Sulphide ores represent metasomatic ore bodies with rare (3%-4% and up to 10% in the most enriched sections) impregnations of sulphide minerals. The average gold grade of sulphide ores is 3.5 g/t.

In 2011, the ore was mined using benches 10 meters in height with selective transport of ore and waste rock to external dumps. The ore was mined both at Vostochny and Zapadny pits.

Mining technologies

The Olimpiada mine operates as an open pit mine with surface stockpiling. Rock is removed from the pits by excavation and hauling after blasting. Benches are 10 meters in height. Slope angles are 80°-75° for operating benches and 60°–75° for non-operating benches. The operating sites are from 30 meters to 80-100 meters in width. The average depth of the pit increases by 30-40 m every year.

Since December 2008, the Group has been using a new highly-effective method of blasting operations using high-energy fuel emulsion explosives at Olimpiada pits – in 2011 88% of overall rock mass was blasted using emulsion explosives. After blasting, the rock is excavated with electric and diesel hydraulic excavators with 5-15 m^3 buckets.

Rock is transported by Caterpillar, Komatsu and Terex trucks with a carrying capacity of 90 and 136 tonnes, Terex M3300 AC and CAT 785C trucks with a capacity of 136 tonnes. BelAZ and VOLVO trucks with carrying capacity of 30 t are used for transporting ore from stockpiles to the Mill.

Sulphide ore processing at the Olimpiada mine

The ore is currently processed using the gravity and flotation method with subsequent bio-oxidation of the flotation concentrate and sorption leaching of bioleach product in the CIL process.

Ore is milled in two stages on one production line. Gravitation gold is separated from hydrocyclone sands by processing 1/3 of the circulating load to concentrators. The recovered gravity concentrate goes to the primary concentrate separation section, which then goes for smelting.

The overflow from the hydrocyclones goes for sulphide flotation separation. Flotation tailings of Mill No. 2 go for cyanidation, and after neutralization are stockpiled at a tailings dam, while flotation tailings of Mill No. 3 are not further treated and pumped to the tailings dam.

Olimpiada
Ore loading at Vostochny pit.

5.1

Description of production facilities and operating results for 2011

continued

Case study: Olimpiada mine

Reserves

32.1 moz

Mill capacity

3+5=8 mtpa

Gold production in 2011

566 k oz

Grade in 2011

3.43 g/t

Recovery in 2011

69.1%

CapEx in 2011

US$71 mln

5.1

Description of production facilities and operating results for 2011

continued

After additional grinding, the flotation concentrate goes to the bio-oxidation stage. Oxidized pulp is dewatered using Flottweg decantation centrifuges, after which it goes for sorption leaching.

After carbon desorption, gold bearing solutions are subjected to electrolysis, where a cathode deposit is obtained and subsequently roasted and smelted into doré gold. Sorption tailings undergo filtration, which produces a cake, which is stored at a special dump. After decontamination, the filtrate goes to the tailings dump.

Olimpiada mine operating results for 2011
In 2011 the Olimpiada mine produced 566 thousand ounces of refined gold, compared to 581 thousand ounces in 2010.

Measures aimed at increasing the Olimpiada mine's efficiency of sulphide refractory ore processing implemented at Mills No.2 and 3 in 2010 allowed the mine to achieve its design capacity of 8 mtpa in 2011.

The upgrade programme continued in 2011. However, gold recovery rates for primary refractory ores processed at Mills No. 2 and No. 3 were lower than planned due to a delay in commissioning the final concentration step of primary concentrate, from gravity concentrate of Mills No. 2 and No. 3 (completed in December 2011) and difficulties encountered with the commissioning of the second stage of the acid biopulp centrifuges on the hydrometallurgical circuit of Mill No. 3.

Completion of the first stage of the process upgrade programme is expected in Q2 2012, and the upgrade of BIOX circuits at Mills No. 2 and No. 3 is expected to be finalized, which will increase the overall bioleach reactor capacity.

The recovery rate in Q4 2011 was around 71%, which is slightly less than what the Group had planned to achieve. However, separation and further concentration of the gravity concentrate at Mills No. 2 and No. 3, modification of the 2nd stage centrifuges to achieve the required liquid solid separation, as well as expansion of Mill No. 3 BIOX reactor capacity, will result in an improved recovery rate from sulphide ore of up to 78%-80% by the end of 2012.

Investments in Olimpiada mine in 2011
During 2011, the Group's engineering unit, Polyus Project, optimized the overall mine plan for open-pit operations at the Olimpiada mine. The main results of this work included the following:

— increased reserves within the third cut of the Vostochny pit (+14.2 million tonnes of ore and 1.8 million ounces of gold);
— decreased current (2011) and general stripping volumes (by 50.0 M cubic meters) within pit boundaries of the Olimpiada deposit based on geotechnical study results;
— possibility of optimizing the operating and investment costs of the Krasnoyarsk business unit through year-on-year balancing of mining volumes (stripping, mining and haulage) for the entire life of the mine's open pit operations.

Results of exploration carried out in 2009 – 2011 resulted in a significant increase in Olimpiada gold reserves. The development of the deposit based on new JORC reserves requires a review of both the future mining and processing methods. A review is currently underway to establish the optimum transition from open pit to underground mining, and a consultant has been hired to develop a road map for the potential implementation of a pressure oxidation process to treat the Olimpiada ore in future.

Capital expenditures for the Olimpiada project amounted to US$71 million in 2011[1].

Olimpiada mine. Sulphide ore processing
Grinding equipment of ore pretreatment workshop at Mill No. 3. Crushed ore is supplied by a conveyor belt to the SAG mills.

Olimpiada mine. Gold smelting
The gold is smelted in the induction furnace. The smelting process lasts for 3 – 3.5 hours at a temperature of 1,200C, following which gold bullions are drained.

5.1 Description of production facilities and operating results for 2011

continued

Titimukhta (Mill No. 1)

Characteristics of the deposits and the types of ores

The Titimukhta deposit is located 9 km northwest of the Olimpiada deposit. The deposit contains quartz vein and veinlet stockwork. Ores are of the same process type – free milling, without arsenic – and of two natural varieties – oxidized and sulphide (primary), which differ by physical and mechanical characteristics. The volumetric weight of the dry oxidized ore is 2.25 t/m3 and of the sulphide ore – 2.75 t/m3. Sulphide mineralisation of ore is 2%-3%. Gold is primarily found in ores in free form (36%) and in intergrowths with bismuth minerals (48%). Ore contains bismuth and silver in concentrations below commercial grade.

Ore processing at the Titimukhta deposit

The process for Titimukhta gold recovery at Mill No. 1 is RIL based and includes the following key stages:

Two stage grinding on two parallel lines, thickening of hydrocyclone discharge, and sorption leaching of the cyanided gold in a RIL process. After gold desorption from the ion-exchange resin, gold bearing solutions are subjected to electrolysis, where a cathode deposit is obtained and subsequently filtered, roasted and smelted into doré gold.

Sorption tailings are decontaminated and stored.

In December 2011, gravity concentration equipment was installed at Mill No. 1 in order to increase the overall recovery. The concentrate recovered goes to the treatment section to separate a primary concentrate, which then goes for smelting.

At present, the 2nd ore treatment line at Mill No. 1 is being modified, to increase annual processing capacity up to 2.4 mtpa. This work is expected to be completed in May 2012.

Titimukhta operating results for 2011

In 2011, 109 thousand ounces of gold were produced by Titimukhta, which was 10% more than in 2010. This increase was a result of the continued efforts to bring the plant's performance to the design capacity. As described above.

Investments in Titimukhta in 2011

In December 2011, the Group installed Knelson concentrators and trial operations are in progress at the gravity concentrator. This will achieve throughput recovery of 86 percent. The proposed expansion of the grinding capacity of Mill No. 1 is expected to increase the mill's capacity to 2.4 million tonnes of ore per year in 2012, increasing gold production to 135 thousand ounces per year. The current mining plan for the Titimukhta deposit anticipates that the deposit will be mined until 2021. After 2021, the Group expects that Mill No. 1 will be modified in order to process deep horizon ores of the Olimpiada mine.

In 2011, capital expenditures for Titimukhta totaled US$12 million[1].

Blagodatnoye mine

Characteristics of the deposit and the types of ores

The Blagodatnoye gold deposit is located in Severo-Yeniseisk District of Krasnoyarsk Region, 25 km from the Olimpiada mine.

The ores of the deposit are represented by quartz – micaceous schists with impregnated and vein impregnated sulphide mineralisation.

Gold is the only useful component of the ores. The main forms of gold in ores are free (70-80%), connected with barren minerals (25-30%) and in aggregates (5-10%). Fine gold primarily consists of granules of 70-750 μm (about 55%) and 10-70 μm (about 45%). Gold content in ore bodies is distributed quite evenly.

Mining technologies

The Blagodatnoye mine operates as an open pit mine with surface stockpiling.

Ore processing at the Blagodatnoye mine

Processing at the Blagodatnoye mine is based on gravitation, flotation and CIL and includes the following key stages:

Two stage grinding of ore, flotation of hydrocyclone overflow, thickening and sorption leaching of flotation concentrate.

Blagodatnoye open pit
Komatsu PC 3000 excavator is loading ore to a 130-tonne truck.

[1] Management accounting figures.

5.1

Description of production facilities and operating results for 2011

continued

Case study: Titimukhta mine

Reserves
2.2 moz

Mill capacity
2.2 mtpa

Gold production in 2011
109 k oz

Grade in 2011
2.11 g/t

Recovery in 2011
83.8%

CapEx in 2011
US$12 mln

5.1

Description of production facilities and operating results for 2011

continued

Case study: Blagodatnoye mine

Reserves

9.9 moz

Mill capacity

6 mtpa

Gold production in 2011

363 k oz

Grade in 2011

2.09 g/t

Recovery in 2011

84.5%

CapEx in 2011

US$59 mln

5.1

Description of production facilities and operating results for 2011

continued

Gravitation gold is separated at centrifugal concentrators, with ore fed to this circuit from the ball mills.

Gold is separated from the gravity concentrate using the Inline Leach Reactor ("ILR") intensive leaching process. The IRL tailings together with the flotation concentrate are fed to the sorption CIL process.

Blagodatnoye mine operating results for 2011

In the reporting year the Blagodatnoye mine produced 363 thousand ounces of gold, compared to 253 thousand ounces in the previous year. The 44% y-o-y increase in gold output reflects successful ramp-up of the mine, which was commissioned in July 2010. In 2011, the mine exceeded its design ore processing capacity of 6 mtpa and reached the planned gold recovery levels.

Investments in Blagodatnoye mine

In 2011, the Group completed construction of the surface facilities of the Blagodatnoye mine, which was commissioned in 2010. Capital expenditures included procurement of process equipment as well as a mining and road construction fleet, computerization of processes, commissioning of the crushing complex, and construction of a fuel and lubricants storage facility. Total capital expenditures for the project approved by the Board were US$455 million, out of which US$59 million were spent in 2011[1]. The Group spent around US$40 million less for construction of the Blagodatnoye mine, than was initially budgeted and approved.

In the reporting year the Group started design works to increase the nominal mining and processing capacity of the Blagodatnoye mine to 8 mtpa. In 2012, as part of this project, the Group plans to construct a camp and canteen and complete development of the construction documentation. The Group is also negotiating construction of a high-voltage power grid to ensure operation of the plant at the enhanced capacity. In 2012-2013, the Group plans to spend around US$150 million on increasing the mining and processing capacity of the Blagodatnoye mine.

Irkutsk business unit

Alluvial deposits

Gold mining and washing technology

The Group mines gold using quarrying and dredging techniques.

Stripping is performed by walking excavators and bulldozers, depending on the gold-bearing placer's characteristics.

Walking excavators with 42.5 m digging depth capacity are used for the development of deep-seated deposits. They are also used during the preparation of dredge quarries, when the "excavator—dredger" combination is used. During the development of permafrost or frozen rocks, a drill and blast system is utilized, as well as ripping by heavy-duty bulldozers. When utilizing open cast mining techniques, gold-washing is performed by different types of jigging equipment. Gold is recovered by gravity separation without the use of chemical agents.

Alluvials operating results in 2011

Gold production from the Group's alluvial deposits amounted to 210 thousand ounces, an increase of 7% over 2010 levels. The increase was the result of accelerated repair and maintenance work performed in the winter, as well as a renewal of the mining fleet at the deposits, which allowed the Group to commence mining earlier than planned.

[1] Management accounting figures.

Alluvial operations
A dredge operating on a river in Bodaibo district of Irkutsk region.

Kuranakh mine
Ore loading at Kuranakh ore field.

5.1

Description of production facilities and operating results for 2011

continued

Case study: Alluvials

Reserves

1.7 moz

Capacity

up to 10 mln m³

Gold production in 2011

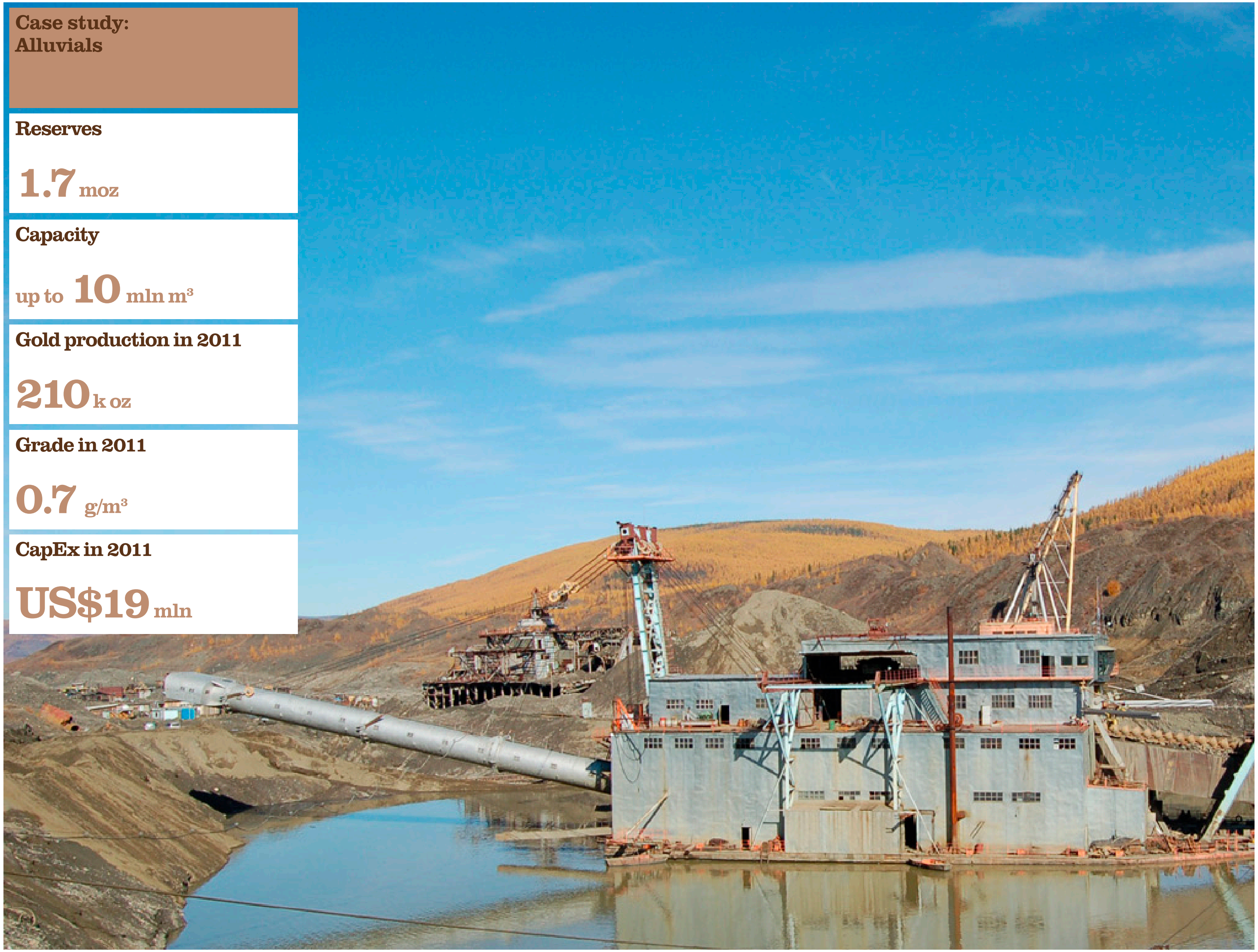
210 k oz

Grade in 2011

0.7 g/m³

CapEx in 2011

US$19 mln



5.1

Description of production facilities and operating results for 2011

continued

Zapadnoye mine

The Zapadnoye, Verninskoye and Pervenets deposits are located in Kropotkinsky municipal unit, Bodaibo district of the Irkutsk Region.

The Zapadnoye mine operates the Zapadnoye gold ore deposit, which is a constituent part of the Sukhoi Log ore field. Gold is currently produced at the mill that was commissioned in 2004 with a capacity of 0.8 million tonnes of ore per year. In 2011, Zapadnoye mine produced 3 thousand ounces of gold from the ores of the Zapadnoye deposit, compared to 19 thousand ounces produced in 2010. Due to depletion of reserves in the pit contour of the Zapadnoye deposit, a decision was made to suspend the mine's operations. Ore mining and processing at the Zapadnoye mine was terminated in April 2011. In the first half of the year, pit suspension measures were developed and approved by the Irkutsk branch of Rostechnadzor (Federal Agency on Environmental, Technological and Nuclear Control).

Pervenets pilot plant

Termination of gold production at Zapadnoye was partly offset by production of gold from the ores of the Verninskoye and Pervenets deposits at the Pervenets pilot plant. In 2011, the plant produced 10 thousand ounces of gold.

Investments in Verninskoye mine in 2011

In December 2011, the Group successfully commissioned the Verninskoye mine in the Irkutsk region.

Construction of the facility began in 2009. In 2 years, the Group's specialists built a gold processing plant with a design capacity of 2.2 mtpa from scratch, procured all the necessary mining and haulage equipment, built roads, warehouses, a camp and a tailings facility. Simultaneously, the Group continued supplementary exploration of the flanks and deep horizons of the Verninskoye deposit. Based on the results of a reserves audit in compliance with JORC standards, carried out by Micon International Ltd., the deposit's proved and probable reserves increased to 65.4 million tonnes of ore with an average grade of 2.7 g/t, or 5.8 million ounces (179.0 tonnes) of gold.

During the first half of 2012, the plant is expected to produce gravity concentrate on an ore grinding circuit, which will be subsequently processed to end product at the existing plant at the Zapadnoye mine. In the second half of 2012, PGIL intends to commission the full processing scheme after installing the flotation and hydrometallurgical equipment.

The substantial increase in the deposit's reserves base creates an opportunity for expanding the mill's capacity to 3.6 mtpa, provided an optimal mining plan is selected and a new power line is constructed to ensure sufficient electric power supply to the mine. The Group is currently assessing options for developing an extended pit.

During 2011, capital mining operations were carried out at the Verninskoye pit. A total of 741 thousand tonnes of ore were mined from Verninskoye and its satellite deposit Pervenets. In 2011, the Pervenets pilot plant continued its operations to model the processing technology of the Verninskoye mine. In the reporting year, 154 thousand tonnes of ore were processed, and 11 thousand ounces of gold were produced.

In 2011, capital expenditures for the Verninskoye mine amounted to US$108 million[1].

Yakutia business unit

Kuranakh mine

The Kuranakh mine is located in Aldan Region of the Republic of Sakha (Yakutia), several kilometers away from the Kuranakh settlement. Gold ore is mined from numerous deposits of the Kuranakh ore field.

Gold produced at the Kuranakh mine is refined at the Prioksky Non-Ferrous Metals Plant (Ryazan Region).

Deposits and characteristics of ores

Due to a long history of mining, the deposits of Kuranakh ore field have been significantly depleted. The central parts of deposits with the most uniform ore bodies and the highest gold grade have been mined out.

All the deposits of Kuranakh ore field reveal common geological structures, morphologies and lithologies. The ores are of 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.

Mining technologies

Mining at the Kuranakh ore deposits uses open cut, drilling and blasting operations. A downward layer-by-layer development system is used in mining operations, with each horizontal layer being at most 10 metres.
Ore mining with bulldozers is performed by trenching terraces of maximum 5 metres high. Blasting operations use the most common type of explosives – igdanite.

[1] Management accounting figures.

5.1

Description of production facilities and operating results for 2011

continued

Ore processing technology at the Kuranakh mine

A RIP sorption flow sheet is used at the Kuranakh plant, which includes the following key processes:

Ore milling is performed in three stages. The first stage is performed on SAG grinding mills operating in an open circuit; and the second and third stages are performed in ball mills operating in a closed circuit along with the hydraulic cyclones.

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

Kuranakh mine operating results in 2011

The Kuranakh mine produced 117 thousand ounces of gold in 2011, compared to 120 thousand ounces in 2010. The reduction in gold output at the Kuranakh mine was caused by challenging hydrogeological conditions at the Kuranakh ore fields. Operation of the mining and transportation equipment was complicated due to excessive water in the producing open pits and high clay content in the soil. A significant hydrogeological assessment and pit dewatering programme have been initiated to overcome this problem. In addition, increased hardness of the ore mined reduced efficiency of the primary crushing circuit preparing the feed to the Kuranakh processing plant.

In 2011, the Group implemented performance testing at the plant as part of the expansion and upgrade programme at the Kuranakh mine.

The required documentation for the expansion and upgrade was prepared and submitted to Rostechnadzor (Federal Agency on Environmental, Technological and Nuclear Control).

Investments in Kuranakh mine in 2011

During 2011 the Group tested ore separation at the Kuranakh mine by clay and coarse fractions with further processing of the coarse fraction at the heap leaching facility. The initial trials confirmed the ore's separability and the availability of further processing at the heap leaching facility. The Group intends to continue the trials in 2012. Once the full-scale heap leaching operations have been installed, the Group will increase ore mining and processing to 8 mtpa by 2014. The modified 4 mtpa mill and heap leaching facility are expected to add 70 thousand ounces and 60 thousand ounces of gold production per year, respectively, which would double gold output compared to the amount produced by the Group in 2011.

Extensive drilling was initiated during the past year to extend the reserves and simultaneously develop a strategy to effectively dewater the pits. The increased hardness of the ore has necessitated an upgrade of the primary crushing unit, from a mineral sizer to a robust double roll crusher. All of this work is planned for completion during Q2 2012.

In 2011, the Group invested US$10 million in the Kuranakh mine development[1].

Kazakhstan business unit

The Kazakhstan business unit was created in 2009, after the Group's acquisition of a controlling stake in KazakhGold Group Limited. The Kazakhstan business unit includes operating facilities located in Akmola Region of the Republic of Kazakhstan (Aksu, Bestobe, Zholymbet), the Akzhal deposit in Eastern Kazakhstan Region, and a number of deposits at various stages of exploration in the north and east of Kazakhstan. The Group remains in discussion with AltynGroup and continues to review its operations with respect to the scale of the Kazakhstan business unit.

At Aksu and Zholymbet deposits both open pit and underground mining is used; and pure underground at Bestobe. High grade ores with a gold grade of up to 10.0 g/t are mined underground and then processed by gravity sorption mills. Low grade oxidized ores with a gold grade of up to 2.0 g/t are mined using the open pit method and processed by heap leaching.

The production increase in 2011 (+13 thousand ounces) resulted from implementation of upgrade activities at all the Kazakhstan business unit's sites since the assets were purchased in August 2009.

Kazakhstan business unit's operating results in 2011

In 2011 the Group's mines in Kazakhstan produced 117 thousand ounces of gold in semi-products, compared to 110 thousand ounces in 2010. The 6% y-o-y increase was achieved due to enhanced ore processing at the plants, as a result of implementation of the investment programme to upgrade existing operations, as well as an increase in the average gold grade in the ore processed at Bestobe and Zholymbet, which was partly offset by a substantial decline in the average grade in ore processed at the Aksu mine from 2.5 g/t in 2010 to 1.9 g/t in 2011. Operations at the Akzhal mine were suspended as at May 2011 due to a delay in state listing of gold reserves. During the year, Akzhal HL facilities were partly loaded by ore from the Kaskabulak deposit. In December 2011, gold reserves of the Akzhal deposit were listed with the State Reserves Committee and operations at the mine resumed.

[1] Management accounting figures

5.1

Description of production facilities and operating results for 2011

continued

Case study: Kuranakh mine

Reserves

1.6 moz

Mill capacity

3.6 mtpa

Gold production in 2011

117 k oz

Grade in 2011

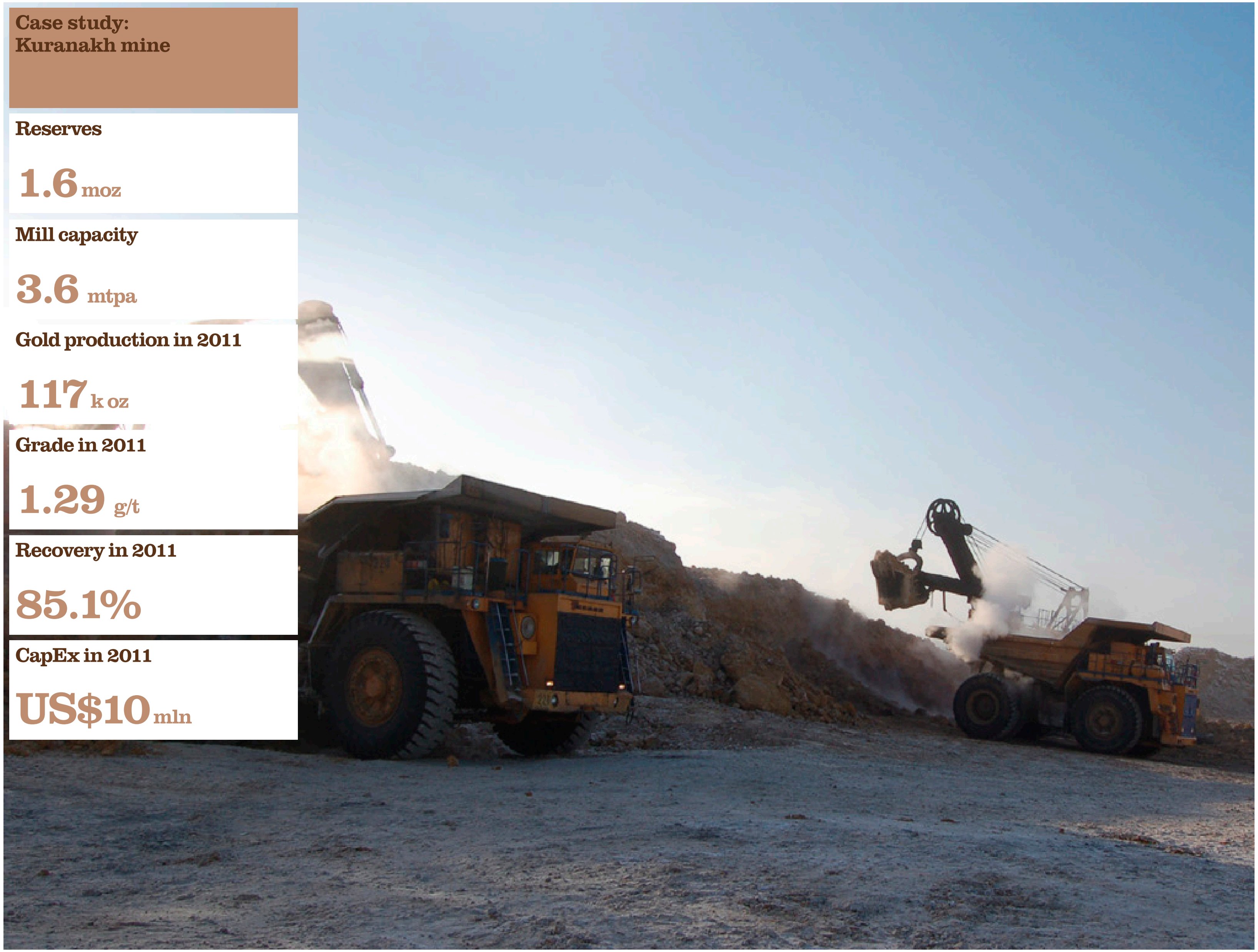
1.29 g/t

Recovery in 2011

85.1%

CapEx in 2011

US$10 mln



5.2

Projects under construction

Natalka development project

With approximately 32 Moz of reserves Natalka is the second largest deposit in the Group's portfolio. According to the mine plan in December 2013, the Group intends to commission a 10 mtpa plant to process ores of the Natalka deposit. In 2011 the construction was underway.

In 2011, the Group obtained all the required approvals from local and federal authorities to start construction of the mine. These approvals include:

- 14 January 2011: the Subsurface Management Department in Magadan Region (Magadannedra) issued permit No. 49-03 for the construction of priority projects, including a road and a bridge over the Omchak River;
- 20 January 2011: passes to the access roads were approved by the North-East Department of Rostekhnadzor, as well as drilling and turning areas for exploration, and grading construction sites at the Natalka deposit;
- 21 January 2011: the Federal Service for Environmental, Technological and Nuclear Supervision issued a license to operate explosion-hazardous production facilities.

In April 2011, the second stage of pre-mining grade control drilling was initiated with the goal of confirming additional high-grade material and outlay mining work during the first five years of operations.

In July 2011, the Group signed an agreement with CJSC PeterGORproject to prepare a detailed construction schedule and the necessary construction documentation.

On 17 August 2011, a new license was obtained for the Natalka deposit, and its term was extended until 31 December 2036 (it was previously 31 December 2013) for mining depth of 450 metres. The new license assumes commissioning of the first stage of the plant by 31 December 2013.

Micon International Ltd. has completed the audit of Natalka reserves. According to the new audit results, about 100 thousand tonnes of ore of more than 2 g/t will be available for mining in 2014 – 2019.

In the third quarter of 2011, a leading international consulting company prepared a study reviewing work force requirements for the Natalka project. Based on this study, the Group will start implementing a programme of hiring qualified managerial and operational staff.

In the reporting year, MagadanEnergo began the renewal of the grid, installing new 110 kV lines and replacing old wooden pylons under a previously signed agreement.

Construction of a camp and repair workshop for road-building machinery began. Delivery of the construction equipment is underway. The construction camp will be in place by the end of spring 2012.

In addition, the Group initiated contracting work to supply equipment. A supplier of crushing and grinding equipment was chosen in a tender. Manufacturing of a ball mill and SAG-mill began.

The Group began preparing construction documentation for year-round river crossings on the route from Magadan to the site, which will allow the delivery of large-size equipment. The design company was chosen.

In December 2011, "ERM" (Environmental Resources Management- a leading global provider of environmental, health, safety, risk, and social consulting services) designed an ESIA Report in accordance with International Finance Corporation ("IFC") standards and the "Equator Principles" in order to bring project documentation in line with international standards of environmental protection and industrial safety.

Capital expenditures for the Natalka development project amounted to US$22 million in 2011[1].

[1] Management accounting figures

5.2

Projects under construction

continued

Case study: Kazakhstan business unit

Reserves

2.9 moz

Mill capacity

~1 mtpa

Gold production in 2011

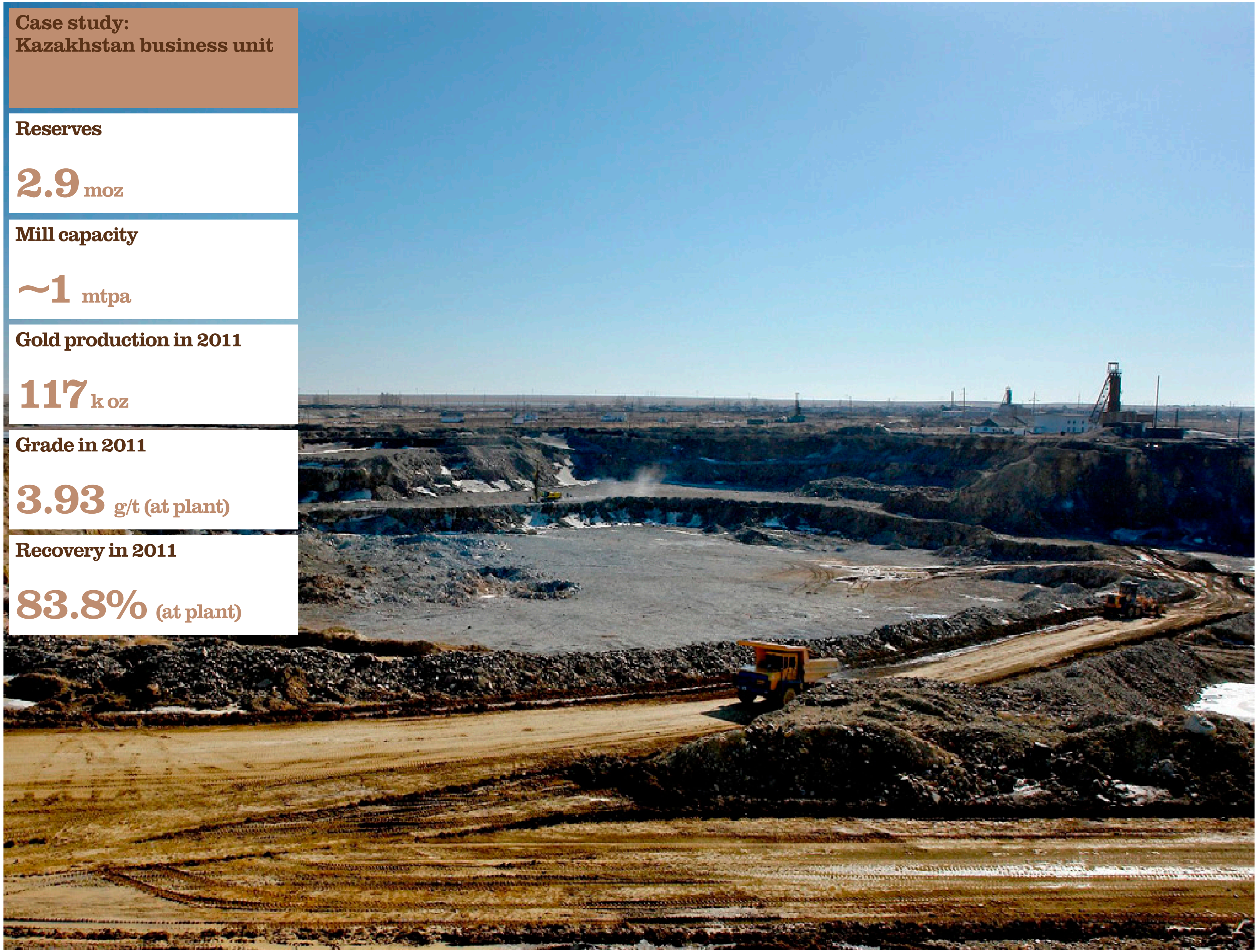
117 k oz

Grade in 2011

3.93 g/t (at plant)

Recovery in 2011

83.8% (at plant)



5.3

Exploration activity Mineral resources base

In 2011, the Group's exploration team worked at 14 hard-rock gold deposits and 14 alluvial deposits in four regions of the Russian Federation, namely:
- **Krasnoyarsk**
- **Irkutsk**
- **the Republic of Sakha (Yakutia)**
- **Magadan**

Geological exploration also continued in Kazakhstan at 6 deposits located in 2 regions, Central and Eastern Kazakhstan, as well as in Romania. The Group intends to sell these non-Russian operating assets in the future.

The Group's overall geological exploration costs amounted to US$32.0 million, including US$9.6 million for exploring the deposits located in the Republic of Kazakhstan. Total drilling amounted to 144.1 thousand meters, including 61.7 thousand meters in Kazakhstan.

Russia

Krasnoyarsk Region

Olimpiada (deep horizons)

Results of the implemented exploration work prove the continuity of mineralisation between the Eastern and Western parts of the deposit. Technological and geological engineering studies were completed.

Olimpiada
Core storage area.

In 2011, Wardell Armstrong completed a Mineral Expert's report, according to which Olimpiada's measured and indicated resources amounted to 33.6 million ounces at 3.42 g/t. Inferred resources were equal to 14.0 million ounces of gold at 2.82 g/t. Proved and probable reserves calculated in the pit outline amounted to 32.1 million ounces at 3.48 g/t. The increased reserves substantially extended the project's mine life and will make it possible to sustain current annual gold production.

Poputninskoye deposit and Razdolinskaya area

Wardell Armstrong International completed a reserves audit of the Poputninskoye deposit and Razdolinskaya area, which confirmed measured and indicated resources of 1.4 million ounces at an average grade of 4.0 g/t. Inferred resources totaled 2.3 million ounces at an average grade of 3.6 g/t.

Panimba

A reserves audit by Wardell Armstrong International in the reporting year confirmed 1.2 million ounces of measured and indicated resources at an average grade of 2.3 g/t. Inferred resources equal 1.4 million ounces at 1.8 g/t.

5.3

Exploration activity Mineral resources base

continued

Verkhnekadrinskaya and Vangashskaya areas

In 2011, the Group initiated greenfield exploration of Verkhnekadrinskaya and Vangashskaya, which includes geochemical sampling, geophysical research, as well as trenching and drilling of prospecting holes and core wells in the prospective areas.

Irkutsk Region

Verninskoye, Pervenets and Smezhny area

In 2011, exploration was carried out at the Verninskoye deposit and adjacent Smezhny area aimed at increasing the mineral reserves base for the Verninskoye mine. In addition, pre-mining grade control drilling was implemented at Verninskoye.

Chertovo Koryto

In 2011, large-sized laboratory ore samples were taken and technological testing of the heap leaching process was implemented. Positive results were obtained.

Kropotkinsky ore cluster

A prospecting and evaluation survey was undertaken at the Medvezhy site, and report preparation is underway.

Alluvial deposits

Prospecting and evaluation work and exploration were undertaken at 24 sites, and grade control drilling was implemented at 13 deposits. Total exploratory drilling amounted to 37.1 thousand meters; grade control drilling amounted to 9.3 thousand meters.

Republic Of Sakha (Yakutia)

Kuranakh ore field

In 2011, definition and control drilling was undertaken at the Kuranakh field to update block models of the group of ore deposits. Completion of this work is expected in the first half of 2012. An estimate of reserves in stockpiles is to be finalized by the end of 2012.

Magadan Region

Natalka deposit

In 2011, the Group continued pre-mining grade control drilling at the Natalka deposit. The geological model of the deposit was updated, and Micon International conducted a JORC-compliant reserves audit. According to Micon's report, Natalka's measured and indicated resources amount to 42.6 million ounces of gold at 1.7 g/t. Inferred resources amount to 17.0 million ounces of gold at 1.7 g/t. Proved and probable reserves amount to 31.6 million ounces of gold at 1.6 g/t. Thus, the average grade of P&P reserves increased from 1.1 g/t to 1.6 g/t, with an average grade for the first six years of operation at around 2.2 g/t, which significantly improves the project's economic efficiency.

Omchak prospective area

A report on the prospecting and evaluation work was completed in the reporting year and submitted to the Subsoil Use Department of Magadan Region (Magadannedra).

Degdekan ore field

In 2011, the Group worked on a preliminary scoping study of the Degdekan ore field and reserves estimation.

Chai-Yuryinskaya prospective area

A test survey was completed at the Chai-Yuryinskaya prospective area, and proposal for adjusting the prospecting and exploration methodology was developed.

5.3

Exploration activity Mineral resources base

continued

Republic Of Kazakhstan

In 2011, PGIL continued geological exploration in the Republic of Kazakhstan at the Aksu, Bestobe, Zholymbet, South Karaultube, Akzhal and Kaskabulak deposits to evaluate reserves for open-pit and underground mining. Total drilling amounted to 61.7 thousand meters, including 42.0 thousand meters of exploratory drilling and 19.7 thousand meters of grade control drilling.

In May 2011, Wardell Armstrong International audited the reserves of the Aksu, Bestobe and Zholymbet deposits (including tailings) according to JORC standards. Total proved and probable reserves amounted to 2.9 million ounces of gold, measured and indicated resources amounted 4.3 million ounces and inferred resources amounted to 4.5 million ounces.

Aksu deposit

Preparation of a scoping study is underway, along with estimation of oxide and sulphide ore reserves.

Bestobe deposit

In 2011, prospecting and evaluation work was performed on the flanks of the Central zone.

Zholymbet deposit

Exploration was carried out at Pit No. 5 and the Central intrusive; the reserves are to be approved in 2012. Prospecting and evaluation work was performed at the Yurievsky and Artemievsky sites.

South Karaultube deposit

Exploration was implemented in the northern and southern parts of the deposit. In the northern part, the Group evaluated an anomaly discovered in 2010 and analogous to those at the Zholymbet deposit. In the southern part, and analysis of exploratory holes confirmed the occurrence of oxide and sulphide ores.

Akzhal deposit

Exploration of oxide ores and evaluation of primary ores in the central part of the deposit was completed.

Kaskabulak deposit

In 2011, a large-tonnage ore sample was mined and processed at the pilot heap leaching facility at Akzhal. A semi-industrial large-tonnage ore sample weighing 99.9 thousand tonnes at an average grade of 1.18 g/t was taken.

Romania

The Group holds rights to various mining assets in Romania. The Group performed an audit of ore reserves and mineral resources in Romania in 2011, according to which Baia Mare Tailings were valued at 112 koz proved and probable reserves and 114 koz measured resources. Alternatively, the Group can supply ore from exploration of hard rock sources. On 24 March 2009, the Romanian national agency for mineral resources (NAMR) awarded the Group with three gold exploration licences for the following deposits: Camarzana North, Alunis-Piatra Handal and Poprad. The licences have an initial term of five years with inferred resources equal to 204 koz. The Group owns a CIL gold treatment plant with an aggregate capacity to treat 2.5 million tonnes of ore and tailings per annum. However, in order to commence operations, the Group must carry out modernisation works and obtain an Integrated Environmental Permit (IEP) before the expiry of its licence, which is currently scheduled to expire in July 2012. The Group is awaiting the award of the IEP, and as a result, the plant is not currently operational. The Group can supply the plant with an existing source of tailing ore from the "Baia Mare Central Dam" (some 8.5 million tonnes at 0.8 g/t).

Mineral resources base in compliance with JORC standards

In 2011-2012, a JORC-compliant reserves audit was undertaken at Olimpiada, Natalka, Panimba and Razdolinskaya in Russia, as well as at some deposits in Kazakhstan and Romania. According to the audit results, the Group's total proved and probable reserves increased from 80.7 to 90.5 million ounces of gold. Measured, indicated and inferred resources grew from 125.3 to 161.1 million ounces.

5.3

Exploration activity Mineral resources base

continued

Measured, indicated and inferred resources

Resources are inclusive of reserves

Deposit/region	Measured			Indicated			Total measured and Indicated
	Ore (million tonnes)	Grade (g/t)	Gold (000 ounces)	Ore (million tonnes)	Grade (g/t)	Gold (000 ounces)	Gold (000 ounces)
RUSSIAN FEDERATION							
Operating assets							
Olimpiada[1]	25.6	3.8	3,168	279.7	3.4	30,385	33,553
Blagodatnoye[2]	3.4	2.5	271	132.8	2.4	10,230	10,501
Titimukhta[3]	9.7	3.1	950	17.6	3.1	1,750	2,700
Verninskoye[4]	2.0	3.0	200	72.9	2.7	6,434	6,634
Alluvials[5]	32.1	0.2	237	169.8	0.4	2,091	2,328
Kuranakh[6]	1.8	1.9	106	160.4	1.2	6,447	6,553
Total operating assets	74.6	2.1	4,932	833.2	2.1	57,337	62,269
Projects							
Natalka[7]	464.2	1.7	25,367	309.1	1.7	17,259	42,626
Chertovo Koryto[8]	4.1	1.9	247	46.4	1.8	2,742	2,989
Panimba & Razdolinskaya[1]	4.8	2.3	359	21.9	3.2	2,223	2,582
Total projects	473.1	1.7	25,973	377.4	1.8	22,224	48,197
Total Russia	**547.7**	**1.8**	**30,905**	**1,210.6**	**2.0**	**79,561**	**110,466**
KAZAKHSTAN, INCLUDING[9]	**7.4**	**3.0**	**707**	**54.8**	**2.1**	**3,593**	**4,300**
Open pit	4.0	1.2	155	51.3	1.9	2,966	3,121
Underground	3.4	5.1	552	3.5	5.8	627	1,179
ROMANIA[9]	**7.3**	**0.5**	**114**	**–**	**–**	**–**	**114**
Group total	**562.5**	**1.8**	**31,726**	**1,265.4**	**2.0**	**83,154**	**114,880**

Note: Reserves and resources of each deposit are indicated in full and include reserves and resources belonging to minority shareholders of Polyus Gold International and its subsidiaries.

[1] Audited in October 2011 by Wardell Armstrong International. Competent person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM.
The MERs are available on the Group's web-site. Link to MER on Olimpiada: http://www.polyusgold.com/documents/11319/Olimpiada%20Mineral%20Expert%20Report,%20October%202011.pdf
Link to MER on Panimba & Razdolinskaya http://www.polyusgold.com/documents/11322/Panimba_Razdolinskaya_Mineral%20Expert%20Report,%20October%202011.pdf

[2] Audited in November 2008 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site:
http://www.polyusgold.com/documents/11028/Blagodatnoye%20reserves%20audit,%20November%202008.pdf

[3] Audited in June 2008 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo.
The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11032/Titimukhta%20reserves%20audit,%20June%202008.pdf

[4] Audited in December 2010 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site:
http://www.polyusgold.com/documents/11074/Verninskoye%20reserves%20audit,%20December%202010.pdf

[5] Audited in October 2006 by Micon International Co. Limited. Ore in thousand cubic meters (m^3), gold grade in grams per cubic meter (g/m^3). Conversion of sands was based on a ratio of 2 metric tonnes per 1 cubic meter. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11075/Lenzoloto%20alluvial%20reserves%20audit,%20December%202006.pdf

[6] Audited in October 2006 by SRK Consulting. Competent person: Mike Armitage. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11030/Kuranakh%20reserves%20audit,%20February%202006.pdf

[7] Audited in February 2012 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site:
http://www.polyusgold.com/documents/11320/Natalka%20Mineral%20Expert%20Report,%20February%202012.pdf

[8] Audited in January 2008 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site:
http://www.polyusgold.com/documents/11029/Chertovo%20Koryto%20reserves%20audit,%20January%202008.pdf

[9] Audited in May 2011 by Wardell Armstrong International. Competent person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM. The MER is available on the Group's web-site.
http://www.polyusgold.com/documents/11031/Reserves%20audit%20of%20deposits%20in%20Kazakhstan%20and%20Romania,%20June%202011.pdf

5.3

Exploration activity Mineral resources base

continued

Deposit/region	Inferred		
	Ore (million tonnes)	Grade (g/t)	Gold (000 ounces)
RUSSIAN FEDERATION			
Operating assets			
Olimpiada[1]	154.1	2.8	13,991
Blagodatnoye[2]	36.1	2.2	2,555
Titimukhta[3]	3.6	2.4	270
Verninskoye[4]	52.1	1.8	2,953
Alluvials[5]	29.2	0.6	520
Kuranakh[6]	7.3	1.5	346
Total operating assets	**282.4**	**2.3**	**20,635**
Projects			
Natalka[7]	305.5	1.7	17,046
Chertovo Koryto[8]	2.1	1.6	109
Panimba & Razdolinskaya[1]	44.0	2.6	3,673
Total projects	**351.6**	**1.8**	**20,828**
Total Russia	**634.0**	**2.0**	**41,463**
KAZAKHSTAN, INCLUDING[9]	**47.7**	**3.1**	**4,526**
Open pit	46.1	2.9	4,150
Underground	1.6	7.8	376
ROMANIA[9]	**3.2**	**2.0**	**204**
Group total	**685**	**2.1**	**46,193**

Note: Reserves and resources of each deposit are indicated in full and include reserves and resources belonging to minority shareholders of Polyus Gold International and its subsidiaries.

[1] Audited in October 2011 by Wardell Armstrong International. Competent person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM. The MERs are available on the Group's web-site. Link to MER on Olimpiada: http://www.polyusgold.com/documents/11319/Olimpiada%20Mineral%20Expert%20Report,%20October%202011.pdf Link to MER on Panimba & Razdolinskaya http://www.polyusgold.com/documents/11322/Panimba_Razdolinskaya_Mineral%20Expert%20Report,%20October%202011.pdf

[2] Audited in November 2008 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11028/Blagodatnoye%20reserves%20audit,%20November%202008.pdf

[3] Audited in June 2008 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11032/Titimukhta%20reserves%20audit,%20June%202008.pdf

[4] Audited in December 2010 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11074/Verninskoye%20reserves%20audit,%20December%202010.pdf

[5] Audited in October 2006 by Micon International Co. Limited. Ore in thousand cubic meters (m^3), gold grade in grams per cubic meter (g/m^3). Conversion of sands was based on a ratio of 2 metric tonnes per 1 cubic meter. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11075/Lenzoloto%20alluvial%20reserves%20audit,%20December%202006.pdf

[6] Audited in October 2006 by SRK Consulting. Competent person: Mike Armitage. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11030/Kuranakh%20reserves%20audit,%20February%202006.pdf

[7] Audited in February 2012 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11320/Natalka%20Mineral%20Expert%20Report,%20February%202012.pdf

[8] Audited in January 2008 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11029/Chertovo%20Koryto%20reserves%20audit,%20January%202008.pdf

[9] Audited in May 2011 by Wardell Armstrong International. Competent person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM. The MER is available on the Group's web-site. http://www.polyusgold.com/documents/11031/Reserves%20audit%20of%20deposits%20in%20Kazakhstan%20and%20Romania,%20June%202011.pdf

5.3

Exploration activity Mineral resources base

continued

Proved and probable reserves

Deposit/region	Proved			Probable			Total proved and probable
	Ore (million tonnes)	Grade (g/t)	Gold (000 ounces)	Ore (million tonnes)	Grade (g/t)	Gold (000 ounces)	Gold (000 ounces)
RUSSIAN FEDERATION							
Operating assets							
Olimpiada[1]	25.5	3.9	3,154	262.0	3.4	28,978	32,132
Blagodatnoye[2]	3.1	2.3	226	132.1	2.3	9,633	9,859
Titimukhta[3]	7.7	3.3	817	13.4	3.3	1,422	2,239
Verninskoye[4]	2.1	2.9	200	63.3	2.7	5,555	5,755
Alluvials[5]	12.5	0.3	128	104.8	0.5	1,603	1,731
Kuranakh[6]	–	–	–	31.9	1.6	1,646	1,646
Total operating assets	50.9	2.8	4,525	607.5	2.5	48,837	53,362
Projects							
Natalka[7]	454.5	1.6	22,802	159.4	1.7	8,801	31,603
Chertovo Koryto[8]	3.8	1.8	218	39.8	1.8	2,352	2,570
Total projects	458.3	1.6	23,020	199.2	1.7	11,153	34,173
Total Russia	**509.1**	**1.7**	**27,545**	**806.6**	**2.3**	**59,990**	**87,535**
KAZAKHSTAN, INCLUDING[9]	**6.0**	**2.6**	**488**	**44.8**	**6.6**	**2,408**	**2,896**
Open pit	3.9	1.2	152	43.3	1.6	2,179	2,331
Underground	2.1	5.2	336	1.5	5.0	229	565
ROMANIA[9]	**7.2**	**0.5**	**112**	**–**	**–**	**–**	**112**
Group total	**522.3**	**1.7**	**28,145**	**851**	**2.3**	**62,398**	**90,543**

Note: Reserves and resources of each deposit are indicated in full and include reserves and resources belonging to minority shareholders of Polyus Gold International and its subsidiaries.

[1] Audited in October 2011 by Wardell Armstrong International. Competent person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM. The MER is available on the Group's web-site: http://www.polyusgold.com/documents/11319/Olimpiada%20Mineral%20Expert%20Report,%20October%202011.pdf

[2] Audited in November 2008 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11028/Blagodatnoye%20reserves%20audit,%20November%202008.pdf

[3] Audited in June 2008 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11032/Titimukhta%20reserves%20audit,%20June%202008.pdf

[4] Audited in December 2010 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11074/Verninskoye%20reserves%20audit,%20December%202010.pdf

[5] Audited in October 2006 by Micon International Co. Limited. Ore in thousand cubic meters (m^3), gold grade in grams per cubic meter (g/m^3). Conversion of sands was based on a ratio of 2 metric tonnes per 1 cubic meter. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11075/Lenzoloto%20alluvial%20reserves%20audit,%20December%202006.pdf

[6] Audited in October 2006 by SRK Consulting. Competent person: Mike Armitage. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11030/Kuranakh%20reserves%20audit,%20February%202006.pdf

[7] Audited in February 2012 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11320/Natalka%20Mineral%20Expert%20Report,%20February%202012.pdf

[8] Audited in January 2008 by Micon International Co. Limited. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's web-site: http://www.polyusgold.com/documents/11029/Chertovo%20Koryto%20reserves%20audit,%20January%202008.pdf

[9] Audited in May 2011 by Wardell Armstrong International. Competent person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM. The MER is available on the Group's web-site. http://www.polyusgold.com/documents/11031/Reserves%20audit%20of%20deposits%20in%20Kazakhstan%20and%20Romania,%20June%202011.pdf

6

Corporate Governance report

6

Corporate Governance report

6

Corporate Governance report

Board of Directors

As a result of the reorganisation the composition of the Board of Directors changed substantially in July 2011. These changes also began the process of redefining our Corporate Governance procedures. New sub-committees of the Board were established, chaired by independent non-executive directors.

Robert Buchan
Independent Non-Executive Director
Chairman of the Board

Mr. Robert Buchan has joined the Board as an Independent Non-Executive Director and has been elected Chairman of the Board. Mr. Buchan served as the Chairman and Chief Executive Officer of Kinross Gold Corp., the parent company of Echo Bay Mines Ltd., from 1993 to 2003. From 2003 to 2005 he served as Chief Executive Officer of Kinross Gold Corp. He is a founder of Katanga Mining Ltd. and Kinross Gold Corp. Mr. Buchan has also served as the Executive Chairman of Allied Nevada Gold Corp. since 2007. Between April 2005 and December 2007, Mr. Buchan served as the Executive Chairman of Quest Capital Corp (now Sprott Resource Lending Corp).
Mr Buchan held the Chairmanship of Extract Resources Ltd, from April 2007 until February 2009, of Angus Mining Inc. until March 2012, Foxpoint Capital until March 2012, Samco Gold until December 2011, Touchstone Gold until March 2012, Rainy Mountain Royalty Corporation until November 2011. He has also served on the boards of Katanga Mining, Dundee Bancorp, Allied Nevada Gold Corp, Rockwater Capital Corporation, Claude Resources, Forsys Metals Group, Dayton Mining Corporation, Richmont Mines Inc. and Rainy Mountain Capital. He also served on the board of OJSC Polyus Gold from June 2008 until May 2009. Mr. Buchan held the Chairmanship of the Board of Elgin Mining Inc. (formerly, Phoenix Coal Inc.) since 2008 until April 2012.

Chairman of the Nominations Committee

6

Corporate Governance report

continued

Bruce Buck
Independent Non-Executive Director

Mr. Buck is the Managing Partner for Europe of the international law firm Skadden Arps Slate Meagher & Flom LLP. A graduate of Columbia University School of Law in New York, and a registered foreign lawyer in England and Wales, Mr. Buck has practised law in Europe for more than 25 years and specializes in financing transactions, as well as mergers and acquisitions. Mr. Buck is Chairman of Chelsea FC plc and its operating subsidiary Chelsea Football Club Limited. He is also on the Audit Committee of the FA Premier League, the top tier football league in England. Mr. Buck is the longest serving trustee and a member of the Audit Committee of Orbis UK, a charity devoted to eradicating curable blindness in the developing world.

Member of the Nominations Committee
Member of the Remuneration Committee
Chairman of the Health, Safety, Environment and Community Committee

The Earl of Clanwilliam
Independent Non-Executive Director

Following a career in the British military, Lord Patrick (Paddy) James Gillford started his business career with Hanson Plc. and was seconded to the Home Office to advise the Rt. Hon Douglas Hurd CBE, then Home Secretary. Later he returned to Hanson as Manager of Public Affairs until joining one of the UK's leading firms of lobbyists. In 1993, Lord Gillford founded a company of his own – The Policy Partnership Limited. From 2000 to 2004, he was the non-executive Chairman of the Board at Cleveland Bridge UK Ltd, Europe's leading bridge and large steel construction company. He is on the Advisory Board of Xenon Capital, a Moscow-based investment advisory bank. In 2007, he was appointed Chairman of Eurasia Drilling Company Limited. In 2009, he succeeded to the title of Earl of Clanwilliam. In 2010, he became Senior Advisor to Milio International Limited. The Earl of Clanwilliam has been a member of the Board of Polyus Gold since 2006. Earlier this month, Lord Clanwilliam was appointed a director of Touchstone Gold, a Columbian gold exploration start-up which has just listed on London's Alternative Investment Market.

Member of the Audit Committee
Member of the Nominations Committee
Chairman of the Remuneration Committee
Member of the Health, Safety, Environment and Community Committee

Adrian J.G. Coates
Independent Non-Executive Director
Senior Independent Director

Mr. Adrian Coates has over 20 years' experience in the mining sector, most recently at HSBC Bank Plc, London where he was Global Sector Head Resources and Energy until 2008, with strategic responsibility for HSBC's relationships and businesses with major clients globally in the resources and utilities sectors. Mr. Coates was the lead HSBC banker in a number of large-scale metals and mining transactions. He was cited in the press as "HSBC's star advisory banker" and named in Financial News' "Top 20 European Dealmakers" in late 2007. Previously, as Managing Director, Metals and Mining at UBS Investment Bank, London, he was responsible for originating the landmark Billiton IPO, a deal which both restarted the London mining market and set a precedent for the subsequent influx of emerging market companies.

He has a MA degree in Economics from Cambridge University and a MBA from the London Business School.

6

Corporate Governance report

continued

Adrian J.G. Coates
(continued)

In his non-executive career, Mr. Coates has served as an adviser to a number of leading mining companies. He is a non-executive Director and Chairman of the Audit Committee of Regal Petroleum plc.

Chairman of the Risk Committee
Member of the Audit Committee
Member of the Nominations Committee
Member of the Remuneration Committee

Evgueni I. Ivanov
(resigned from the Board on 30 March 2012)
Executive Director

Mr. Evgueni Ivanov graduated from the State Finance Academy with a major in International Economic Relations. After graduation he worked in the banking sector, including the State Bank of the USSR, and the Central Bank of the Russian Federation. In 1997 he came to work at Unexim Bank, where he created and headed the Precious Metals Department. In 1999 – 2000 he worked as Vice-Chairman of Rosbank, in charge of customer relations. In 2000, Mr. Ivanov became the Chairman of Rosbank; and in 2003, the bank's President and Chairman of the Board. In March 2006, Mr. Ivanov was elected General Director (CEO) of the newly formed OJSC Polyus Gold.

Member of the Health, Safety, Environment and Community Committee

Anna A. Kolonchina
Non-Executive Director

Ms. Kolonchina has a degree in economics from the State Academy of Finance. From 2001 until 2008 she was a Director of Deutsche Bank AG, London. From March until November 2008, she was a Managing Director of Wainbridge Limited; and from November 2008 until 2010, Vice-President for Economics and Finance at OJSC PIK Group. Since then she has been a Managing Director of Nafta Moskva. Ms. Kolonchina has been a member of the Board of Polyus Gold since May 2010.

Member of the Risk Committee

6

Corporate Governance report

continued

Kobus Moolman
Independent Non-Executive Director

Mr. Moolman has a Masters degree in financial accounting, is a qualified chartered accountant and a member of the Independent Regulatory Board For Auditors in South Africa and The South African Institute of Chartered Accountants.

Between 1981 and 2002 Mr. Moolman was employed by Ernst & Young in South Africa, where he became Senior Audit Partner. Between 2002 and 2008, he was Senior Audit Partner and Leader of the Mining Industry Group in Russia at Deloitte & Touche CIS. From 2009 to 2010, he was an Audit and IFRS technical partner for the Gulf Co-operation Council region of an international audit firm in the Kingdom of Bahrain. Since 2010, he has been Chief Audit Executive for the Saudi Arabian Mining Company (Ma'aden).

Chairman of the Audit Committee
Member of the Risk Committee

Alexander I. Mosionzhik
Non-Executive Director

Mr. Mosionzhik graduated from Tula Technical Institute with a degree in Applied Mathematics. He has a Ph.D. in Engineering. In 1999, he became First Deputy CEO, and then later CEO, of Nafta Moskva. Since 2006, he has been Chairman of the Board of Nafta Moskva LLC. Mr. Mosionzhik has been a Member of the Board of Directors and Deputy Chairman of the Board of Polyus Gold since May 2009.

Dmitry V. Razumov
Non-Executive Director

Mr. Razumov began his career as a solicitor practising with Clifford Chance. From 1997 to 1998, he was Deputy Head of the Investment Banking Unit at Renaissance Capital, Russia's largest investment bank. From 1999 to 2003, he was the Founder and Managing Director of LV Finance, an independent company specializing in corporate finance advisory and venture capital, mainly in the telecommunications industry. He was also a Founder and Member of the Board of Directors of Sonic Duo (third GSM operator in Moscow) and Megafon (the first pan-Russian GSM operator). Between 2001 and 2005, Mr Razumov was Deputy General Director of Norilsk Nickel and also served on the Board of Norimet, a UK subsidiary of Norilsk Nickel. Since 2007, he has been Chief Executive Officer of ONEXIM Group, one of Russia's largest private investment funds.

6

Corporate Governance report

continued

UK Corporate Governance Code

There are no corporate governance recommendations applicable to companies incorporated in Jersey, but the Group intends to comply with the recommendations of the UK Corporate Governance Code, taking into account its size and stage of development.

Board

The Board has taken cognisance of the UK Corporate Governance Code in preparing this report. In particular, the Board acknowledges that to continue to be successful in the long term the Group must be led by an effective board with the appropriate skills, experience, independence and knowledge of the Group's activities. The Board adopted the Schedule of Matters Reserved for the Board in October 2011, which clearly defines its duties and is in line with the UK Corporate Governance Code.

The Board remains committed to guiding the strategic and entrepreneurial development of the group and supports the principle of collective responsibility for the success of the Group.

The Board of Directors is composed of nine members: the Independent Non-Executive Chairman (Robert Buchan), one Executive Director (President) Evgueni Ivanov and seven Non-Executive Directors (Bruce Buck, Kobus Moolman, Adrian Coates, the Earl of Clanwilliam, Dmitry Razumov, Alexander Mosionzhik and Anna Kolonchina). Five of the nine directors are independent directors (Robert Buchan, Bruce Buck, Kobus Moolman, Adrian Coates and the Earl of Clanwilliam).

In the period 26 July – 31 December 2011, 10 meetings were held, including 2 face-to-face meetings, 6 'conference calls' and 2 meetings held my means of passing a written resolution.

Board meeting attendance (on and after 26 July 2011[1])

Directors	Designation	Number of formal Board meetings attended	Total number of Board meetings during service
Robert Buchan	Non-Executive Chairman	10	10
Bruce Buck	Non-Executive Director	9	10
The Earl of Clanwilliam	Non-Executive Director	8	10
Adrian Coates	Non-Executive Director, Senior Independent Director	9	10
Evgueni I. Ivanov	Executive Director and President	10	10
Anna A. Kolonchina	Non-Executive Director	10	10
Kobus Moolman	Non-Executive Director	10	10
Alexander I. Mosionzhik	Non-Executive Director	8	10
Dmitry V. Razumov	Non-Executive Director	7	10
Christophe Charlier	Alternate Director	3	10

In the period 1 January – 26 July 2011, 8 Board meetings were held, including 7 'conference calls' and 1 meeting held by means of passing a written resolution.

Board meeting attendance (on and before 26 July 2011[1,2])

Directors	Designation	Number of formal Board meetings attended	Total number of Board meetings during service
Adrian Coates	Non-Executive Director, Senior Independent Director	7	8
Evgueni I. Ivanov	Executive Director and President	8	8
Mr. German R. Pikhoya	Director	8	8
Mr. Oleg. V. Ignatov	Director	8	8
Mr. Alexey L. Teksler	Executive Director	8	8

[1] Two Board meetings were held on 26 July 2011.
[2] Relates to KazakhGold activities before the completion of the reorganisation of OJSC Polyus Gold and KazakhGold Group Limited.

6

Corporate Governance report

continued

There should be a clear division of responsibilities at the head of the company between running the board and executive responsibility for the running the company's business. No one individual should have unfettered powers of decision.

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

In accordance with clearly defined parameters, the Chairman is responsible for the leadership of the Board and for ensuring that effective communication exists between the executive and non-executive directors. He shall:

1 Ensure effective operation of the Board and its committees in conformity with the highest standards of corporate governance.
2 Ensure effective communication with shareholders, host governments and other relevant constituencies and that the views of these groups are understood by the Board.
3 Set the agenda, style and tone of board discussions to promote constructive debate and effective decision-making.
4 Chair the Nomination Committee and build an effective and complementary Board, initiating change and planning succession on board and group executive appointments.
5 Ensure that all Board committees are properly established, composed and operated.
6 Ensure comprehensive induction programmes for new directors and updates for all directors as and when necessary.
7 Support the CEO in the development of strategy and, more broadly, to support and advise the CEO.
8 Maintain access to senior management as is necessary and useful, but not intrude on the CEO's responsibilities.
9 Promote effective relationships and communications between non-executive directors and members of the group's Executive.
10 Ensure that the performance of the board, its main committees and individual directors is formally evaluated on an annual basis.
11 Ensure that the Board receives accurate, timely and clear information on the group's performance, the issues, challenges and opportunities facing it and matters reserved to it for decision.
12 Establish a harmonious and open relationship with the CEO.

The CEO has been delegated the authority to manage the day-to-day administration of the group.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

An atmosphere of open debate exists at the Company's board meetings allowing for any single director to engage executive management on key aspects of policy and performance.

The non-executive directors believe that the format of the board, in conjunction with the activities of the three board committees, is sufficient to allow them to effectively verify management's performance in achieving set goals and objectives.

In 2011, the Company established the position of Senior Independent Director, and Mr. Adrian Coates serves in this role.

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively.

The Board monitors compliance with the independence criteria included in the UK Corporate Governance Code. Therefore, the majority of the Board continues to be independent non-executive directors.

All of the directors and their biographies are set out above.

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

This is dealt with in the company's Articles of Association available on its website.

All directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.

The Board believes that all its members have devoted sufficient time to the Company. Details of any candidates' existing board commitments are disclosed at the time their respective appointment is being considered.

No current Director has other significant commitments that have prevented or would prevent them from allowing sufficient time to discharge their responsibilities effectively.

6

Corporate Governance report

continued

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The Directors receive complete information about their duties and responsibilities in the form of a contract immediately after joining the Board. The Directors are encouraged by the Chairman to regularly update and refresh their skills and knowledge.

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The information and materials for the Board meetings are sent to the Directors at least five days prior to the meeting. The Company also provides the Directors with special software which is extremely convenient for access to all Board materials.

The Company also circulates monthly and quarterly board packs with up-to-date information about its business performance.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The Board evaluates its own performance and that of the Board committees.

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

The Company re-elects its Directors on a regular basis.

The board should present a balanced and understandable assessment of the Group's position and prospects.

The Board includes an assessment of the Group's position and prospects in the Group's Annual report.

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

The Risk Committee of the Board keeps under review the effectiveness of the Group's internal controls and risk management systems and review and approves the statements to be included in the annual report concerning internal controls and risk management.

The Risk Committee reports to the Board on its proceedings on a regular basis, therefore, the Board maintains risk management and internal control systems.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Group's auditor.

The Audit Committee of the Board meets regularly with the external auditor, reviews and approves the annual audit plan and ensure that it is consistent with the scope of the audit engagement, and reviews the findings of the audit with the external auditor.

The Audit Committee reports to the Board on its proceedings on a regular basis, therefore, the Board maintains an appropriate relationship with the Group's auditor.

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the Group successfully, but a Company should avoid paying more that is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The Remuneration Committee of the Board reviews and has regard to the remuneration trends across the Group, obtains reliable, up-to-date information about remuneration in other companies.

The Remuneration Committee determines and agrees with the Board the framework or broad policy for the remuneration of the Group's executive directors. In determining such policy, the Remuneration Committee takes into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance. The objective of such policy shall be to ensure that members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

The remuneration of executive directors is a matter for the Remuneration Committee. The remuneration of non-executive directors is a matter for the Chairman and the executive members of the Board.

6

Corporate Governance report

continued

No director is involved in any decisions as to their own remuneration.

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Company maintains the constant dialogue with its shareholders.

The board should use the AGM to communicate with investors and to encourage their participation.

The Board uses the Company AGM to communicate with investors and shareholders on a regular basis.

The Committees

The Board has established five Committees: Audit, Nominations, Remuneration, Risk and Health, Safety, Environment and Community Committees with formally delegated duties, responsibilities and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues as and when the need arises. More details on the Committees presented in sections 7-11 of this Report.

Senior management of Polyus Gold International Limited

Name	Role
Mr. German R. Pikhoya	Chief Executive Officer
Mr. Artem A. Borisanov	Deputy CEO for Strategy and Corporate Development
Ms. Elena E. Bulavskaya	Deputy CEO for Corporate Affairs
Mr. Alexey V. Golubenko	Head of Yakutia business unit , General Director of OJSC Aldanzoloto GRK
Mr. Oleg V. Ignatov	Chief Financial Officer
Mr. Evgueni I. Ivanov (resigned on 30 March 2012)	President
Mr. Valeriy F. Konstantinov	Head of Irkutsk business unit, General Director of OJSC Lenzoloto and CJSC ZDK Lenzoloto
Mr. Kyrill A. Martynov	Head of Kazakhstan business unit, General Director of JSC MMC KazakhAltyn
Mr. Nikolay V. Morozov	Deputy CEO for Internal Control
Mr. Anthony J. Nieuwenhuys	COO
Mr. Yuri A. Ryndin	Deputy CEO for Supplies, Materials and Machinery
Mr. Vyacheslav L. Sokolov	Head of Magadan business unit, General Director of OJSC Matrosov Mine
Mr. Alexey L. Teksler	Head of Krasnoyarsk business unit
Mr. Boris A. Zakharov	Deputy General Director for Engineering and Innovations of CJSC Polyus

Directors and officers liability insurance

The Group has a Directors and Officers insurance policy in place to cover relevant individuals against claims arising from their work on behalf of the Group. The Board intends to keep the level of coverage provided under annual or more frequent review, as appropriate.

Share capital structure

According to the Company's information, its share capital structure as at 31 December 2011 was as follows:

	Total holding (million shares/GDRs)	Total holding (%)
Shares and GDRs beneficially held by entities, where the beneficiary owner is Mr. Suleiman A. Kerimov	1,220	40.2%
Shares and GDRs beneficially held by entities, where the beneficiary owner is Mr. Mikhail D. Prokhorov	1,145	37.8%
Shares and GDRs held by Jenington International	227	7.5%
Shares and GDRs held by other parties	441	14.5%
Total	3,032	100.0%

In 2011, there were no grants of ordinary shares, GDRs or options in PGIL to any Director. As at 31 December 2011, The Earl of Clanwilliam held 2,656 PGIL GDRs and the other Directors held no PGIL GDRs or ordinary shares.

Remuneration of senior management

The total amount paid to the members of the Group's Senior Management in 2011 for their services as senior management of OJSC Polyus Gold or PGIL was US$16.0 million.

Directors remuneration in 2011

The table below sets out gross remuneration accrued to Directors.

Name	Year of Birth	Role	Date of Appointment	Term of Appointment	Date of resignation	Remuneration accrued in 2011, US$[1]
Mr. Robert Buchan	1947	Chairman and Independent Non-Executive Director	26 July 2011	3 years		108,788
Mr. Bruce Buck	1946	Independent Non- Executive Director	26 July 2011	3 years		88,883
The Earl of Clanwilliam	1960	Independent Non- Executive Director	26 July 2011	3 years		196,397[2]
Mr. Adrian J.G. Coates	1958	Senior Independent Non-Executive Director	17 March 2010	3 years		180,360
Mr. Evgueni I. Ivanov	1966	Executive Director and President	14 August 2009	3 years		2,259,139
Ms. Anna A. Kolonchina	1972	Non-Executive Director	26 July 2011	3 years		N/A
Mr. Kobus Moolman	1953	Independent Non- Executive Director	26 July 2011	3 years		87,030
Mr. Alexander I. Mosionzhik[3]	1961	Non-Executive Director	26 July 2011	3 years		N/A
Mr. Dmitry V. Razumov[3]	1975	Non-Executive Director	26 July 2011	3 years		N/A
Mr. German R. Pikhoya	1970	Director	14 August 2009	3 years	26 July 2011[4]	1,110,249
Mr. Oleg. V. Ignatov	1969	Director	14 August 2009	3 years	26 July 2011[4]	1,317,429
Mr. Alexey L. Teksler	1973	Executive Director	17 March 2010	3 years	26 July 2011[4]	998,928

[1] Converted from GBP / RUB using average GBP/US$/ average RUB/US$exchange rates in 2011. The compensation shown is aggregated from all Group companies for the period of the directorship in 2011.
[2] Also include compensation accrued for the directorship on the level of OJSC Polyus Gold.
[3] Ms. Kolonchina and Mr. Mosionzhik are Directors who have been nominated by an entity ultimately controlled by Mr. Suleiman A. Kerimov. Mr. Razumov is a Director who have been nominated by an entity ultimately controlled by Mr. Mikhail D. Prokhorov.
[4] Two Board meetings were held on 26 July 2011.

7

Audit Committee report

7

Audit Committee report

Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the non-executive directors of the Group. The Audit Committee's Terms of Reference were established and approved on 7 October 2011, and include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The Terms of Reference are to be considered annually by the Audit Committee and are then referred to the Board for approval. The Audit Committees' terms of reference are available on the Group's website at www.polyusgold.com.

The scope of the Audit Committee's responsibilities includes financial reporting, internal financial controls, internal audit and external audit.

Financial reporting

In terms of financial reporting, the Audit Committee, among other matters:

- confirmed the validity of the going concern assessment as the basis of preparation of interim and annual financial statements;
- examined and reviewed the interim and annual financial statements, as well as financial information to be disclosed to the public, prior to submission to and approval by the Board.
- reviewed the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
- reviewed the methods used to account for significant or unusual transactions where different approaches are possible;
- considered whether the Group has followed the appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- confirmed the clarity of disclosure in the Group's financial reports and the context in which statements are made; and
- examined and reviewed material information presented together with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

Internal financial controls

In terms of internal financial controls, the Audit Committee, amongst other matters:

- reviewed the adequacy and effectiveness of the Group's internal financial controls as described in the Group's accounting policies and procedures manual;
- reviewed and approved the Group's management structure, which include clearly defined delegation of authorities.
- reviewed the Group's management's accounting and annual budget and recommend to the Board the approval and adoption thereof;
- reviewed and approved the Group's anti-bribery policy; and
- reviewed and approved the Group's procedures for identification and approval of related party transactions.

Internal audit

In terms of internal audit, the Audit Committee, among other matters:

- monitored and reviewed the effectiveness of the Group's internal audit function in the context of the Group's financial controls and risk management system;
- approved the appointment of the head of the internal audit function;
- considered and approved the remit of the internal audit function and ensures it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Audit Committee also considered that the function has adequate standing and is free from management's undue pressures or other restrictions;
- reviewed and approved the annual internal audit plan;
- reviewed reports addressed to the Audit Committee from the internal auditor;
- reviewed and monitored management's responsiveness to the findings and recommendations of the internal auditor;
- met with the head of internal audit without management being present, to discuss their remit and any issues arising from the internal audits carried out. The head of internal audit is given the right of direct access to the Chairman of the Committee;
- reviewed and approved the Group's anti-bribery policy; and
- reviewed the adequacy and effectiveness of the Group's internal financial controls as described in the Group's accounting policies and procedures manual.

7

Audit Committee report

continued

External auditor

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The Audit Committee has overall responsibility for monitoring the independence and objectivity of the external auditors and their compliance with ethical and regulatory requirements.

To fulfill its responsibilities regarding the independence of the external auditor, the Audit Committee, amongst other matters:

- approved the external audit plan and the fees for audit or non-audit services;
- reviewed and assessed the independence of the external auditor, having taken into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- considered whether there are any other relationships (such as family, employment, investment, financial or business) between the external auditor and the Group (other than in the ordinary course of business) that may result in a conflict of interest;
- considered the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements;
- reviewed the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, and
- considered the co-ordination between the external auditor and the internal audit function.

During 2011, the Audit Committee met with the external auditor on a regular basis, without management being present, to discuss the auditor's remit and any issues arising from the audit.

The Audit Committee also reviewed representation letters, the management letter and management's response to the auditor's findings and recommendations.

The Audit Committee recommended to the Board, to put to the shareholders for approval at the Annual General Meeting, reappointment of Deloitte LLP and ZAO Deloitte & Touche CIS as the Group's external auditors for the year ending 31 December 2012.

Composition of the Audit Committee

Starting from 26 July 2011, the membership of the Audit Committee is composed of three members: Kobus Moolman, Adrian Coates and the Earl of Clanwilliam. The Chairman of the Audit Committee is Kobus Moolman.

The Audit Committee is required by the UK Corporate Governance Code to include one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently the Audit Committee fulfills this requirement.

The Board believes that the current composition of the Audit Committee has the required level of experience to be sufficient to meet the standards imposed by the UK Corporate Governance Code. In the event that any issues should arise which would be deemed outside the areas of expertise of the members, independent professional advice would be sought.

The Audit Committee is authorized to seek any information it requires from any employee of the Group in order to perform its duties; to obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference; to call any employee to be questioned at a meeting of the Committee as and when required; to have the right to publish in the Group's annual report details of any issues that cannot be resolved between the committee and the Board.

7

Audit Committee report

continued

Meetings

The Audit Committee's agenda is linked to the events in the Group's financial calendar. The agenda is predominantly cyclical. Each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

To assist management in providing the information and to allow the Audit Committee to discharge its responsibilities the Group's chief financial officer and other executive management regularly attend the Audit Committee's meetings.

Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors.

The Chairman of the Audit Committee will be available at this year's Annual General Meeting to answer any questions about the work of the Audit Committee.

The Audit Committee met 4 times after 26 July 2011

Directors	Designation	Number of formal Committee meetings attended	Total number of Committee meetings during the service
Kobus Moolman	Non-Executive Director, Chairman of the Committee	4	4
Adrian Coates	Non-Executive Director, Senior Independent Director	4	4
The Earl of Clanwilliam	Non-Executive Director	4	4

The Audit Committee met 4 times before 26 July 2011[1]

Directors	Designation	Number of formal Board meetings attended	Total number of Board meetings during service
Adrian Coates	Non-Executive Director, Senior Independent Director	4	4
Mr. German R. Pikhoya	Director	3	4
Mr. Oleg. V. Ignatov	Director	4	4

[1] Relates to KazakhGold activities before the completion of the reorganisation of OJSC Polyus Gold and KazakhGold Group Limited.

8

Risk Committee report

8

Risk Committee report

Summary of the role of the Risk Committee

The Risk Committee ensures that there is a robust system in place for identifying key risks to the business, and their materiality and probability, and that there is a suitably responsible body or individual charged with monitoring, managing and, where applicable mitigating, those risks.

It advises the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment. It oversees and advises on the materiality and probability thresholds of risks above which will require referral to the committee. The Risk Committee oversees and advises the Board on the Group's current risk exposures and future risk strategy.

In relation to risk assessment, it keeps under review the Group's overall risk assessment processes that inform the Board's decision-making, ensuring that both qualitative and quantitative metrics are used; reviews regularly and approves the parameters used in these measures and the methodology adopted; sets a standard for accurate and timely monitoring of large exposures and certain risk types of critical importance.

The Risk Committee keeps under review the effectiveness of the Group's internal controls and risk management systems and reviews and approves the statements concerning internal controls and risk management to be included in the annual report. It reviews the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Risk Committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

The Risk committee reviews the procedures for detecting fraud, procedures for the prevention of bribery and receive reports on non-compliance, considers and approves the remit of the risk management function and ensures it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.

Composition of the Risk Committee

The Committee is appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Risk Committee. The committee comprises three members, including the chairman of the Audit Committee: Adrian Coates (Chairman), Kobus Moolman and Anna Kolonchina. A majority of members of the Risk Committee are independent non-executive directors.

Meetings

The committee was formed by the resolution of the Board of directors on 26 July 2011. In 2011 the Committee met 2 times.

Besides this, the Committee Chairman should attend the Annual General Meeting to answer shareholder questions on the committee's activities.

Directors	Designation	Number of formal Committee meetings attended	Total number of Committee meetings during the service
Adrian Coates	Non-Executive Director, Senior Independent Director, Chairman of the Committee	2	2
Kobus Moolman	Non-Executive Director	2	2
Anna Kolonchina	Non-Executive Director	2	2

9

Remuneration Committee report

9

Remuneration Committee report

Summary of the role of the Remuneration Committee

The Remuneration Committee determines and agrees with the Board the framework or broad policy for remuneration of the chairman, chief executive, executive directors, the corporate secretary and such other members of the executive management as it is designated to consider. In determining this policy, the Remuneration Committee takes into account all factors that it deems necessary, including the relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance.

The objectives of this policy are to ensure that members of the Group's executive management are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contributions to the Group's success.

The Remuneration Committee reviews the ongoing appropriateness and relevance of the remuneration policy.

The Remuneration Committee obtains reliable, up-to-date information about remuneration in other companies. To help it fulfil its obligations, the Remuneration Committee has full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, within any budgetary restraints imposed by the Board

The Remuneration Committee is exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Remuneration Committee. It approves the design of, and determines targets for, any performance related pay schemes operated by the Group and approves the total annual payments made under such schemes.

Composition of the Remuneration Committee

The Remuneration Committee comprises of three members, all of them are independent non-executive directors, according to the terms of Remuneration Committee: the Earl of Clanwilliam, Bruce Buck and Adrian Coates. Members of the committee appointed by the board, on the recommendation of the nomination committee and in consultation with the chairman of the remuneration committee.

Meetings

The Remuneration Committee was formed by the resolution of the Board of directors on 26 July 2011. The Committee meets at least twice a year and otherwise as required. In 2011 the Remuneration Committee met 2 times.

Directors	Designation	Number of formal Committee meetings attended	Total number of Committee meetings during the service
The Earl of Clanwilliam	Non-Executive Director, Chairman of the Committee	1	2
Bruce Buck	Non-Executive Director	2	2
Adrian Coates	Non-Executive Director, Senior Independent Director	2	2

10

Nomination Committee report

10

Nomination Committee report

Summary of the role of the Nomination Committee

The Nomination Committee regularly reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the board and makes recommendations to the board with regard to any changes. It gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the board in the future

The Nomination Committee keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the organisation's continued ability to compete effectively in the marketplace. It keeps up to date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates.

The Nomination Committee also makes recommendations to the board concerning formulating plans for succession for both executive and non-executive directors, and in particular for the key roles of Chairman and Chief Executive; suitable candidates for the role of Senior Independent Director; membership of the Audit and Remuneration committees, and any other Board committees as appropriate, in consultation with the chairmen of those committees; the re-appointment of any non-executive director at the conclusion of their specified term of office, with due regard for their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required; the re-election of directors by shareholders under the annual re-election provisions of the UK Corporate Governance Code or retirement by rotation provisions in the articles of association, with due regard for their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Composition of the Nomination Committee

The Nomination Committee comprises of four members, all of them are independent non-executive directors: Robert Buchan, Bruce Buck, Adrian Coates and the Earl of Clanwilliam. The Nomination Committee was appointed by the Board for a period of up to three years. The Board also appointed the committee chairman.

Meetings

The Nomination Committee was formed by the resolution of the Board of directors on 26 July 2011. In 2011 the Nomination Committee met 1 time.

Directors	Designation	Number of formal Committee meetings attended	Total number of Committee meetings during the service
Robert Buchan	Non-Executive Chairman of the Board, Chairman of the Committee	1	1
Bruce Buck	Non-Executive Director	1	1
Adrian Coates	Non-Executive Director, Senior Independent Director	1	1
The Earl of Clanwilliam	Non-Executive Director	0	1

11

Health, Safety, Environment and Community Committee report

11

Health, Safety, Environment and Community Committee report

Summary of the role of the Health, Safety, Environment and Community Committee

On behalf of the Board of Directors, the Committee evaluates the effectiveness of the Group's policies and procedures for identifying and managing health, safety and environmental risks and community-related issues in the Group's operations.

The Committee assesses the performance of the senior officers in causing the Group and its employees to comply with (i) internal policies on health, safety, environment and community and (ii) applicable health, safety and environmental legislation in the jurisdictions where the Group has operations.

It monitors legislative and other developments in health, safety, environment and community and encourage a "best practices" ethos within the Group; reviews management's response to health, safety and environmental incidents and accidents.

Composition of the Health, Safety, Environment and Community Committee

The Committee comprises of three members: Bruce Buck, the Earl of Clanwilliam and Evgueni Ivanov. The quorum necessary for the transaction of business shall be two members. The Committee shall arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Meetings

The committee was formed by the resolution of the Board of Directors on 26 July 2011. In 2011 the Committee met 2 times.

Directors	Designation	Number of formal Committee meetings attended	Total number of Committee meetings during the service
Bruce Buck	Non-Executive Director, Chairman of the Committee	2	2
The Earl of Clanwilliam	Non-Executive Director	1	2
Evgueni Ivanov	President	2	2

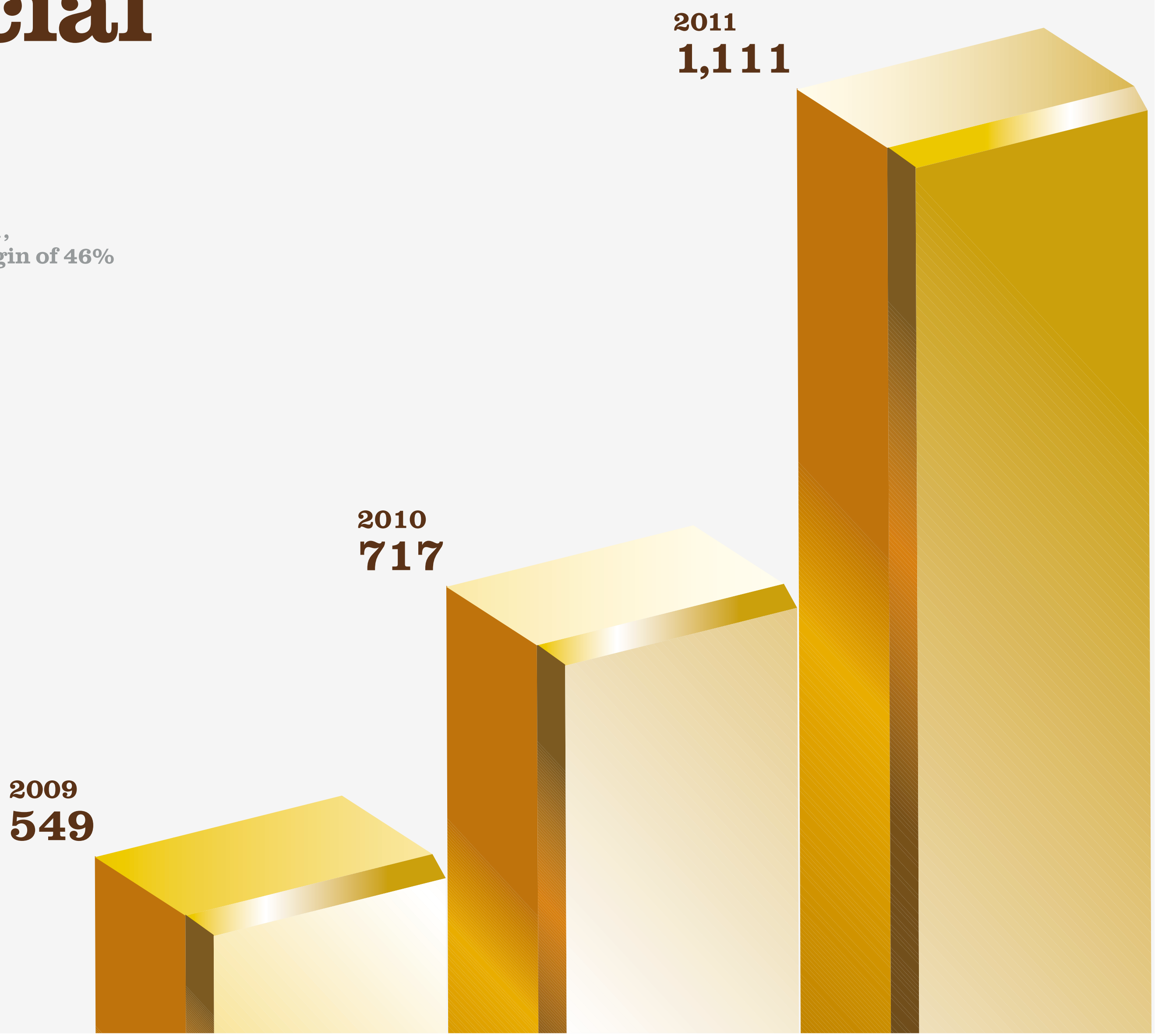
12

Management report

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

Strong financial performance

Group's Adjusted EBITDA rose 42% per year in 2009–2011, driving to strong profitability with Adjusted EBITDA margin of 46%



Adjusted EBITDA 2009-2011, US$mln

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

The Group is an international gold mining company, the largest gold producer in Russia according to the Russian Union of Gold Miners, one of the leading gold producers in Kazakhstan and one of the world's leading gold producers. With 90.5 million ounces of gold in JORC proved and probable reserves the Group has the third largest gold reserves in the world based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with operations in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia and in the Republic of Kazakhstan. In 2011, the Group produced 1,495 thousand troy ounces of gold, compared to 1,386 thousand troy ounces of gold in 2010.

The Group was formed as a result of the reorganisation of OJSC Polyus Gold and its subsidiaries and KazakhGold Group Limited and its subsidiaries in 2011, which resulted in KazakhGold Group Limited becoming the legal parent of OJSC Polyus Gold. Following the completion of the reorganisation, KazakhGold Group Limited was renamed Polyus Gold International Limited ("PGIL" or the "Group").

The reorganisation represents a continuation of OJSC Polyus Gold and its subsidiaries, and consequently, the comparative financial information for the year ended 31 December 2010 reflects the consolidated financial information for OJSC Polyus Gold for this year. As a result, references in this report to the "Group" for 2010 are to OJSC Polyus Gold and its subsidiaries, including the KazakhGold Group, and for financial periods after the year ended 31 December 2010 are to PGIL and its subsidiaries.

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

— significant external market factors affecting the Group's financial performance;
— results of operations for the years ended 31 December 2011 and 31 December 2010;
— non-GAAP financial measures;
— financial position as at 31 December 2011 and 31 December 2010; and
— the Group's liquidity, solvency and capital sources.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.1 The group's operating results

12.1.1 Significant external market factors affecting the Group's financial results

The results of the Group are significantly affected by fluctuations in gold prices, the price of commodities that it requires for the gold mining and production process, such as oil and steel, and movements in currency exchange rates, particularly the rouble/US dollar exchange rate.

	Year ended 31 December	
Average price/ rate	2011	2010
London p.m.gold fixing price (US$per troy ounce)[1]	1,572	1,225
Crude oil (Brent brand) (US$per barrel)[2]	111.0	80.3
Steel (hot rolled) (US$per tonne)[3]	725.9	641.0
Average RUB/US$ rate[4]	29.39	30.36
Year end RUB/US$ rate	32.20	30.47
Average KZT/US$ rate[5]	146.62	147.35
Year end KZT/US$ rate	148.40	147.40

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

Gold prices

The market price of gold is the most significant factor influencing the profitability and operating cash flow of the Group. The global gold price is subject to volatile movements over short periods of time. In 2011, the average gold p.m. fixing price in London was US$1,572 per ounce, with gold reaching its lowest level of US$1,319 per ounce on 28 January 2011 and a high of US$1,895 on 6 September 2011. For 2011, the gold p.m. fixing price increased by 10 % from US$1,389 to US$1,531 per ounce on the first and the last business days, respectively.

Crude oil and steel prices

A significant portion of costs included in the Group's cost of sales are directly or indirectly impacted by the prices of oil and steel. Changes in the price of crude oil impact the prices of diesel fuel, heating oil, 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 2011, average oil prices increased 38% in comparison with 2010, while average steel prices increased by 13% over the same period. An increase in global prices for commodities could create significant cost pressure for the Group.

Exchange rates

The Group's revenue from gold sales is denominated in US dollars, whereas most of the Group's operating expenses and capital expenditures are denominated in Russian roubles ("RUB"). Accordingly, an appreciation of the Russian rouble against the US dollar may negatively affect the Group's margins by increasing the US dollar value of its RUB-denominated costs. Conversely, an appreciation of the US dollar may positively affect the Group's margins by decreasing the US dollar value of its RUB-denominated costs. In 2011, the average RUB/US$ exchange rate decreased by 3% to RUB 29.39 per US dollar from 30.36 in 2010. This contributed to an increase in US dollar terms during 2011 in comparison with 2010 for salaries and other expenses denominated in Russian roubles, due to the effect of translation to the US dollar presentation currency. The increase in the closing rate to RUB 32.20 per US dollar as at 31 December 2011 (31 December 2010: 30.47) led to a decrease in the RUB denominated balances in the statement of financial position items in US dollar terms.

Since its acquisition of a controlling stake in PGIL in August 2009, the Group has also been exposed to KZT (Kazakhstan tenge)/US$ exchange rate movements since the operating expenses of PGIL's mining operations in Kazakhstan are incurred primarily in tenge. The KZT/US$ exchange rate remained relatively stable in 2011, and thus did not have a material impact on the Group's costs.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

Discussion of results of operations for 2011 and 2010

The following table shows a summary of the Group's consolidated income statement for the years ended 31 December 2011 and 2010 and the percentage change from year to year.

US$'000, unless specified otherwise	Note	Years ended 31 December 2011	2010	Change %
Gold sales	12.1.2	2,340,650	1,711,298	37
Other sales		62,060	37,506	65
Total revenue		**2,402,710**	**1,748,804**	**37**
Cost of gold sales	12.1.3	(1,162,019)	(895,555)	30
Cost of other sales		(46,343)	(33,424)	39
Gross profit		**1,194,348**	**819,825**	**46**
Including:				
Gross profit on gold sales		*1,178,631*	*815,743*	*44*
Gross profit margin		*50%*	*47%*	*–*
Selling, general and administrative expenses	12.1.4	(225,618)	(194,549)	16
Impairment	12.1.5	(103,418)	(40,763)	154
Research expenses		(2,581)	(2,412)	7
Other expenses, net	12.1.6	(24,077)	(35,101)	(31)
Operating profit		**838,654**	**547,000**	**53**
Operating profit margin		*35%*	*31%*	*–*
Finance costs	12.1.7	(71,403)	(42,717)	67
Income/(loss) from investments	12.1.8	3,630	(23,711)	(115)
Foreign exchange (loss)/gain		(5,814)	765	(860)
Profit before income tax		**765,067**	**481,337**	**59**
Pre-tax margin		*32%*	*28%*	*–*
Income tax	12.1.9	(207,052)	(124,840)	66
Profit		**558,015**	**356,497**	**57**
Attributable to:				
Shareholders of the Company		468,998	332,169	41
Non-controlling interests		89,017	24,328	266
Net profit margin		*23%*	*20%*	*–*
Earnings per share – basic and diluted (US Cents)		**16**	**11**	**45**

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

Discussion of results of operations for 2011 and 2010 (continued)

The following table shows key performance indicators of the Group's operations for 2011 and 2010 expressed in non-GAAP financial measures.

US$'000, unless specified otherwise	Years ended 31 December 2011	2010	Change %
Adjusted EBITDA[1]	1,110,745	716,655	55
Adjusted EBITDA margin	46%	41%	–

[1] For details of the calculation of Adjusted EBITDA refer to section 12.3.1 of this document.

12.1.2 Gold sales

The following table shows the results and breakdown of the Group's gold sales for the years ended 31 December 2011 and 2010 and the percentage change from year to year.

US$'000, unless specified otherwise	Years ended 31 December 2011	2010	Change %
Gold sales (US$thousands)	2,340,650	1,711,298	37
Gold sales (thousand troy ounces)[1]	1,483	1,377	8
In the domestic market (thousand troy ounces)[2]	1,369	1,273	8
In the domestic market (%)	92	92	–
For export (thousand troy ounces)[3]	113	103	10
Weighted-average realised gold price (US$per troy ounce)	1,578	1,243	27
Average p.m. gold fixing price in London (US$per troy ounce)[4]	1,572	1,225	28
Excess of average realised price (under)/over average p.m. fixing price (US$per troy ounce)	6	18	(67)

[1] Gold sales do not include 13 thousand ounces (2010: 5 thousand ounces) produced at pilot plants from the ores of the Verninskoye and Natalka deposits and sold during these years. These sales were not included in the Group's revenue due to non-commercial scale of production. Net proceeds from these sales were insignificant and were offset against costs of construction.
[2] Sales on the domestic market comprise sales by the Group's Russian business units on the Russian market and sales by the Group's Kazakhstan business unit on the Kazakhstan market
[3] Export sales comprise sales by the Kazakhstan business unit to foreign customers
[4] Source: London Bullion Market Association

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.1.2 Gold sales (continued)

In 2011, the Group's gold sales amounted to US$2,340,650 thousand, an increase of 37% compared to 2010. The increase in gold sales resulted from a combination of higher realised gold prices and increased sales volumes.

In 2011, the weighted-average realised gold price was US$1,578 per ounce, a 27% increase as compared to 2010. The Group's weighted-average realised gold price was US$6 per ounce higher than the p.m. gold fixing price on the London market in 2011, since the majority of the Group's total sales of gold by volume was made in the third quarter of the year, when the gold price was higher than the average for the year as a whole. This offset the impact of the sale of semi-products by the Kazakhstan business unit at a discount to the London fixing price. The weighted-average realised gold price for the refined gold sold by the Group's Russian subsidiaries amounted to US$1,592 per ounce in 2011.

The Group sold 1,483 thousand ounces of gold in 2011[1], including 113 thousand ounces sold for export by the Kazakhstan business unit. The comparable sales volume in 2010 was 1,377 [1] thousand ounces and 103 thousand ounces, respectively. In 2011, the Group produced 1,495 thousand ounces of gold, compared to 1,386 thousand ounces in 2010. The production volumes for 2011 included 1,378 thousand ounces of refined gold produced by the Group's mines in Russia and 117 thousand ounces of gold produced by the Kazakhstan business unit in the form of sludge, flotation and gravitation concentrates and other semi-products. An 8% increase in total gold production was primarily the result of the increase of production levels at the Blagodatnoye mine (launched in July 2010), reflecting the successful ramp-up of the mine, which reached the projected recovery rate during 2011 and exceeded designed throughput capacity.

A considerable contribution to production was made by the group of alluvial subsidiaries, where replacement of the mining fleet and haulage equipment was completed prior to a longer than usual mining season, as well as by operations in Kazakhstan, where an upgrade of production facilities continued. Gold output also benefited from the improved performance of Titimukhta, primarily due to the increased throughput capacity of the plant after an ongoing grinding circuit upgrade. However, a number of factors significantly complicated operations for the Group's production units in 2011, which negatively impacted the Group's operating results. The Olimpiada mine, the Group's largest producing unit, faced technological issues related to the processing of sulphide ores since 2010 and started implementing a series of measures aimed at increasing the recovery efficiency of sulphide ore processing at the Olimpiada mine and improving the bio-leaching process. The Group continued this work in 2011. Commissioning of the final concentration step of gravity concentrate of Mills Nos. 2 and 3, however, was delayed, and only completed in December 2011. In addition, the Group experienced some difficulties in adjusting the second stage of acid biopulp centrifuging on the hydrometallurgical circuit of Mill No. 3. As a result, the expected recovery rate was not achieved. Other factors that affected the Group's operating results in 2011 were a reduction in average grade of ore processed at Olimpiada and Titimukhta, as well as difficult mining conditions at the Kuranakh mine.

[1] Gold sales do not include 13 thousand ounces (2010: 5 thousand ounces) produced at pilot plants from the ores of the Verninskoye and Natalka deposits and sold during these years. These sales were not included in the Group's revenue due to non-commercial scale of production. Net proceeds from these sales were insignificant and were offset against costs of construction.

Other sales

Other sales include the sale of electricity, transportation, handling and storage services and rent services. Other sales increased by 65% in 2011 to US$62,060 thousand from US$37,506 thousand in 2010. This increase resulted primarily from increased sales of electricity. The realised prices for electricity in years prior to 2011 were state-regulated and were sometimes set at levels below the cost of generation. In 2011, the electricity pricing process was deregulated resulting in prices principally being determined by supply and demand. This change led to a substantial increase in electricity tariffs and consequently to higher revenue from sales of electricity received by the Group. For example, revenue from electricity sales from Mamakan HPS increased 3.6 times from 2010. In 2010 the cost of generation for Mamakan HPS was higher than the state-regulated realised price in that year, whereas, in 2011, the realised price exceeded the cost of generation by 37% The effect of this revenue increase in 2011 was enhanced by the appreciation of the average rate of Russian rouble relative to the US dollar as compared to 2010.

12.1.3 Cost of gold sales

The following table shows the components of the Group's cost of gold sales for the years ended 31 December 2011 and 2010.

US$'000	Years ended 31 December 2011	2010	Change %
Fuel, consumables and spares, out of which:	410,243	365,504	12
Materials and spares	*296,442*	*277,852*	*7*
Fuel	*113,801*	*87,652*	*30*
Labour	288,866	237,602	22
Tax on mining	179,116	130,230	38
Utilities, out of which:	55,140	46,043	20
Power	*53,092*	*43,872*	*21*
Other	*2,048*	*2,171*	*(6)*
Outsourced mining services	22,147	8,897	149
Refining costs	5,067	2,059	146
Other	75,696	56,866	33
Cash operating costs	**1,036,275**	**847,201**	**22**
Amortisation and depreciation of operating assets	181,935	118,559	53
Amortisation of deferred stripping costs, net	(7,335)	44,412	(117)
Increase in gold-in-process and refined gold inventories	(48,856)	(114,617)	(57)
Cost of gold sales	**1,162,019**	**895,555**	**30**

Cost of gold sales increased by 30% to US$1,162,019 thousand in 2011 from US$895,555 thousand in 2010. This increase resulted mainly from an 8% increase in the volume of gold sales, an increase of mining tax charges reflecting the increase in gold prices, an increase in labour costs and higher amortisation and depreciation charges. Cost of gold sales was also adversely affected by the strengthening of the Russian rouble relative to the US dollar.

Cash operating costs

Cash operating costs make up the major part of cost of gold sales. Cash operating costs increased by 22% to US$1,036,275 thousand in 2011 from US$847,201 thousand in 2010. This increase resulted mainly from an US$51,264 thousand increase in labour costs and US$48,886 thousand increase of tax on mining.

Fuel, consumables and spares

Fuel, consumables and spares comprised 40% of cash operating costs in 2011 as compared to 43% in 2010. These expenses comprise materials and spares, including spare parts for trucks, excavators and construction machinery, expenses on rolled metal products and cables, technological materials for plants and other materials and spare parts used in mining, concentration and smelting, and fuel.

Materials and spares

The cost of materials and spares consumed in 2011 amounted to US$296,442 thousand, an increase of 7% as compared with 2010. This increase was primarily due to the increase in gold production volumes. Another contributing factor for the increase in materials and spares expenses in 2011 was an increase in purchase prices for materials and components, including steel, cyanides, lime and explosives. The increase in the cost of materials and spares was enhanced by the effect of the strengthening of the Russian rouble in 2011, which resulted in an additional 3% increase in materials and spares costs relative to 2010.

In physical terms, consumption of materials and spares increased mainly at the Krasnoyarsk business unit as a result of the effect of the full-year operation of Blagodatnoye. This increase was offset by a reduction in material consumption rates at the Olimpiada mine, the Group's principal operating unit, which was achieved as a result of the implementation of measures aimed at increasing the mine's operational efficiency. In addition, the consumption of grinding balls at Olimpiada decreased in 2011 due to the processing of less

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.1.3 Cost of gold sales (continued)

rigid ores compared to those processed in 2010. The Irkutsk alluvial business unit increased consumption of spare parts in 2011 due to higher volumes of sands washing and implementation of repair and maintenance works. In addition, the commencement of preparation and mining works by the alluvial enterprises at an earlier date in 2011 as compared with 2010 resulted in increased consumption of explosives. Consumption of spare parts increased at the Yakutia Kuranakh business unit due to higher levels of repair and maintenance works at the Kuranakh mill.

Expenses on materials and spares decreased at the Irkutsk ore business unit due to termination of operations at the Zapadnoye mine and at the Kazakhstan business unit as a result of the decrease in ore mining and processing volumes at these sites.

Fuel

The cost of fuel, diesel oil and lubricants for t rucks and excavators consumed during 2011 was US$113,801 thousand, an increase of 30% in comparison to 2010. This increase was in line with the growth in production and an increase of prices for diesel fuel and gasoline, which corresponded in general with global pricing trends for those products.

The increase in consumption of fuel by volume in 2011 was mainly attributable to the Irkutsk alluvial business as a result of the earlier commencement of mining works in 2011 as compared with 2010 and an increase in volumes of sands washing. Fuel consumption also increased at the Krasnoyarsk business unit owing to the increased volume of mining and transportation as a result of full scale operations at Blagodatnoye and the 9% increase in volumes of ore processing at Olimpiada.

Fuel costs in 2011 were also negatively impacted by the strengthening of the Russian rouble relative to the US dollar.

Labour

Labour costs comprised 28% of cash operating costs in 2011 and 2010, and were the second largest component of cash operating costs in both years. In 2011, labour costs increased by 22% over the 2010 levels to US$288,866 thousand. This increase was primarily attributable to the Krasnoyarsk business unit due to the increase of production levels at Blagodatnoye to full capacity, as well as establishment of a new entity, Polyus Logistics, which was established in 2011 to provide transportation services to the Group's subsidiaries. Among other factors impacting on the payroll costs in 2011 were the planned indexation of salaries to inflation throughout the Group, the growth of social insurance contributions and the appreciation of the average Russian rouble rate relative to the US dollar. In addition, higher payroll costs at the Irkutsk alluvial business unit were driven by the earlier start of the alluvial mining season in 2011 compared to 2010 and payment of bonuses as the planned production target was exceeded. Payroll costs at the Kazakhstan business unit also increased in 2011 due to an increase in the number of production personnel and an increase in remuneration levels.

Tax on mining

In 2011, tax on mining represented 17% of cash operating costs, as compared to 15% in 2010. In the reporting year, the Group accrued US$179,116 thousand of tax on mining, compared to US$130,230 thousand in 2010. The 38% increase was primarily the result of higher realised gold prices and increased sales volumes.

The tax base on mining under applicable Russian legislation includes concentrate or any other semi-product containing precious metal obtained by extraction of this metal from ore, alluvial or industrial deposits, as well as processed gold. Concentrates and other semi-products containing gold are subject to the tax at the rate of 6% of the cost of these semi-products. The cost is determined based on realised prices for the relevant tax period. The tax is accruable on gold, which the ore under processing contains, and thus is payable not only on gold sold, but also on gold lost during processing. The tax on mining in the Republic of Kazakhstan is calculated by reference to the value of the reserves of commercially useful minerals which are contained in mineral raw materials that have been extracted. The value of the reserves of commercially useful minerals contained in mineral raw materials is determined based on the average exchange price for such commercial minerals for the tax period. The average exchange price is the arithmetic mean of the daily average quotations for each commercial mineral recorded on the London Metal Exchange. Since 2009, the rate for tax on mining for gold in Kazakhstan has been 5%.

Utilities

Utilities expenses mainly comprise power costs and represented 5% of cash operating costs in 2011 and 2010. Utilities expenses increased by 20% from US$46,043 thousand in 2010 to US$55,140 thousand in 2011. The increase in power costs was driven principally by the increase in electricity tariffs in Russia and Kazakhstan. The strengthening of the average rouble exchange rate relative to the US dollar also contributed to the increase of utilities costs over the year.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.1.3 Cost of gold sales (continued)

Consumption of electricity increased primarily at the Krasnoyarsk business unit and resulted from higher processing volumes at Olimpiada. Transition to the full-scale operation of Blagodatnoye in 2011 (the mine was operating in the pre-commissioning mode in 2010) also led to an increase in electricity consumption. In addition, the Group's mines in Kazakhstan slightly increased consumption of electricity in 2011 due to the commissioning of new electric equipment in accordance with the approved investment programme, and additional electricity purchases were required to ensure heat supply to underground shafts and plants during the protracted 2011 winter season. These increases were offset in part by the decrease in electricity consumption by the Irkutsk ore business unit as a result of termination of operations at the Zapadnoye mine.

Outsourced mining services

In 2011, expenses on outsourced mining services comprised 2% of cash operating costs and amounted to US$22,147 thousand, representing a 149% increase over the level of the previous year. Mining services are rendered by third parties to the Irkutsk alluvial business unit. The prices for services provided by subcontractors are based on the volumes of production and realised gold price and in the reporting year were significantly affected by these factors.

Amortisation and depreciation of operating assets

Mining assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the life of mines of 7 to 21 years, which is based on estimated proved and probable ore reserves, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

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

Amortisation and depreciation of operating assets increased by 53% from US$118,559 thousand in 2010 to US$181,935 thousand in 2011. This increase in depreciation charges was primarily the result of the commissioning of new equipment at the Blagodatnoye mine and the installation of additional processing equipment at Olimpiada as part of the modernisation programme, as well as the appreciation of the average Russian rouble rate relative to the US dollar.

Amortisation of deferred stripping costs

The Group's accounting policy stipulates that stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. If the current stripping ratio falls below the average life-of-mine stripping ratio, the shortfall in stripping costs are charged to operating costs.

In 2011, the stripping ratio at Olimpiada and Blagodatnoye was lower than the average life-of-mine ratio, and, consequently, previously capitalised stripping costs were expensed. This expense was more than offset by the capitalisation of excessive stripping costs incurred in the reporting year at the Titimukhta and Kuranakh mines. As a result, deferred stripping costs in the net amount of US$7,335 thousand were capitalised in 2011, while in 2010 US$44,412 thousand were charged to operating costs. Development and approval in December 2011 of a unified mining plan for the Olimpiada deposit increased efficiency of mining works, which led to a decline in the average life-of-mine stripping ratio and reduced deferred stripping costs amortisation expenses in 2011.

Increase in gold-in-process and refined gold inventories

Metal inventories increased in 2011. These inventories comprised 22 thousand ounces of Dore gold at the Krasnoyarsk business unit, which were not refined during the year and remained in the Group's processing plants and at refinery plants at the end of 2011, as compared with 4 thousand ounces at the end of 2010. The amount of gold under processing increased mainly at the Irkutsk ore business unit, hydrometallurgical and bio-oxidation workshops of Mill Nos. 2 and 3 of the Olimpiada mine and at the Yakutia Kuranakh business unit. The Group continues to focus on improving the bio-leaching circuit of the Olimpiada mine.

Total gold-in-process of US$48,856 thousand was recorded to inventory from cost of gold sales in 2011, compared to US$114,617 thousand in 2010. The lower level in 2011 was due to technological improvements at Olimpiada and increased recovery rates.

Cost of other sales

Cost of other sales includes, in addition to electricity costs, payroll costs, expenses on fuel and materials, depreciation and other costs related to non-mining activities. In 2011, cost of other sales amounted to US$46,343 thousand, as compared to US$33,424 thousand in 2010.

In the reporting year, revenue from other sales exceeded the cost of other sales, which resulted in a net gain from other sales in the amount of US$15,717 thousand, compared to US$4,082 thousand in 2010. Gross profit on other sales margin improved from 11% in 2010 to 25% in 2011.

12.1.4 Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the years ended 31 December 2011 and 2010.

US$'000	Years ended 31 December 2011	2010	Change %
Salaries	116,295	103,811	12
Taxes other than mining and income taxes	42,630	27,528	55
Professional services	36,350	28,274	29
Other[1]	30,343	34,936	(13)
Total	**225,618**	**194,549**	**16**

[1] Other expenses include expenses related to materials, business travel costs, insurance and general and administrative expenses.

In 2011, the Group's selling, general and administrative expenses increased by 16% from US$194,549 thousand to US$225,618 thousand. This increase was primarily driven by an increase in taxes other than mining and income taxes and salaries.

Salaries

In 2011, the Group's administrative labour costs increased by 12% to US$116,295 thousand from US$103,811 thousand in 2010. This increase was primarily attributable to the Moscow headoffice. Payroll costs also increased at the Kazakhstan business unit due to the increased level of remuneration coupled with the increased headcount of administrative personnel. The growth of payroll costs was also negatively impacted by the effect of the RUB appreciation.

Taxes other than mining and income taxes

The following table below shows the components of taxes, other than mining and income taxes, for the years ended 31 December 2011 and 2010:

In 2011, the Group accrued US$42,630 thousand in federal and regional taxes other than tax on mining and income tax, compared to US$27,528 thousand a year before. Property tax charges increased in 2011 mainly due to the commissioning of new property, plant and equipment at the Krasnoyarsk business unit as a result of the Blagodatnoye mine launch in July 2010 and modernisation at the Mills Nos. 2 and 3 of the Olimpiada mine. In addition, in 2011 PGIL and its subsidiary Jenington accrued US$16,388 thousand in tax on dividends declared by OJSC Polyus Gold based on the results for the nine months of 2011.

Professional services

In 2011, the Group incurred US$36,350 thousand of professional service costs, an increase of 29% compared to 2010. This increase was primarily attributable to audit services, as well as legal and financial advisory services provided to the Group in connection with its reorganisation, the Private Exchange Offer by KazakhGold to holders of OJSC Polyus Gold securities completed in July 2011, the private exchange offer by Jenington to holders of OJSC Polyus Gold ADRs completed in August 2011, the Mandatory Tender Offer by PGIL to holders of OJSC Polyus Gold securities completed in December 2011, the preparation of proceedings against the former owners of PGIL and negotiations with AltynGroup for the sale of PGIL's operating subsidiaries.

US$ '000	Years ended 31 December 2011	2010	Change %
Property tax	20,661	16,463	25
Tax on dividends	16,388	2,716	503
VAT	2,167	1,435	51
Other taxes	3,414	6,914	(51)
Total	**42,630**	**27,528**	**55**

12.1.5 Impairment

The following table sets forth impairment recognised by the Group during the years ended 31 December 2011 and 2010:

US$'000	Years ended 31 December 2011	2010	Change %
Impairment of exploration and evaluation assets	54,708	13,584	303
Impairment of property, plant and equipment	23,501	27,179	(14)
Impairment of stockpiles	25,209	–	–
Total	103,418	40,763	154

In 2011, the Group recognised US$103,418 thousand of impairment charges, which was 154% higher than in 2010. These charges were:

Impairment of exploration and evaluation assets

In 2011, the Group recognised impairment in the amount of US$54,708 thousand (US$13,584 thousand in 2010) related to previously capitalised exploration and evaluation costs that had not led to the discovery of commercially viable quantities of gold resources and consequently resulted in the decision to discontinue such activities. Those exploration and evaluation costs had been incurred at the following exploration fields:

— Kyuchus in the Republic of Sakha (Yakutia);
— Kuzeevskaya in the Krasnoyarsk region;
— Chai-Yurinskaya, Doroninskoye and Tokichan in the Magadan region;
— Zapadnoye, Mukodek and Illigirskaya in the Irkutsk region; and
— Kaskabulak in the Republic of Kazakhstan.

Impairment of property, plant and equipment

The Group recognised impairment of property, plant and equipment in the amount of US$23,501 thousand in 2011 (US$27,179 thousand in 2010), which related to certain operating assets in Kazakhstan, the Kvartsevaya Gora deposit in the Krasnoyarsk region and the Zapadnoye mine which terminated operations in April 2011. The Group reassessed property, plant and equipment requirements at the Krasnoyarsk business unit and considered plans for their future use. As a result, certain assets' book values and expected useful lives exceeded their anticipated recoverable values and accordingly an impairment was recorded in respect of those assets, and their useful lives were revised downwards.

Impairment of stockpiles

In 2011, an impairment of stockpiles in the amount of US$25,209 thousand was recognised in respect of ore stockpiled at the Zapadnoye mine in the Irkutsk region (1.7 million tonnes), with no impairment recognised in the previous year. As a result of the depletion of reserves in the pit contour of the Zapadnoye deposit and, since the processing of stockpiled ore with a grade of 1.3 g/t was not considered to be economically viable, the Group decided to suspend operations at the Zapadnoye mine at the beginning of April 2011.

12.1.6 Other expenses, net

In 2011, the Group's other expenses, net, amounted to US$24,077 thousand, a decrease of 31% from 2010 levels. Other expenses included primarily a tax provision of US$8,040 thousand, a change in the allowance for reimbursable VAT of US$6,602 thousand, a loss on disposal of property, plant and equipment in the amount of US$5,933 thousand, mainly attributable to the Krasnoyarsk and Yakutia Kuranakh business units, as well as charitable donations in the amount of US$5,468 thousand. The major portion of the charitable donations in 2011 were made by the Yakutia business unit (for the construction of a vocational school building) and OJSC Polyus Gold (construction of an indoor swimming pool in the Irkutsk region).

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.1.7 Finance costs

In 2011, the Group's finance costs grew by 67% to US$71,403 thousand from US$42,717 thousand. The level of borrowings was stable for most of the year, with an increase in borrowings related to the Mandatory Tender Offer in November. In December 2011 the Board of Directors of the Group resolved to redeem the Senior Notes at a price of 102.344% of nominal value. The redemption was treated as a debt modification, which resulted in the accelerated amortisation of the fair value of the Senior Notes to the redemption price. As a result, the Group incurred an additional US$26,928 thousand of debt modification expense in 2011.

12.1.8 Income/(loss) from investments

In 2011, the Group received income from investments totalling US$3,630 thousand, compared to a net loss of US$23,711 thousand in 2010.

As part of the acquisition of a 50.15% stake in PGIL in 2009, the Group obtained call options to acquire all rights and obligations under convertible loan agreements between PGIL and its previous major shareholder, Gold Lion. The call options for convertible loans were classified as financial assets and were carried at fair value. The decline in PGIL's share price during the first half of 2011 resulted in the decrease in fair value of the instrument by US$8,661 thousand (US$63,775 thousand in 2010), which was recognised as an investment loss.

In addition, in 2011, the Group incurred a loss of US$20,984 thousand due to a revaluation of held for trading investments, compared to a gain of US$11,446 thousand in the previous year.

These losses were more than offset by a gain on disposal of available-for-sale investments represented by shares owned in Rosfund in the amount of US$17,023 thousand (US$20,289 thousand in 2010) and interest income on bank deposits in the amount of US$16,252 thousand (US$8,329 thousand in 2010).

12.1.9 Income tax

Income tax expense in 2011 was US$207,052 thousand, an increase of 66% as compared with 2010. This increase was largely attributable to a higher profit before taxation in comparison with the previous year. The effective income tax rate (the ratio of current and deferred tax expense to IFRS income before tax) was 27% in 2011 (24% in 2010), while the statutory income tax rate in Russia and Kazakhstan was 20% in both years. The difference between the statutory and the effective tax rates was mainly due to a number of non-deductible items for tax purposes, the effect of different tax rates of subsidiaries operating in other jurisdictions and unrecognised tax losses.

12.2 Summary table of performance results by business units

The following table shows the Group's performance results by business units for the years ended 31 December 2011 and 2010.

		Years ended 31 December											
		2011						2010					
	Note	Gold Sales		Production		Sales		Gold Sales		Production		Sales	
		US$'000	%	'000 ounces	%	'000 ounces	%	US$'000	%	'000 ounces	%	'000 ounces	%
Krasnoyarsk business unit	12.2.1	1,641,380	70	1,038	69	1,040	70	1,176,392	69	932	67	937	68
Irkutsk alluvial business unit	12.2.2	350,213	15	210	14	210	14	248,254	15	197	14	197	14
Yakutia Kuranakh business unit	12.2.3	184,735	8	117	8	117	8	149,597	9	120	9	120	9
Irkutsk ore business unit [1]	12.2.4	3,497	-	13	1	3	-	22,607	1	26	2	19	1
Kazakhstan business unit	12.2.5	160,825	7	117	8	113	8	114,448	7	110	8	103	7
Group total [2]		2,340,650	100	1,495	100	1,483	100	1,711,298	100	1,386	100	1,377	100

[1] Gold sales do not include 13 thousand ounces (2010: 5 thousand ounces) produced at pilot plants from the ores of the Verninskoye and Natalka deposits and sold during these years. These sales were not included in the Group's revenue due to non-commercial scale of production. Net proceeds from these sales were insignificant and were offset against costs of construction.
[2] Totals may not sum completely due to rounding.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.2.1 Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta deposits)

The Krasnoyarsk business unit is the Group's largest mining operation. The table below shows selected financial data for this unit for the years ended 31 December 2011 and 2010.

	Years ended 31 December		Change
US$'000, unless otherwise indicated	2011	2010	%
Olimpiada production (thousand ounces)	566	581	(3)
Blagodatnoye production (thousand ounces)	363	251	44
Titimukhta production (thousand ounces)	109	100	9
Total gold production (thousand ounces)	1,038	932	11
Gold sales	1,641,380	1,176,392	40
Segment profit	918,078	398,359	130
Segment profit margin (%)	56%	34%	–
TCC per ounce (US$/ounce)	606	519	17

Source: Management accounting data.

In 2011, the Krasnoyarsk business unit produced 1,038 thousand ounces of refined gold, compared to 932 thousand ounces in 2010.

Mills No.2 and 3 of the Olimpiada mine produced 566 thousand ounces of refined gold in 2011, compared to 581 thousand ounces in 2010. Gold output decreased primarily due to the decline in average grade (3.43 g/t in 2011 vs. 3.76 g/t in 2010). Measures aimed at increasing the Olimpiada mine's efficiency of sulphide refractory ore processing implemented at Mills Nos. 2 and 3 in 2010, allowed the mine to achieve its design capacity of 8 million tonnes of ore per year in 2011. The upgrade programme continued throughout 2011. However, gold recovery rates for primary refractory ores processed at Mills Nos. 2 and 3 were lower than planned due to a delay in commissioning the final concentration step of primary concentrate, which did not complete until December 2011, as well as difficulties encountered during adjustment of the second stage of the acid biopulp centrifuging on the hydrometallurgical circuit of Mill No. 3.

The Blagodatnoye mine produced 363 thousand ounces of gold, compared to 251 thousand ounces in 2010. The 44% increase in gold output reflects the successful ramp-up of the mine, which was commissioned in July 2010. In 2011, the mine exceeded its design ore processing capacity of 6 million tonnes per year and reached targeted gold recovery levels.

Titimukhta (Mill No.1 of the Olimpiada mine) produced 109 thousand ounces of refined gold in 2011, compared to 100 thousand ounces in 2010. The 10% increase was primarily the result of continued efforts to bring Titimukhta's performance to the design processing parameters.

Gold sales of the Krasnoyarsk business unit in 2011 was US$1,641,380 thousand, compared to US$1,176,392 thousand in 2010. The 40% increase in gold sales resulted from a combination of higher realised gold prices and increased sales volumes. During 2011 1,040 thousand ounces of refined gold were sold. The comparative sales volume for 2010 was 937 thousand ounces.

The total cash costs per ounce of gold sold for the Krasnoyarsk business unit amounted to US$606 in 2011, compared to US$519 in 2010. In addition to the factors impacting on cash costs throughout the Group in 2011 (see paragraph 12.1.3 "Cost of Gold Sales – Cash operating costs"), the increase in TCC per ounce at the Krasnoyarsk business unit was also attributable to the increase of cost of ore mining at the Blagodatnoye mine and Titimukhta mine, including expenditures on transportation, drilling and blasting operations increased due to deepening and forming of open pits at these deposits, as well as increased labour costs and transportation expenses.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.2.2 Irkutsk alluvial business unit (Alluvial deposits)

The Irkutsk business unit operates alluvial deposits. The table below shows selected financial data for this unit for the years ended 31 December 2011 and 2010.

US$'000, unless otherwise indicated	Years ended 31 December 2011	2010	Change %
Gold production (thousand ounces)	210	197	7
Gold sales	350,213	248,254	41
Segment profit	102,795	90,283	14
Segment profit margin (%)	29%	36%	–
TCC per ounce (US$/ounce)	776	612	27

Source: Management accounting data.

In 2011, refined gold production at the Group's alluvial deposits in the Irkutsk region grew by 7% to 210 thousand ounces from 197 thousand ounces in 2010. This increase was due to the accelerated repair and maintenance works performed during the winter season, as well as a renewal of the mining fleet at the deposits, which allowed the Group to commence mining earlier than planned. In addition, warm weather conditions in October and November 2011 allowed operations to be extended.

Gold sales of the alluvial business unit increased from US$248,254 thousand in 2010 to US$350,213 thousand in 2011 on the back of the growing realised gold price and increased sales volumes. All gold produced in 2011 in the amount of 210 thousand ounces was sold (197 thousand ounces in 2010).

Total cash costs per ounce of gold sold amounted to US$776 in 2011, compared to US$612 in 2010. In addition to the factors impacting on cash costs throughout the Group in 2011 (see paragraph 12.1.3 "Cost of gold sales – Cash operating costs"), the increase in TCC per ounce at the Irkutsk alluvial business unit was mainly attributable to increased payroll costs (due to bonus payments for exceeding the production plan) and consumables and spares consumption, including fuel, resulting from the early commencement of the mining season, increased volumes of sands washing and repair works and the increased cost of outsourced mining services. Labour costs have been the largest component of cost of gold sales at the Irkutsk alluvial business unit.

12.2.3 Yakutia Kuranakh business unit (Kuranakh mine)

The Yakutia Kuranakh business unit operates the Kuranakh mine in the Sakha Republic (Yakutia). The table below shows selected financial data for this unit for the the years ended 31 December 2011 and 2010.

US$'000, unless otherwise indicated	Years ended 31 December 2011	2010	Change %
Gold production (thousand ounces)	117	120	3
Gold sales	184,735	149,597	23
Segment profit	13,797	38,923	(65)
Segment profit margin (%)	7%	26%	–
TCC per ounce (US$/ounce)	890	710	25

Source: Management accounting data.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.2.3 Yakutia Kuranakh business unit (Kuranakh mine) (continued)

In 2011, the Kuranakh mine produced 117 thousand ounces of refined gold, compared to 120 thousand ounces in 2010. The reduction in gold output at the Kuranakh mine was caused by challenging hydrogeological conditions at the Kuranakh ore fields. A significant hydrogeological assessment and pit dewatering programme were initiated to overcome this problem. In addition, increased hardness of the ore mined reduced the efficiency of the primary crushing circuit preparing the feed to the Kuranakh processing plant. In 2011, the Group implemented performance testing at the plant as part of the expansion and upgrade programme at the Kuranakh mine.

In 2011, gold sales of the Yakutia Kuranakh business unit amounted to US$184,735 thousand, compared to US$149,597 thousand in 2010. The 23% increase was the result of the growth of realised gold price. Gold sales volumes in 2011 amounted to 117 thousand ounces, compared to 120 thousand ounces in 2010.

Total cash costs per ounce of gold sold increased from US$710 in 2010 to US$890 in 2011. In addition to the factors impacting on cash costs throughout the Group in the reporting year (see paragraph 12.1.3 "Cost of Gold Sales – Cash operating costs"), the increase in TCC per ounce at the Yakutia Kuranakh business unit was also attributable to the increased consumption of key production materials and spare parts for repair and maintenance works. Operation of the mining and transportation equipment was complicated and equipment load intensified due to excessive water in the producing open pits and high clay content in the soil, leading to increased repair and maintenance costs and expenses on transportation services provided by third parties.

The decrease in the segment profit of the Yakutia Kuranakh business unit in 2011 was due to difficulties with watering in the pits and interruption to the operation of the processing plant as it is one of the older assets in the Group.

12.2.4 Irkutsk ore business unit (Zapadnoye and Verninskoye mines)

The Irkutsk ore business unit conducts hard-rock mining operations at the Zapadnoye and Verninskoye mines. The table below shows selected financial data for this unit for the years ended 31 December 2011 and 2010.

US$'000, unless otherwise indicated	Years ended 31 December 2011	2010	Change %
Gold production (thousand ounces)	13	26	(50)
Gold sales	3,497	22,607	(85)
Segment loss	(13,042)	(4,191)	211
Segment profit margin (%)	–	–	–
TCC per ounce (US$/ounce)	841	1,045	(20)

Source: Management accounting data.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.2.4 Irkutsk ore business unit (Zapadnoye and Verninskoye mines) (continued)

In 2011, the Irkutsk ore business unit produced 13 thousand ounces of gold, compared to 26 thousand ounces produced in 2010. The production volumes for the reporting year included 3 thousand ounces produced at the Zapadnoye mine and 10 thousand ounces produced at the Pervenets pilot plant. As a result of depletion of reserves in the pit contour of the Zapadnoye deposit, a decision was made to suspend operations at the Zapadnoye mine with effect from the start of April 2011. The pit suspension measures were developed and approved by the Irkutsk branch of Rostechnadzor (Federal Agency on Environmental, Technological and Nuclear Control).

Gold sales of the Irkutsk ore business unit in 2011 amounted to US$3,497 thousand, compared to US$22,607 thousand in 2010. The decrease was a result of the Zapadnoye mine suspension in April 2011. Gold sales volumes in the reporting year amounted to 3 thousand ounces.

The decline in the profitability of the Irkutsk ore business unit in 2011 was principally the result of the Zapadnoye mine suspension

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

The Kazakhstan business unit comprises the Aksu, Bestobe, Zholymbet and Akzhal mines. The Group acquired these operations through its acquisition of a controlling stake in KazakhGold Group Limited (now PGIL) in August 2009. The table below shows selected financial data for this unit for the years ended 31 December 2011 and 2010.

US$'000, unless otherwise indicated	Years ended 31 December 2011	2010	Change %
Gold production (thousand ounces)	117	110	6
Gold sales	160,825	114,448	41
Segment profit/(loss)	5,773	(55,943)	(110)
Segment profit margin (%)	4%	–	–
TCC per ounce (US$/ounce)	653	585	12

Source: Management accounting data.

In 2011, the Kazakhstan operations of the Group produced 117 thousand ounces of gold in semi-finished products, compared to 110 thousand ounces in 2010. The increase of 6% was achieved due to the enhanced ore processing at plants coupled with improved recoveries as a result of implementation of the investment programme to upgrade existing operations, as well as improved grades of the ore under processing at Bestobe and Zholymbet.

Gold sales amounted to US$160,825 thousand in 2011, compared to US$114,448 thousand in 2010. The 41% increase resulted from a combination of higher realised gold prices and the increased sales volumes. Sales volumes amounted to 117 thousand ounces in 2011, compared to 103 thousand ounces in 2010.

Total cash costs per ounce of gold sold in 2011 amounted to US$653, compared to US$585 in 2010. In addition to the factors impacting on cash costs throughout the Group in 2011 (see paragraph 12.1.3 "Cost of Gold Sales – Cash operating costs"), the increase in TCC per ounce at the Kazakhstan mines was driven by the increased payroll costs and consumption of electricity as a result of the commissioning of new electric equipment in accordance with the approved investment programme, and additional electricity purchases required to ensure heat supply to underground shafts and plants during the cold weather conditions in January-March 2011. TCC per ounce was also negatively impacted by the suspension of production at the Akzhal mine from May 2011 due to the delay in the state listing of gold reserves (Akzhal HL facilities were partly loaded by the ore from the Kaskabulak deposit), and a material decline in the

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.2.5 Kazakhstan business unit (Aksu, Bestobe, Zholymbet and Akzhal mines) (continued)

average gold grade in the ore processed at the Aksu mine from 2.5 g/t in 2010 to 1.9 g/t in 2011. In December 2011 gold reserves of the Akzhal deposit were listed with the State Reserves Committee and operations at the mine resumed.

In 2011, the segment profit of the Kazakhstan operations amounted to US$5,773 thousand, compared to US$55,943 thousand of losses incurred in 2010. The improvement of the financial results of the business unit was in part due to the ongoing modernisation programme at the Kazakhstan operating subsidiaries of the Group.

12.3 Non-GAAP financial measures

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

12.3.1 Adjusted EBITDA

"Adjusted EBITDA" is defined by the Group as profit before finance costs, income tax, income/(losses) from investments, depreciation, amortisation and interest, and is further adjusted by certain items included in the table below. The Group has made these adjustments in calculating Adjusted EBITDA to provide a management 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. The Group believes that Adjusted 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 Group's measure of profitability or liquidity.

The following table sets forth the Group's Adjusted EBITDA for the years ended 31 December 2011 and 2010:

US$'000	Years ended 31 December 2011	2010	Change %
Profit for the year	558,015	356,497	57
+ Income tax	207,052	124,840	66
+ Foreign exchange loss/(gain)	5,814	(765)	–
+ Loss on derivatives classified as held for trading	8,661	63,775	(86)
+ Loss/(gain) from investments in listed companies held for trading	20,984	(11,446)	–
– Gain on disposal of AFS investments	(17,023)	(20,289)	(16)
– Interest income on bank deposits	(16,252)	(8,329)	95
+ Finance costs	71,403	42,717	67
+ Impairment of property, plant and equipment and exploration and evaluation assets	78,209	40,763	92
+ Loss on disposal of property, plant and equipment	5,933	2,037	191
+ Depreciation and amortisation for the year	187,949	126,855	48
Adjusted EBITDA	**1,110,745**	**716,655**	**55**

The Group's Adjusted EBITDA in 2011 was US$1,110,745 thousand, compared to US$716,655 thousand in the previous year. The increase of 55% was attributable primarily to rising realised gold prices combined with higher sales volumes.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.3.2 Total cash costs

The Group presents the financial items "total cash costs" ("TCC") and "total cash costs per troy ounce sold" which have been calculated and presented by management as TCC is common industry practice, although its calculations of these items may differ from those of its industry peers. These items are non 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.

Total cash costs per troy ounce sold are the total attributable cash costs divided by the attributable troy ounce of gold sold during the year.

The Group's TCC per ounce sold is primarily influenced by trends at the Group's Krasnoyarsk business unit, which contributes a substantial majority of the Group's gold production. The following table shows the Group's TCC for the years ended 31 December 2011 and 2010. Total cash costs and total cash costs per ounce sold have been calculated by management and have not been independently verified by the Group's auditors:

In 2011, TCC per ounce increased by 19%, as a result of appreciation of the average Russian rouble rate relative to the US dollar, and other factors as later described. TCC in Russian rouble terms increased by 15% in 2011 over 2010 levels due to an increase in tax on mining charges as a result of growing gold prices, increased labour costs and higher fuel expenses. Growing transportation costs and expenses on outsourced mining services also contributed to the increase of per unit cash costs. Although the Group made improvements in the processing efficiency of its mines, the resulting rate of increase in gold production and sales volumes was less than the rate of growth of costs, which led to an increase in the Group's TCC indicator.

US$'000, unless otherwise indicated	Years ended 31 December 2011	2010	Change %
Cost of gold sales	1,162,019	895,555	30
– property, plant and equipment depreciation	(181,935)	(118,559)	53
– employee benefit obligations cost	(3,774)	(10,596)	(64)
– provision for annual vacation payment	(1,620)	(7,208)	(78)
– change in allowance for obsolescence of inventory	(2,819)	–	–
+ non-monetary changes in inventories [1]	6,795	12,225	(44)
+ non-monetary changes in deferred stripping costs [2]	1,174	(8,459)	(114)
TCC	979,840	762,958	28
Gold sales ('000 ounces) [3]	1,483	1,377	8
TCC (US$per ounce sold)	661	554	19
TCC (RUB per ounce sold)	19,427	16,833	15

[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 costs" 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.
[3] Gold sales do not include 13 thousand ounces (2010: 5 thousand ounces) produced at pilot plants from the ores of the Verninskoye and Natalka deposits and sold during these years. These sales were not included in the Group's revenue due to non-commercial scale of production. Net proceeds from these sales were insignificant and were offset against costs of construction.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4. Review of financial sustainability and solvency

12.4.1 Analysis of statement of financial position items

US$'000,	Years ended 31 December 2011	2010	Change %
Assets			
Non-current assets			
Property, plant and equipment	2,056,417	2,058,636	–
Exploration and evaluation assets	399,846	442,316	(10)
Deferred stripping costs	64,460	61,023	6
Inventories	207,789	201,030	3
Investments in securities and other financial assets	3,643	50,273	(93)
Other non-current assets	35	1,860	(98)
Total non-current assets	**2,732,190**	**2,815,138**	**(3)**
Current assets			
Inventories	543,023	455,144	19
Investments in securities and other financial assets	63,468	177,332	(64)
Cash and cash equivalents	657,448	326,905	101
Other current assets [1]	222,882	229,655	(3)
Total current assets	1,486,821	1,189,036	25
Total assets	**4,219,011**	**4,004,174**	**5**
Equity and liabilities			
Equity attributable to shareholders of the Company	2,595,356	3,183,645	(18)
Non-controlling interest	235,317	56,886	314
Total equity	**2,830,673**	**3,240,531**	**(13)**
Non-current liabilities			
Site restoration and environmental obligations	149,876	136,410	10
Borrowings	123,048	29,686	314
Deferred tax liabilities	180,741	182,948	(1)
Other non-current liabilities	24,008	19,666	22
Total non-current liabilities	**477,673**	**368,710**	**30**
Current liabilities			
Borrowings	675,632	173,762	289
Trade, other payables and accrued expenses	192,077	169,037	14
Taxes payable	42,956	52,134	(18)
Total current liabilities	910,665	394,933	131
Total liabilities	**1,388,338**	**763,643**	**82**
Total equity and liabilities	**4,219,011**	**4,004,174**	**5**

[1] Other current assets consist of deferred expenditures, trade and other receivables, advances paid to suppliers and prepaid expenses and taxes receivable.

12.4.1.1 Assets
Non-current assets

Property, plant and equipment

US$'000,	As at 31 December 2011	2010	Change %
Mining assets	1,651,929	1,722,332	(4)
Non-mining assets	32,820	40,722	(19)
Capital construction-in-progress	371,668	295,582	26
Total property, plant and equipment	**2,056,417**	**2,058,636**	**–**

At 31 December 2011 the Group's assets amounted to US$4,219,011 thousand, compared to US$4,004,174 thousand at 31 December 2010. This increase of 5% resulted primarily from an increase in current assets, including current inventories and cash and cash equivalents.

At 31 December 2011, the net book value of property, plant and equipment totalled US$2,056,417 thousand, compared to US$2,058,636 thousand at 31 December 2010. The slight decrease in property, plant and equipment was attributable to the effect of depreciation of the rouble against the US dollar.

The Group's primary expenditures on mining assets denominated in the national currencies relate to:
- the acquisition of mining and transportation equipment at the Blagodatnoye and Olimpiada mines in the Krasnoyarsk region;
- the upgrade of the mining fleet at the alluvial deposits;
- replacement of some equipment at the Titimukhta and Kuranakh mines; and
- the modernisation of operating assets in Kazakhstan.

The closing balance of the Group's mining assets at 31 December 2011 was US$1,651,929 thousand, compared to US$1,722,332 thousand at 31 December 2010. As at 31 December 2011, mining assets included mineral rights of US$335,470 thousand.

In 2011, the Group recognised an impairment charge on property, plant and equipment in the amount of US$23,501 thousand (US$27,179 thousand in 2010) related mainly to the reassessment of some fixed assets at the Kazakhstan business unit and suspension of the Zapadnoye mine. In 2011, the Group reassessed some property, plant and equipment at the Kazakhstan business unit. As a result, certain assets' book values and expected useful lives exceeded the anticipated recoverable values and accordingly an impairment was recorded in respect of those assets.

The value of capital construction-in-progress increased by 26% from US$295,582 thousand at 31 December 2010 to US$371,668 thousand at 31 December 2011, which was mainly attributable to the construction of Verninskoye and Natalka mines, modernisation of Olimpiada and operating assets in Kazakhstan. The change in value of non-mining assets was primarily due to the reclassification of some non-mining assets to mining assets as a result of the reorganisation of the Irkutsk ore business unit.

As at 31 December 2011 property, plant and equipment with a carrying value of US$4,613 thousand (2010: US$3,620 thousand) had been pledged to secure the bank guarantee liability.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.1.1 Assets (continued)

Exploration and evaluation assets

At 31 December 2011 exploration and evaluation assets amounted to US$399,846 thousand, a decrease of 10% as compared to 31 December 2010. The decrease was partly the result of recognition of an impairment charge and also due to the effect of translation to the US dollar presentation currency. In 2011, the Group recognised an impairment charge of US$54,708 thousand as described in section 12.1.5. These impairments were partly offset by capitalisation of exploration expenses incurred in:

— the Krasnoyarsk region at Olimpiada, Razdolinskaya and Panimba;
— the Irkutsk region at Zapadnoye and Medvezhiy;
— the Magadan region at Degdekan.

Deferred stripping costs

In accordance with its accounting policy, the Group capitalises stripping costs or charges previously capitalised stripping costs to operating costs on the basis of the average life-of-mine stripping ratio. Historically, the deferred stripping costs were mostly related to the Olimpiada mine where in 2007-2008 a significant volume of waste rock was removed to access the sulphide ore body following the depletion of oxide ores. In 2011, the stripping ratio at Olimpiada was lower than the average life-of-mine ratio and, therefore, previously capitalised stripping costs were charged to operating costs. During 2011, deferred stripping costs were also expensed at Blagodatnoye. These decreases were more than offset by the deferral of stripping costs incurred at Titimukhta and Kuranakh as excess stripping above the average ratio took place in the year. As a result, deferred stripping costs increased by 6% from US$61,023 thousand at 31 December 2010 to US$64,460 thousand at 31 December 2011.

Inventories

In 2011 long-term inventories slightly increased from US$201,030 at the beginning of the year to US$207,789 thousand at 31 December 2011. Long-term ore stockpiles increased at the Krasnoyarsk business unit due to stockpiling of ore from Olimpiada and reclassification of ore stockpiles at Titimukhta from short-term to long-term inventories. This increase was partly offset by the impairment of low-grade ore stockpiles at the Irkutsk hard rock business unit in a total amount of US$25,209 thousand (1,742 thousand tonnes), as the Group determined that gold production from low-grade ore from the Zapadnoye deposit, which remained after suspension of the mine, was not economically viable. Further, there was a decrease of long-term ore stockpiles at the Kazakhstan mines. The rouble depreciation relative to the US dollar reduced the relative value of the stockpiles.

When the Group was processing oxide ores at Olimpiada, stockpiles of sulphide ore (6.8 million tonnes) at the Group's Krasnoyarsk business unit were considered as waste and accounted for at zero cost. Throughout 2010, the Group did not process any zero-value stockpile. During 2011, 1.2 million tonnes of this zero-value inventory was processed, and the impact on the margin was estimated to have been US$28.5 million.

As at 1 January 2012 zero-value stockpile amounted to 5.6 million tonnes. Due to the significant increase in gold prices in recent times, this zero-value stockpile could have a significant impact on operations if processed at the present time, since the only cost associated with this inventory would be the processing cost.

For illustrative purposes only, the impact of processing the remaining stockpiles (subject to the limitations detailed below) would be an approximate US$112 million increase to profit for the year in which processed. This estimate is subject to various limitations. Namely, the computation has:

— been calculated using the current processing cost, which may or may not be indicative of future processing cost;
— ignored any potential impacts of inflation;
— ignored any potential impact of the differences in grades;
— been compiled using the current market price of gold per ounce, which may or may not be indicative of the future sales price; and
— assumed that the entire zero-value stockpile would be processed in the same year, when in reality this may occur over a prolonged period of time.

Non-current investments in securities and other financial assets

At 31 December 2010, non-current investments in securities and other financial assets consisted mostly of derivative financial assets, comprising call options to acquire all rights and obligations under convertible loan agreements between PGIL and its previous major shareholder Gold Lion, which was derecognised in 2011. Under the convertible loan agreements, the lender could convert the principal amounts together with accrued interest into ordinary shares of PGIL at the price of US$1.50 per share. These options had been obtained following the acquisition of a 50.15% stake in KazakhGold Group Limited (now PGIL) by the Group in 2009. The call options were classified as a financial asset held through profit and loss and were carried at fair value.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.1.1 Assets (continued)

The fair value of the instrument was determined by financial assumption with reference to PGIL's spot market price. Between 31 December 2010 and 30 June 2011 PGIL's share price declined and the fair value of the call options decreased from US$46,136 thousand at 31 December 2010 to US$37,475 thousand at 30 June 2011. At 30 June 2011 as a result of the reorganisation of the shareholding structure of the Group, the call options were reclassified as treasury shares at an amount equal to the fair value of the options at 30 June 2011 with a corresponding loss from change in fair value of the options recognised as an investment loss in the consolidated income statement.

Current assets

At 31 December 2011 the Group's current assets amounted to US$1,486,821 thousand, compared to US$1,189,036 thousand at 31 December 2010. This increase of 25% resulted mainly from an increased cash balance and an increase in inventories.

Inventories

In 2011, the Group's current inventories increased by 19% to US$543,023 thousand as at 31 December 2011 from US$455,144 thousand as at 31 December 2010. During 2011, metal inventories increased by 14% from US$164,855 thousand at the beginning of the year to US$188,515 thousand at the end of the year. The increase in metal inventories throughout the Group was due to the following reasons:

— at the Krasnoyarsk business unit the balance of Dore gold remaining at the plant and refinery at 31 December 2011 amounted to 22 thousand ounces, as compared with 4 thousand ounces at 31 December 2010;
— the amount of gold under processing significantly increased at the bio-oxidation and hydrometallurgical workshops of Mills No. 2 and 3 of the Olimpiada mine as a result of accumulation of gold concentrate due to re-equipment of the production flowsheet (installation of centrifugal concentrators) and repair works. The Group is now re-assessing gold-in-process within the bio-leaching circuit of the Olimpiada mine. The Group is verifying the gold quantity on each of its bio-leaching reactors by sampling, analyzing and calculating the gold content. To date, no significant adjustments to the reported values have been identified;
— at the Irkutsk ore business unit gold-in-process experienced a significant increase as a result of reclassification of ore stockpiles to gold-in-process following commissioning of the Verninskoye mine;
— the stocks of finished goods increased from US$19,523 thousand at 31 December 2010 to US$24,757 thousand at 31 December 2011,which was primarily attributable to the Kazakhstan business unit;
— in addition to an increase in volume of metal inventories, the increased costs of production result in higher value of gold on the statement of financial position.

Materials and stores increased by 22% to US$354,508 thousand during 2011. The increase mainly related to the Krasnoyarsk business unit, where stores of diesel oil were accumulated for the winter period and spare parts for ore mining and processing equipment were procured for the purpose of repair and maintenance works. Additional materials and spares were acquired for the needs of the planned repair and maintenance works at the Irkutsk alluvial business unit. The increase in value of materials and stores in 2011 was also significantly affected by the rising prices for diesel oil, sodium cyanide and other chemicals.

Investments in securities and other financial assets

Investments in securities and other financial assets comprise available-for-sale equity investments, bank deposits and equity investments in listed companies held for trading. Movements in short-term investments during the year ended 31 December 2011 are presented in the table below.

	Years ended 31 December		Change
US$'000, unless otherwise indicated	2011	2010	%
Available-for-sale investments	34,744	99,721	(65)
Equity investments in listed companies held for trading	14,857	36,730	(60)
Bank deposits	12,175	39,351	(69)
Other	1,692	1,530	11
Total investments in securities and other financial assets	**63,468**	**177,332**	**(64)**

12.4.1.1 Assets (continued)

The Group's available-for-sale investments primarily included investments in securities managed by Rosfund, as well as equity investments in listed companies, bonds and depositary receipts. Investments in listed companies held for trading are represented by financial assets carried at fair value through profit and loss.

At 31 December 2011, short-term investments in securities and other financial assets totalled US$63,468 thousand, a decrease of 64% as compared to US$177,332 thousand at 31 December 2010. The return on investments in 2011 amounted to 10%. During the year, the Group sold 56% of its investment in Rosfund and achieved a gain of US$17,023 thousand, which was reflected as investment income. In 2011, the fair value of the remaining available-for-sale investments declined by US$8,976 thousand. This decrease was recognised in equity within the investment revaluation reserve. During the reporting year, the Group disposed of US$1,332 thousand of investments in listed companies held for trading. By 31 December 2011, the fair value of held for trading investments decreased to US$14,857 thousand, which was reflected as an investment loss in the consolidated income statement. In addition, in 2011, the Group partly withdrew cash from bank accounts. The closing balance of the Group's bank deposits at 31 December 2011 was US$12,175 thousand (US$39,351 thousand at 31 December 2010). These deposits are denominated in roubles and bear interest rates ranging between 2.1 to 8.1% per annum and mature until June 2012.

Cash and cash equivalents

In 2011, the balance of cash and cash equivalents doubled as compared to 31 December 2010 and at the reporting date amounted to US$657,448 thousand. The increase was the result of significant cash inflows from operating activities and the withdrawal of funds from short-term investments.

12.4.1.2 Equity and liabilities

Capital and reserves

Movements in the Group's capital and reserves during the year ended 31 December 2011 are presented in the table below.

US$'000,	As at 31 December 2011	2010	Change %
Share capital	482	519	(7)
Additional paid-in capital	2,189,240	2,087,978	5
Treasury shares	(765,013)	(626,313)	22
Investments revaluation reserve	4,557	30,556	(85)
Translation reserve	(258,426)	(119,736)	116
Retained earnings	1,424,516	1,810,641	(21)
Equity attributable to shareholders of the Company	**2,595,356**	**3,183,645**	**(18)**
Non-controlling interests	235,317	56,886	314
Total	**2,830,673**	**3,240,531**	**(13)**

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.1.2 Equity and liabilities (continued)

As at 31 December 2011, capital and reserves were US$2,830,673 thousand, as compared to US$3,240,531 thousand as at 31 December 2010. In 2011, the Group's capital and reserves changed as a result of the business reorganisation comprising the combination with KazakhGold, which was completed on 25 July 2011. On 14 July 2011 the authorised share capital of PGIL was increased to 3,600,000,000 ordinary shares at par value of £0.0001 per share (31 December 2010: 2,100,000,000 shares). The issued and fully paid-up share capital of PGIL comprised 3,032,149,962 ordinary shares (31 December 2010: 119,608,333 shares) at a par value of £0.0001 per share.

On 31 December 2011, treasury shares were held by a wholly-owned subsidiary of the Group, Jenington, and were recorded at cost. During 2011 the treasury shares increased by 22% from US$626,313 thousand at 31 December 2010 to US$765,013 thousand at 31 December 2011. As a result of the combination, shares in PGIL held by Jenington have become treasury shares of the reorganised Group, and were recorded at the amount of consideration paid for PGIL (US$220,848 thousand). This amount includes the consideration paid for the acquisition of a 50.15% stake in PGIL in 2009 and the subsequent increase of the stake to 65% through the Group's participation in PGIL's equity placement in 2010, adjusted thereafter for the postacquisition change in Jenington's share of net assets of PGIL. In addition, call options to acquire all rights and obligations under convertible loan agreements between PGIL and Gold Lion (the former owner of PGIL) have become treasury shares of the reorganised Group, and were recorded at the cost of US$37,475 thousand, the fair value of the options at 30 June 2011. On 29 July 2011, Jenington launched an additional Private Exchange Offer. The offer closed on 15 August 2011 and resulted in Jenington acquiring 4.1 million OJSC Polyus Gold ADRs representing approximately 1.09% of the total issued share capital of OJSC Polyus Gold in exchange for 35.5 million of PGIL's treasury shares, which resulted in a US$119,623 thousand decrease in treasury shares of PGIL.

The investment revaluation reserve decreased by US$25,999 thousand in 2011 to US$4,557 thousand at 31 December 2011, as a result of a decline in the fair value of available-for-sale investments together with the realised gain on disposal of available-for-sale investments.

In 2011, the Group's retained earnings decreased by 21% to US$1,424,516 thousand. The decrease was attributable to the effect of the reorganisation (US$417,460 thousand), increase of ownership in subsidiary (US$365,336 thousand) and dividends accrued in respect of 2010 results (US$72,327 thousand), which offset the net profit for 2011 attributable to shareholders of the Company of US$468,998 thousand. The increase of ownership in subsidiary included the acquisition of an additional 2.36% stake in OJSC Polyus Gold by Jenington in the second private exchange offer and a series of privately negotiated transactions in July- August 2011 and the acquisition of a 3.81% stake in OJSC Polyus Gold by PGIL through the a Russian law-governed mandatory tender offer (the "Mandatory Tender Offer") in November-December 2011, which had a combined effect of a US$365,336 thousand decrease in retained earnings of the Group. On 30 August 2011, PGIL commenced the Mandatory Tender Offer to purchase ordinary registered shares of OJSC Polyus Gold for cash from the remaining shareholders of OJSC Polyus Gold at a purchase price of 1,900.27 Russian roubles or US$65.85 (at 30 August 2011 exchange rate) per share. Settlements under the Mandatory Tender Offer were completed on 16 December 2011. In the Mandatory Tender Offer, PGIL acquired 7.3 million shares, representing approximately 3.81% of the issued and outstanding shares of OJSC Polyus Gold and became a holder of 92.95% of the issued share capital of OJSC Polyus Gold.

Dividends for 2010 at the rate of RUB 19.77 per ordinary share were declared by OJSC Polyus Gold's annual general shareholders' meeting on 20 May 2011. Taking into account the interim dividend payment of RUB 8.52 per ordinary share in respect of the results of the first half of 2010, the final dividend rate for the second half of the year was RUB 11.25 per OJSC Polyus Gold ordinary share, or US$0.40 per share (based on the exchange rate at 20 May 2011). This amount represents a dividend of RUB 0.71 or US$0.03 per PGIL share, after giving effect to reorganisation. The dividends were had been paid by 19 July 2011.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.1.2 Equity and liabilities (continued)

As a result of the reorganisation of the Group, non-controlling interests increased by US$417,460 thousand, reflecting non-controlling interests in OJSC Polyus Gold, which became PGIL's subsidiary. As a result of the acquisition of a 2.36% stake in OJSC Polyus Gold by Jenington in July-August 2011 and a 3.81% stake in OJSC Polyus Gold by PGIL through the Mandatory Tender Offer completed in December 2011, non-controlling interests decreased by US$223,480 thousand. Other changes of non-controlling interests in 2011 included total comprehensive income for the year attributable to minorities in the amount of US$33,400 thousand and dividends declared to shareholders of non-controlling interests by OJSC Polyus Gold and the Irkutsk alluvial business unit in the total amount of US$48,949 thousand. Dividends for nine months of 2011 at the rate of RUB 26.23 per ordinary share, or US$0.84 per share (based on the exchange rate at 9 December 2011), were declared by OJSC Polyus Gold's Extraordinary General Shareholders' meeting on 9 December 2011. The dividends had been paid by 7 February 2011.

Non-current liabilities

Non-current liabilities include long-term borrowings, deferred tax liabilities, site restoration and environmental obligations and other non-current liabilities. Movements in non-current liabilities in the year ended 31 December 2011 are presented in the table below.

In 2011, non-current liabilities increased by 30% to US$477,673 thousand at 31 December 2011. Site restoration and environmental obligations increased by 10% and at 31 December 2011 amounted to US$149,876 thousand. The increase resulted from the change of the discount and inflation rates applied for the estimation of the obligations and unwinding of the discount on obligations, which was partly offset by the effect of the RUB depreciation.

Long-term borrowings of the Group at the reporting date were represented by the long-term portion of the amount payable to Societe Generale under the US$100 million credit facility provided to OJSC Pervenets (Irkutsk ore business unit) and loans payable to Gold Lion, formerly PGIL's major shareholder. The loans payable to Gold Lion bear an interest rate of 10% per annum (the effective rate is 16%) and are due in November 2014. At 31 December 2011 the sum payable under the loans was equal to US$34,160 thousand (US$29,686 thousand at 31 December 2010).

Deferred tax liabilities decreased by 1% from US$182,948 thousand at 31 December 2010 to US$180,741 thousand at 31 December 2011, which was mostly due to the effect of the Russian rouble depreciation.

Current liabilities

Current liabilities include short-term borrowings, trade and other payables and accrued expenses and taxes payable. In 2011, current liabilities increased by 131% from US$394,933 thousand at 31 December 2010 to US$910,665 thousand at 31 December 2011 mainly due to an increase in borrowings.

Following the acquisition of a controlling stake in PGIL, the liability under the outstanding US$200 million Senior Notes due in November 2013 (the "Senior Notes") was reflected in the Group's statement of financial position at fair value at the acquisition date and carried at amortised cost. In connection with the acquisition of PGIL, OJSC Polyus Gold became a guarantor of the Senior Notes. In July 2011, the Group completed a consent solicitation for the Senior Notes with respect to, among other things, consent, relating to the combination of OJSC Polyus Gold with the KazakhGold Group. As part of the consent solicitation the interest of the Senior Notes increased from 9.375% to 9.875% from 6 November 2011. In December 2011, the Board of Directors of the Group resolved to redeem the Senior Notes in March 2012 at a price of 102.344% of nominal value. This was treated as a debt modification, which entailed accelerated amortisation of the fair value of the Senior Notes

US$'000,	As at 31 December 2011	2010	Change %
Site restoration and environmental obligations	149,876	136,410	10
Borrowings	123,048	29,686	314
Deferred tax liabilities	180,741	182,948	(1)
Other non-current liabilities	24,008	19,666	22
Total non-current liabilities	**477,673**	**368,710**	**30**

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.1.2 Equity and liabilities (continued)

to the redemption price. At 31 December 2011, the fair value of the liability under the Senior Notes amounted to US$204,520 thousand (US$173,762 thousand at 31 December 2010). On 15 March 2012 the Senior Notes were redeemed at a price of 102.344% of nominal value funded by two US$100 million loans obtained from HSBC and Unicredit.

In September 2011, PGIL entered into separate bridge facilities with VTB Bank (the "VTB Bank Bridge Facility") and Societe Generale (the "Societe Generale Bridge Facility", and together with the VTB Bank Bridge Facility, the "Bridge Facilities") for loans in the amount of US$300 million and US$500 million, respectively, to finance the acquisition of shares of OJSC Polyus Gold under the Mandatory Tender Offer. As at 31 December 2011, US$230,000 thousand had been drawn under the VTB Bank Bridge Facility and US$230,000 thousand under the Societe Generale Bridge Facility. Both loans are due in May 2012.

Trade, other payables and accrued expenses increased by 14% from US$169,037 thousand at 31 December 2010 to US$192,077 thousand at 31 December 2011, primarily as a result of the accrual of dividends payable and an increase in wages and salaries payable, the outstanding balances of which related mainly to the Krasnoyarsk business unit and alluvial enterprises. These increases were partly offset by the elimination of the tax on mining provision, the decrease in trade payables and the repayment of the bank guarantee liability incurred by PGIL's Kazakh subsidiary JSC "MMC KazakhAltyn" in 2006 in respect of finance lease agreements.

In 2011, taxes payable decreased by 18% from US$52,134 thousand at 31 December 2010 to US$42,956 thousand at 31 December 2011. This decrease was driven by the reduction in income tax payable, which was partly offset by an increase in social taxes, tax on mining and VAT payables.

12.4.2 Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the years ended 31 December 2011 and 2010.

US$'000	Years ended 31 December 2011	2010	Change %
Operating activities			
Profit before income tax	765,067	481,337	59
Adjustments [1]	391,849	310,409	26
Operating profit before working capital movements	**1,156,916**	**791,746**	**46**
Movements in working capital	(137,345)	(234,888)	(42)
Cash flows from operations	**1,019,571**	**556,858**	**83**
Interest paid	(23,423)	(23,213)	1
Income tax paid	(230,743)	(88,338)	161
Net cash generated from operating activities	**765,405**	**445,307**	**72**
Investing activities			
Capital expenditures and deferred stripping costs [2]	(359,396)	(359,424)	0
Other investment proceeds/(spending) [3]	99,033	188,310	(47)
Net cash utilised in investing activities	**(260,363)**	**(171,114)**	**52**
Net cash utilised in financing activities	**(134,958)**	**(110,983)**	**22**
Net increase in cash and cash equivalents	**370,084**	**163,210**	**127**
Cash and cash equivalents at beginning of the year	**326,905**	**173,360**	**89**
Effect of foreign exchange rate changes on cash and cash equivalents	(39,541)	(9,665)	309
Cash and cash equivalents at end of the year	**657,448**	**326,905**	**101**

[1] Adjustments for non-cash items include: amortisation and depreciation, finance costs, expensed stripping costs, impairment of inventories, impairment of exploration and evaluation assets, impairment of property, plant and equipment, loss on disposal of property, plant and equipment, change in allowance for reimbursable value added tax, loss/(income) from investments, change in allowance for doubtful debts, net foreign exchange gain, goodwill impairment and other items.
[2] Capital expenditures and capitalised deferred stripping costs include purchases of property, plant and equipment, payments for capitalised deferred stripping costs and proceeds on sales of property, plant and equipment.
[3] Other investment proceeds/(spending) include interest received, purchase of investments in securities and other financial assets and proceeds on sales of investments in securities and other financial assets.

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.2 Cash flow analysis (continued)

Operating activities

In 2011, the Group generated profit before income tax in the amount of US$765,067 thousand, compared to US$481,337 thousand in 2010. The increase in profit before income tax resulted from a combination of the higher realised gold prices and increased gold sales volumes. Operating profit before working capital changes was US$1,156,916 thousand, an increase of 46% as compared with 2010. In 2011, movements in working capital were substantially lower than in 2010, when the Group recorded a material increase in reimbursable VAT and inventories, particularly at the Krasnoyarsk business unit as a result of technical problems associated with the processing of sulphide ores at the Olimpiada mine. Net cash generated from operating activities increased from US$445,307 thousand in 2010 to US$765,405 thousand in 2011.

Investing activities

In 2011, the Group used US$260,363 thousand in investing activities, as compared to US$171,114 thousand in 2010. The largest items of expenditure in 2011 comprised capital expenditures and capitalised deferred stripping costs totalling US$359,396 thousand, which was approximately the same as in 2010. In addition, the Group deposited cash in the amount of US$37,596 thousand (US$64,996 thousand in 2010) into current bank accounts with an original maturity of more than three months, which was presented as acquisition of financial assets. This outflow was partly offset by proceeds from disposal of available-for-sale investments, bank deposits and held-for-trading investments for the total sum of US$121,270 thousand (US$244,955 thousand in 2010). In 2011, the Group also received US$15,359 thousand of interest income on bank deposits, as compared to US$8,351 thousand in 2010.

Financing activities

Cash outflow from financing activities in 2011 totalled US$134,958 thousand, as compared with a cash outflow of US$110,983 thousand in 2010. Cash expended on the acquisition of subsidiary's shares totalled US$588,816 thousand. These funds were used for the acquisition of 4.9 million OJSC Polyus Gold ADRs by Jenington in August 2011 and 7.3 million OJSC Polyus Gold ordinary shares by PGIL through the Mandatory Tender Offer in November and December 2011, representing approximately 1.3% and 3.81% of the total issued share capital of OJSC Polyus Gold, respectively. The acquisition of shares of OJSC Polyus Gold under the Mandatory Tender Offer was financed by funds borrowed under the bridge facilities provided to the Group by VTB Bank and Societe Generale in the total amount of US$460,000 thousand.

In addition, in October 2011 a US$100,000 thousand loan was obtained by OJSC Pervenets (Irkutsk alluvial business unit) from Societe General to provide funds for general corporate purposes.

Financial expenditures in the reporting year also included payment of dividends to shareholders of OJSC Polyus Gold for the second half of 2010 in the amount of US$73,191 thousand (US$104,801 thousand in 2010) and dividends paid to non-controlling shareholders by OJSC Polyus Gold for the nine months of 2011 and the Irkutsk alluvial business unit in the total sum of US$26,225 thousand (US$12,226 thousand in 2010).

12.4.3 Capital expenditures and deferred stripping costs

Capital expenditures represent the Group's purchase of property, plant and equipment adjusted for the proceeds from the sale of property, plant and equipment. The Group presents capitalised deferred stripping costs as a part of investing activities.

The following table shows the Group's capital expenditures and deferred stripping costs for the years ended 31 December 2011 and 2010. These expenditures were financed from the Group's cash flow from operations.

	Years ended 31 December		Change
US$'000	2011	2010	%
+ Purchase of property, plant and equipment	343,037	350,327	(2)
– Proceeds from sale of property, plant and equipment	(1,911)	(643)	197
Net capital expenditures	**341,126**	**349,684**	**(2)**
+ Payments for deferred stripping costs	18,270	9,740	88
Total capital expenditures and deferred stripping costs	**359,396**	**359,424**	**–**

12

Management report for 2011 (Management's discussion and analysis of financial condition and results of operations)

continued

12.4.2 Cash flow analysis (continued)

In 2011, the Group's total capital expenditures, acquisition of subsidiaries' shares and deferred stripping costs amounted to US$359,396 thousand, which is approximately the same level as 2010. Net cash outflow on acquisition of property, plant and equipment amounted to US$341,126 thousand in 2011, as compared to US$349,684 thousand the year before. The capital expenditure funds were mainly invested in the construction of the Verninskoye mine, continuing development of Blagodatnoye, the modernisation of production facilities at Olimpiada and the upgrade of alluvial mining equipment and operating assets in Kazakhstan.

In 2011, the Group capitalised stripping costs incurred at the Titimukhta and Kuranakh mines totalling US$18,270 thousand, as compared to US$9,740 thousand in 2010.

12.4.4 Net debt

Net debt is defined as short-term and long-term debt less cash and cash equivalents and short-term bank deposits. Short-term bank deposits with original maturity of more than 3 months can be withdrawn on demand and therefore are treated as having the same liquidity as cash and cash equivalents. Net debt should not be considered as an alternative to current and non-current loans and borrowings based on IFRS and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.

Historically the Group has maintained a strong cash position and has been net cash positive. In 2011 the Group increased its level of external financing, with non-current and current borrowings increasing from US$203,488 thousand at the beginning of 2011 to US$798,680 thousand at the end of 2011.
At the end of 2011, the Group's borrowings include:
— loans payable to Gold Lion;
— the Senior Notes;
— funds borrowed under the Bridge Facilities to finance the acquisition of shares of OJSC Polyus Gold under the Mandatory Tender Offer; and
— the loan provided to OJSC Pervenets by Societe Generale for general corporate purposes.

This increase in borrowings more than offset the increase in cash and cash equivalents. Due to the Group's strong operating cash inflow and withdrawal of funds from available-for-sale equity investments during 2011, the Group's cash and cash equivalents doubled to US$657,448 thousand at 31 December 2011. At the same time short-term bank deposits decreased by 69% to US$12,175 thousand.

As a result of these movements, at 31 December 2011 the Group's borrowings exceeded cash and cash equivalents, leading to a net debt of US$129,057 thousand, as compared to a net cash position of US$162,808 thousand at 31 December 2010.

The following table sets forth the Group's net debt as at 31 December 2011 and 2010:

US$'000	As at 31 December 2011	2010	Change %
Non-current borrowings	123,048	29,686	314
+ Current borrowings	675,632	173,762	289
– Cash and cash equivalents	(657,448)	(326,905)	101
– Bank deposits	(12,175)	(39,351)	(69)
Net debt (cash and bank deposits)	**129,057**	**(162,808)**	**(179)**

13

Description of principal risks

13

Description of principal risks

The financial results of companies operating in the gold mining industry depend largely on the price of gold, which may be subject to significant volatility

The Group derives substantially all of its revenue from the sale of gold. Accordingly, its financial results largely depend on the price of gold. The gold market is cyclical and sensitive to changes in general economic conditions, and may be subject to significant volatility. As a result, it is not possible to forecast with accuracy the price of gold. The price of gold is influenced by various factors, many of which are outside the control of the Group, including, but not limited to:

- global and regional economic and political conditions;
- global and regional supply and demand and expectations of future supply and demand;
- speculative trading activities in gold;
- actual, expected or rumoured purchase or release of built-up reserves of gold by central banks or other large holders or dealers, as well as purchases under hedging contracts;
- military conflicts and acts of terrorism;
- changes in the use of gold in industrial applications or as an investment, as well as fluctuations in the demand for jewellery;
- local and foreign government regulations and regulatory actions, including export quotas;
- the overall level of forward sales by other gold producers;
- the overall level and cost of production by other gold producers;
- currency exchange rates, particularly movements in the value of the US dollar against other currencies; and
- actual or expected inflation and interest rates.

The gold price ranged from US$810 to US$1,212 per ounce in 2009, from US$1,058 to US$1,421 per ounce in 2010 and from US$1,319 to US$1,895 per ounce in 2011, with a record high of US$1,895 per ounce reached on 5 September 2011. These prices are significantly above the historic average price of gold and may decline significantly in the future. Future prolonged reductions or declines in world gold prices could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

In the case of a significant and prolonged reduction in the price of gold, the Group may be required to revise its development plans and budget and if the price falls below the Group's cost of production, it may determine that it is not economically feasible to continue commercial production at some or all of its operations or the development of all of its current prospects. In such a circumstance, the Group may curtail or suspend some or all of its exploration and production activities and/or be required to draw down (without replacement) and/or restate downwards its reserves, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Historically, the Group has sold its products, including gold and semi-products such as quartzite ore and concentrate, at market prices, and has not entered into forward sales, derivative or other hedging arrangements to establish a price in advance for the sale of its future gold production. In general, hedging reduces the risk of exposure to volatility in the gold price. Hedging also enables a gold producer to fix a future price for hedged gold that generally is higher than the then-current spot price. As the Group does not currently enter into transactions to hedge against the future price at which its gold production is sold and does not expect to in the near future, the Group is not protected against decreases in the gold price and if the gold price decreases significantly, this may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Significant sustained declines in the price of gold may render any of the gold exploration and/or development activities to be undertaken by the Group less profitable or unprofitable and may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group's Olimpiada deposit generates a significant portion of the Group's total gold production and a disruption to these operations could adversely affect the Group's business, financial condition or results of operations

In 2011, the Group derived 38 per cent. of its total gold production from its operations at the Olimpiada deposit, and the Olimpiada deposit, together with the other production mines which form the Krasnoyarsk business unit, generated a substantial majority of the Group's Adjusted EBITDA in 2011. The Group has not to date experienced any suspensions or termination of its licence for the Olimpiada deposit, and the Company is not currently aware of any circumstances that may reasonably lead to a suspension or termination in the future. The Group's operations at Olimpiada have not in the past been subject to any significant temporary or prolonged disruption, although the Group did experience some difficulties in the transition of Olimpiada's Mill No.3 to processing of ores from deep horizons with high pyrrhotine

13

Description of principal risks

continued

content in 2009 as a result of technological issues related to the processing of sulphide ores. However, to the extent that the Group's operations at Olimpiada are subject to a temporary or prolonged disruption, including, among other things, as a result of suspension or termination of mining licences, major equipment failure, failure to receive required supplies in a timely manner or at all, or catastrophic events, such as fires, floods or adverse weather conditions, the Group's business, revenues, financial condition, results of operations or prospects may be materially adversely affected.

The Group requires significant capital expenditures to fund the projects contemplated by its current development strategy, which might be subject to inflationary pressures and which may in the longer term require external financing that may not be provided

Management's current development strategy contemplates significant capital expenditures with respect to the exploration and development of its mineral assets. Management's current development strategy contemplates that total investment in the Group's growth and development programmes will be approximately US$3.8 billion between 2012 and 2015. The description of the development strategy referred to in this Annual Report refers to the strategy developed by management of the Group and approved by the Board of Directors of OJSC Polyus Gold in July 2011. It has not been approved by the current Board and it is possible that the development projects approved by the Board in the future may differ from the plans described in this Annual Report, which may result in different levels of capital expenditure and production levels achieved than is contemplated by the current plans. The Group's capital expenditures might be subject to inflationary price pressures resulting from price increases as well price increases caused by an undersupply of critical equipment for mining and processing. In addition, as the Group's strategy involves both acquisitions and the development of existing assets, while the Group has financial resources available to fund its development plans for at least the next 12 months, further exploration and development beyond this period may be dependent upon the Group's ability to obtain financing through the raising of additional equity or debt financing or other means. The Group's ability to secure debt or equity financing beyond such period in amounts sufficient to meet the financial needs of the Group could be adversely affected by many factors beyond the Group's control, including, but not limited to, economic conditions in Russia and the health of the Russian and international banking sectors. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. There can be no assurance that additional funding required by the Group will be made available to it in the longer term and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing in the longer term as needed, it may be required to reduce the scope of its operations or anticipated expansion, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to certain times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase

The Group's principal operations are located in remote areas, some of which have harsh climates, resulting in technical and logistical challenges for conducting both geological exploration and mining. While the Group benefits from the modern mining transportation skills and technologies which it has developed for operating in areas with harsh climates, it may sometimes be unable to overcome problems related to weather and climate at a commercially reasonable cost, which could have a material adverse effect on its business, revenues, financial condition, results of operations or prospects.

As a result of the cold temperatures of the winter months in the Irkutsk region, production of gold at the Group's Irkutsk alluvial business unit is limited mainly to the period of May to October. In 2011, gold production at alluvial operations in Russia comprised 14 per cent. of the Group's total gold production. Furthermore, as a result of the seasonal nature of the Group's alluvial mining activities, the Group's interim financial statements may not provide an accurate indication of trends for the full financial year.

The remote location of the Group's principal operations also results in increased costs and transportation difficulties. The Group's operations use infrastructure provided by third parties, such as roads, loading terminals and airfields, for transportation. An increase in costs of, or interruptions in, transportation could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Success in the gold mining industry depends on maintaining a highly qualified, skilled workforce, including qualified geologists and other mining specialists

The ability of the Group to maintain a competitive position and to implement its business strategy depends to a large degree on the services of senior management. The business and results of

13

Description of principal risks

continued

operations of the Group also depends, to a large extent, on its ability to attract, retain and motivate qualified personnel, particularly qualified geologists and mining specialists. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, particularly skilled managers, accounting personnel and information technology personnel. Furthermore, only a limited number of skilled geologists and other mining specialists with adequate qualifications and experience are available in Russia, and there is an increasing demand for such qualified personnel as more international companies invest in the Russian mining industries. The Group has experienced difficulties in the past in recruiting sufficient qualified engineers and technicians for some of its facilities and there can be no certainty that the services of current key personnel will continue to be available to the Group. Failure to retain an adequate number of qualified geologists or other mining specialists may hinder the development of the Group's gold assets and have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Gold exploration and the development of mines involves a high degree of risk and uncertainty

To maintain future gold production beyond the ife of the current reserves or to increase production materially through mining new deposits, the Group will need to extend its mineral base through geological exploration. Gold exploration may require substantial expenditure and involves a high degree of risk, and exploration projects are frequently unsuccessful. Once gold deposits are discovered, it can take several years to determine whether gold reserves exist and few prospects that are explored are developed into productive mines. The long-term success of the Group's operations will be related to the cost and success of its exploration programmes. The risks associated with gold exploration include the identification of potential gold mineralisation based on analysis of geological data, the technological challenges of exploration and development, the receipt of necessary governmental permits and licences and the construction of mining and processing facilities at any site chosen for mining. In relation to the Group's Nezhdaninskoye deposit, for example, the Group has received valuations from two independent experts which indicate that the actual value of the deposit is less than the carrying value shown in PGIL's consolidated financial statements as of 31 December 2011, and, as a result, the Group may be required to recognise an impairment charge with respect to this deposit in the future if it is unable to formulated revised viable development plans. A decline in the market price of gold may render ore reserves containing relatively lower grades of gold mineralisation uneconomic. No assurance can be given that any exploration programme undertaken by the Group will result in the discovery of new resources or in any new commercial mining operation.

Substantial expenditure may be required to establish ore reserves through drilling and to determine technological processes to extract metals from ore. If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible. During this period, the assumptions on which the Group has based its assessments of the economic feasibility of the mine, including in relation to future gold prices, anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed, anticipated recovery rates of gold from the ore, anticipated capital expenditures and cash operating costs, may require significant adjustment. The Group's initial access to information when forming such assumptions and making such assessments may also be limited. Actual cash operating costs, production levels and economic returns may differ significantly from those anticipated by studies and estimates. There are a number of uncertainties inherent in the development and construction of a new mine or an extension to an existing mine. These uncertainties include, in addition to those discussed above, the timing and cost (which can be considerable) of the construction of mining and processing facilities; the availability and cost of skilled labour, power, water, consumables (such as cyanide, lubricants and fuel) and transportation facilities; the availability and cost of appropriate smelting and refining arrangements; the need to obtain necessary environmental and other governmental permits and the timing of those permits; and the availability of funds to finance construction and development activities in the longer term.

Consequently, no assurance can be given that the current and future exploration programmes undertaken by the Group will result in the discovery of deposits, the expansion of existing reserves or the development of mines. This may result in a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The volume and grade of the ore the Group extracts may not conform to current expectations

Like any mining company, the financial condition of the Group will depend on its reserves and resources. Ore reserves and mineral resources estimates of mining companies are inherently imprecise and depend to some extent on statistical inferences drawn from limited drilling and other testing, which may ultimately prove unreliable. Ore reserves and mineral resources estimates and classifications are also affected by economic factors, such as significant changes in metal prices.

13

Description of principal risks

continued

Ore reserve and mineral resources estimates are expressions of professional judgement, based on knowledge, experience and industry practice, but are subject to considerable uncertainties. As a result, the Group cannot be certain that its estimated reserves and resources are completely accurate. Moreover, future volumes of mining, which may not occur for many years, and rates of recovery of metals could differ materially from such estimates. Should the Group discover, in the course of mining its deposits, that those deposits differ from those predicted by drilling, sampling and similar examinations, it may have to adjust its reserve and resource estimates and alter its mining plans in a way that might adversely affect the results of operations. The estimated resources described in this Annual Report should not be interpreted as a statement of the commercial viability, potential or profitability of any future operations.

If estimates of the Group's mineral resources based on the results of exploration activities prove to be inaccurate or lower than forecast, the Group's business, revenues, financial condition, results of operations or prospects may be materially adversely affected. Alternatively, if the Group's ore and mineral reserves exceed current forecasts, it is not certain that it will be able to develop the production capacity to exploit those reserves commercially.

The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits

The Group's exploration, mining and processing activities are dependent upon the grant, renewal and continued enforceability of appropriate contracts, licences, permits and regulatory approvals and consents which may be valid only for a defined period of time, may be subject to limitations and may provide for withdrawal in certain circumstances. In particular, companies seeking to explore or mine mineral deposits in Russia must obtain a subsoil licence issued by the Federal Agency for Subsoil Use with respect to an identified mineral deposit. Subsoil rights are not granted in perpetuity in Russia, and any renewal of the relevant licence must be granted before expiry of the relevant current term. The Group's production licence for the Olimpiada deposit is due to expire in 2013. The Olimpiada deposit, comprising 37 per cent. of the Group's total gold reserves, is the Group's main mine and accounted for 38 per cent. of the Group's total gold production in 2011. In addition, the Group's development plans for the Olimpiada mine, which may involve either the integration of the Zapadny and Vostochny pits into one super pit or the introduction of underground mining starting in 2018, may require amendment to the Olimpiada licence terms. Consequently, any suspension, termination or failure to obtain amendment of the Olimpiada licence may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects. See "– The Group's Olimpiada deposit generates a significant portion of the Group's total gold production and a disruption to these operations could adversely affect the Group's business, financial condition or results of operations". The Company is not aware of any reason why the Group would not be able to renew its contracts, licences, permits and regulatory approvals and consents, including at Olimpiada, or obtain a required amendment to the Olimpiada mine in accordance with its development plans, although there can be no assurance that renewal or amendment of such contracts, licences, permits or regulatory approvals and consents will be granted. The licences impose various obligations on the Group, including a schedule of works that must be performed within an agreed timeframe.

In addition, on 17 August 2011, the Group obtained updated licence terms for the Natalka deposit in which the licence was extended until 31 December 2036. The licence was granted with the right to mine to a depth of 450 metres and included a requirement that the Group commission the first stage of the mine with production capacity in accordance with the terms of the mining project by no later than 31 December 2013. Since there are additional mineral resources below the 450 metres level, the Group expects that it will apply for a licence to mine depths below that level provided it concludes at the relevant time that such operations would be commercially viable, though there can be no assurance that any such license may be obtained. Whilst the Group does not anticipate any delays in commissioning of the Natalka mine, if the Group is unable to commission the first stage of the mine with production capacity in accordance with the terms of the mining project by 31 December 2013, the license may be limited, suspended or terminated. The Natalka deposit accounts for 35 per cent. of the Group's total proven and probable reserves. Consequently, any limitation, suspension or termination of this license may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The legal and regulatory basis for the licensing requirements in Russia and Kazakhstan is often unclear and subject to frequent change, which increases the risk that the Group may be found to be non-compliant, and the regulatory authorities in those countries exercise considerable discretion in the timing of licence issuances and renewals. In addition, it is possible that licences applied for or issued in reliance on acts and instructions relating to subsoil rights issued by the relevant regulatory agencies in Kazakhstan and Russia could be challenged by governmental prosecutorial authorities or otherwise challenged as being invalid

13

Description of principal risks

continued

if such acts or instructions were found to be beyond the authority of that ministry or agency or if the licences were issued in breach of the required procedures. Deficiencies of this nature may subject subsoil licencees and contracts to selective governmental claims. In relation to the Group's operations in Kazakhstan, to the extent that the Group has acquired subsidiaries with existing licences or which have already entered into subsoil use contracts, it has not been involved in the process under which such licences or subsoil use contracts were issued or concluded. In such circumstances, the Group cannot be certain whether any violations have previously occurred that could cause the relevant Kazakh government ministry or a third party to challenge the validity of any of these licences or contracts. If the Kazakh authorities determined that the Group was previously operating without all required licences and permits in Kazakhstan, officers of the Group could incur criminal liability, Kazakh subsidiaries could incur administrative liability and the authorities could even apply to Kazakhstan courts for the liquidation of the Group's Kazakh subsidiaries. The competent authority can also apply to the court to terminate subsoil use contracts if such right is stipulated by the subsoil use contract, or can terminate a contract on its own in cases stipulated by applicable subsoil use legislation and/or of a Kazakh subsoil use contract or where the contract relates to a strategic field, can terminate a contract on its own upon instruction of the Governor of Kazakhstan. If the licensing authorities discover a material violation by a Kazakh subsoil user, it may incur substantial costs in eliminating or remedying the violation, in the case of ecological violation, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects. Any alleged non-compliance by the Group with licensing regulations or the terms of any of its licences could lead to suspension or termination of the licences and permits and to administrative, civil and criminal liability.

Compliance

Regulatory authorities in Kazakhstan and Russia exercise considerable discretion in the monitoring of a licencee's compliance with the terms of a licence. Conditions imposed by those authorities may include 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's licence-holders, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities. As a result, compliance with such conditions may be costly and time-consuming, and delays in the commencement or continuation of exploration or mining operations may occur as a result of delays to fulfil a licence-holder's obligations. The Group's current subsoil use contracts impose, on an annual basis, various social, financial, tax, insurance and other obligations and require the application of a specified period of time between the termination of exploration activities and the commencement of mining operations at the relevant site (for purposes of commercial discovery evaluation). The authorities have the power to impose fines for administrative violations of the terms and conditions of subsoil use contracts and licences and can require that those violations be remedied. In such circumstances, any failure to implement the required remedial measures under two or more notifications from the competent authority within the period prescribed in such notification could result in the termination of the relevant subsoil use contract, as well as the imposition of administrative and civil liabilities on the licence-holder or subsoil user. In 2009, for example, construction at the Verninskoye site was temporarily slowed due to a failure to obtain necessary regulatory authorisations. Additionally, the Group has breached certain terms of its licence for the Razdolinskaya deposit (representing 3 per cent. of the Group's total gold reserves in Russia), including the requirement to complete exploration works and construct and commission the mine within the prescribed deadlines. The Group has applied for amendments to the licence for the Razdolinskaya deposit, which will extend the deadlines for completion of the respective works. A failure to obtain amendments to the licence and to remedy such breaches termination of the subsoil licence for the Razdolinskaya deposit. The Group has also received notification from the Kazakh authorities that, prior to completion of OJSC Polyus Gold's partial offer for KazakhGold Group Limited in August 2009, Kazakhaltyn had breached some of its obligations under Subsoil Use Contract No. 145 (relating to the Quartzite Hills deposit) and Contracts Nos. 917 and 762 for exploration and production at Zholymbet mine and Aksu mine, respectively. Kazakhaltyn is currently cooperating with the authorities in respect of these notified breaches. In addition, Kazakhaltyn will be required to file with the Kazakh authorities revised reports on fulfilment of subsoil use contract terms as a result of the identification of certain errors in its 2008 consolidated financial statements prior to the acquisition of a controlling interest in the Kazakhaltyn Group by OJSC Polyus Gold in August 2009, relating to capital expenditure and sales. No assurance can be given that the Kazakh authorities will not impose sanctions on Kazakhaltyn as a result of these notified breaches or revised reports. There can be no assurance that all licence-holders within the Group will comply or continue to comply with their respective licences/contractual obligations.

13

Description of principal risks

continued

Specific requirements of the Russian Federation
The Group currently holds licences for the use of subsoil plots which are considered subsoil plots of federal importance and may in the future acquire further licences, which may relate to subsoil plots of federal importance or under which the Group may discover such subsoil plots. As a result of the current composition of the Group's shareholders, some of the Russian subsidiaries of the Group are currently designated under Russian law as companies with foreign participation. The Law of the Russian Federation No. 2395-1 dated 21 February 1992 "On the Subsoil" (as amended) (the "**Russian Subsoil Law**") provides that, if in the course of geological research at a subsoil plot, a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance and, as a result, the national security of the Russian Federation may be threatened, the licensing authorities have the right to revoke the relevant subsoil licence or refuse to grant an exploration and production subsoil licence.
The licence for the Bamskoye gold ore deposit is currently suspended as, following the issuance of the licence, the deposit was subsequently recognised as a subsoil plot of federal importance. As a result, the Group was required to halt all exploration works at the deposit until receipt of permission from the Russian Government to continue works in accordance with the Russian Subsoil Law. The Company expects that the Group will receive the permission in 2012. If the Russian Government refuses to grant permission for continuation of works at the Bamskoye gold ore site, the licensing authorities will revoke the subsoil licence. In the case of such a revocation, the Russian Subsoil Law contemplates the reimbursement to the licence-holder of costs incurred in connection with prospecting and evaluating the relevant deposit and the amount of the one-off fee for subsoil use paid under the terms of the relevant subsoil licence or geological research licence, as well as payment of a premium. There is no assurance, however, that such amounts would cover the licence-holder's actual costs, or be paid at all. In the interests of national security, Russian legal entities with foreign participation, including the Russian subsidiaries of the Group, may also be subject to limitations imposed by the Russian Government on participation in subsoil auctions or tenders for the use of subsoil plots of federal importance. The rights to use a subsoil plot of federal importance may not be transferred to legal entities controlled by a foreign investor or a group of persons including a foreign investor, save for the transfer of rights in exceptional cases at the discretion of the Russian Government. The above restrictions may adversely affect the Management's development strategy.

Companies which extract precious metals are required to offer refined precious metals on a priority basis to the relevant governmental authorities, which have entered into agreements on purchase and sale of precious metals with such companies not less than three months prior to the expected date of purchase for precious metals, and have made an advance payment under such agreements. Refined precious metals, which have not been sold to governmental authorities in priority order, may be realized in the domestic market, used in internal production or exported. Gold producers are required to obtain a licence from the Russian Ministry of Industry and Trade in order to export gold. For non-banking institutions, the Russian Ministry of Industry and Trade only issues such licences with respect to each particular export contract for a term of not longer than one year. In 2011, the Group elected to sell all of its gold produced in Russia to the domestic market, primarily due to more favourable contract terms concluded with Russian banks. Depending on market conditions, however, the Group may decide to export its products in the future, for which it would be required to obtain such a licence in advance.

As a result of the foregoing uncertainties, there can be no assurance that the contracts, licences, permits and regulatory approvals and consents that the Group requires to conduct its operations will be granted, renewed or continue in force, or, if so, on what terms. The withdrawal of licences, termination of subsoil use contracts or failure to secure requisite licences or subsoil use contracts in respect of any of the Group's operations may, therefore, have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group is subject to mining risks

The Group's operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons, property or the environment. The Group engages primarily in open-pit mining, but also engages in some underground mining activities.

Hazards associated with open-pit mining operations include flooding, collapses of the open-pit wall or shelf, accidents associated with the operation of mining transportation equipment, accidents associated with the preparation and ignition of

13

Description of principal risks

continued

large-scale open-pit blasting operations, production disruptions due to weather and hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination. Open-pit mining may also be adversely affected by the low winter temperatures in the regions where the Group's principal mines are located. The output of the Group's mines may also be adversely affected by unforeseen geological conditions.

Underground mining is generally more expensive than open-pit mining. It is also more dangerous and requires the use of ventilation systems. Hazards associated with underground mining operations include underground fires and explosions, such as those caused by flammable gas, discharges of gases and toxic chemicals; geothermal control; sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling, blasting, removing and transporting material from an underground mine. Emergency breakdowns in mining equipment may occur as the Group experienced at the Kuranakh mine in 2009. Further, some of the subsurface infrastructure at the Group's mines in Kazakhstan is in poor condition.

The Group may experience any of these hazards. The occurrence of any of these or similar hazards could delay production, increase production costs, damage the Group's reputation or result in injury to persons or death and damage to property, as well as associated liability for the Group, and may result in actual production differing potentially materially from estimates of production, including those contained in this Annual Report. The liability resulting from any of these risks may not be adequately covered by insurance, and it is not certain that the Group can obtain additional insurance coverage at reasonable rates. The Group may, therefore, incur significant costs, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group is subject to extensive environmental controls and regulations

The Group is subject to extensive environmental controls and regulations in Russia and Kazakhstan. Its operations involve the use of environmentally hazardous materials, such as cyanides, as well as processes such as the discharge of materials and contaminants into the environment, disturbance of land, potential harm to flora and fauna, and other environmental concerns. In addition, environmental hazards may exist on the Group's properties, or may be encountered when its products are in transit. Environmental laws and regulations are continually changing and are generally becoming more restrictive. New laws and regulations, the imposition of more stringent requirements in licences, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licences, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease operations or pay fees, fines and other penalties arising out of the failure to comply fully with environmental regulations in the past. The Group has been held to have violated health and safety regulations in the past. For example, in 2011, OJSC Pervenets did not comply with a number of requirements relating to the protection of biological resources, and Aldanzoloto and CJSC Polyus breached certain requirements concerning hydraulic engineering structures. A failure to cure these breaches could result in fines or the suspension of operations of the relevant company for a period of up to 90 days. The Group paid approximately RUB 364 million (US$12.4 million) in 2011 in penalties and fines related to violations of the environmental protection laws in connection with waste disposal and air emissions. The Group could also be liable for losses associated with environmental hazards and rehabilitation.

In addition, the licences and subsoil use contracts under which the Group will operate include conditions regarding environmental compliance. For example, each operating mine of the Group in Russia is required to obtain a mandatory environmental permit in order to conduct atmospheric emissions, discharge waste water and dispose of waste. Failure to obtain such a permit could lead to administrative penalties, civil sanctions and, in certain circumstances, may result in the issuance of a court order prohibiting and suspending those operations of the relevant mine causing atmospheric emissions, waste water discharge or waste disposal, although the Company believes that such a severe sanction is unlikely to occur. The introduction of more stringent environmental laws and regulations could lead to the need for new or additional rehabilitation and decommissioning reserves or to an increase in the Group's environmental liabilities, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Actual and potential supply chain shortages and increases in the prices of production inputs may have an adverse effect on the Group's operations and profits

The Group's results of operations may be affected by the availability and pricing of raw materials and other essential production inputs, including fuel, grind balls, and cyanide and other reagents. A sustained interruption in the supply of any of these

13

Description of principal risks

continued

materials would require the Group to find acceptable substitute suppliers and, in relation to cyanide, the Group believes that the alternatives to its two current suppliers are limited. The Group is also reliant on one shipping contractor for the transportation of coal supplies since there are currently no feasible alternatives. To the extent that the Group is unable to obtain alternative sources in the event of a prolonged disruption to its usual supply network, the Group may be forced to reduce its operating levels. Furthermore, even if the Group were able to obtain supplies of production inputs from alternative sources, it may incur substantially higher costs, particularly in relation to purchases of grind balls. More generally, the price of raw materials may be substantially affected by changes in global supply and demand, along with weather conditions, governmental controls and other factors. Any significant increase in the prices of these materials will increase the Group's operating costs and affect production considerations, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group requires giant tyres for its large earthmoving equipment and trucks. Giant tyres of the type preferred by the Group are in short supply. The Group seeks to establish long-term agreements and relationships with the same supplier in order to be able to receive such goods as tyres, to the extent that the Group is unable to procure an adequate supply of these tyres, it may have to alter its mining plans, especially at its open-pit operations, which could reduce its gold production and may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The cost of electricity, particularly self-generated electricity, can be unstable. An increase in power costs will make production more costly and alternative power sources may not be available

Power is one of the Group's largest operating expenses. Certain of the Group's mines currently purchase power from state-controlled regional energy agencies, which charge consumers a rate based on tariffs that are modified from time to time. Deregulation of the electricity industry in Russia is in progress, and full deregulation for industrial consumers was completed in 2011, which is expected to result in higher prices for the Group's electricity needs.

Some of the Group's mines generate their own power through coal, diesel or hydro-generation facilities located at the mines. These mines purchase diesel or transport coal by diesel barges, and any increase in the costs of these supplies could result in higher overall fuel costs. These mines use a combination of self-generated and purchased power when tariffs for purchased power are lower than the cost of self-generated power. However, if power costs increase, revenue and production capacity could be negatively affected, which may result in a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group's operations depend to a significant extent on external contractors, which exposes the Group to certain risks

The Group's operations are dependent to a significant extent on the efforts and abilities of outside contractors, experts and other advisers. As a result, the Group's operations at those sites at which such contractors are present are subject to a number of risks, some of which are outside the Group's control, including:

- negotiating agreements with contractors on terms acceptable to the Company;
- the inability to replace a contractor and its operating equipment in the event that either party terminates the agreement;
- reduced control over those aspects of operations which are the responsibility of the contractor;
- failure of a contractor to perform under its agreement with the Group;
- interruption of operations or increased costs in the event that a contractor ceases its business due to insolvency or other unforeseen events; and
- failure of a contractor to comply with applicable legal and regulatory requirements, to the extent it is responsible for such compliance.

The Group operates in a highly competitive industry and may not be able to compete successfully for licences, exploratory prospects and producing properties

The gold market is highly competitive and the Group faces competition from other competitors in all areas of its operations, including the acquisition of mineral licences, exploratory prospects and producing properties. The Group's competitors include international gold producers, some of which are larger, have greater resources for raising capital, have more technologically advanced production facilities and, in some cases, have lower operating costs than it does. The Group cannot guarantee that it will be able to compete successfully in the future. The intensity of competition, combined with the cyclicality and unpredictability of gold markets, results in significant variations in economic performance, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

13

Description of principal risks

continued

The Group's acquisition strategy may not be successful

As part of its development strategy, the Group monitors potential investment opportunities in the gold mining industry, both in Russia and overseas. The Group faces significant competition for potential acquisitions of gold assets as the Group believes that some international mining companies, which have greater resources than the Group, have begun to seek investment targets in the Russian gold mining industry. The participation of such companies in an auction or sale of Russian gold deposits and assets could adversely affect the Group's ability to acquire additional gold mining operations in Russia because of, for example, the resulting increased prices for such acquisitions.

When making acquisitions, it may not be possible for the Group to conduct a detailed investigation of the nature or title of the assets being acquired, for example, due to time constraints in making the decision. The Group may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition. As a result, unforeseen expenditures may arise which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group may not be able to renew its arrangements with trade unions on favourable terms, and its operations could be adversely affected by strikes and walkouts

As at 31 December 2011, approximately 51 per cent. of the Group's employees at its Russian operations were represented by trade unions. The Group has not experienced any business interruption as a result of labour disputes at any of its businesses in the past, and the Group considers its relations with employees to be good. Nonetheless, large union representation will subject the Group's businesses to the risk of interruptions through strikes, lockouts or delays in renegotiating collective agreements, whose terms are typically two years. The collective agreement for the Group's Krasnoyarsk business unit expires on 31 December 2014 and at Yakutia (Kuranakh) business unit on 31 December 2012. Although the Company expects that the Group will be able to renew these agreements on substantially the same terms, if the Group were unable to renew its existing arrangements with trade unions on favourable terms or at all, the Group's business, revenues, financial condition, results of operations or prospects could be materially adversely affected.

The Group is responsible for maintaining part of the social and physical infrastructure in some of the regions in which it operates

The Group is currently responsible for establishing and maintaining some of the social and physical infrastructure in the regions of Russia in which it operates. These regions are economically dependent on the Group's respective business operations to a significant degree, which requires a substantial commitment of resources. In addition, the Group may become liable to meet the costs of resettlement of persons living in proximity to its facilities if, as a result of changes in applicable law, such facilities no longer meet minimum standards required for industrial facilities which are located close to residential facilities. Any significant increase in such social contributions, voluntary or otherwise, could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The Group's level or scope of insurance coverage may not be adequate

The insurance industry is not well developed in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. The Group does not carry insurance covering its operations, other than the limited coverage required by law. Furthermore, Russian law requires mining companies to insure against only certain limited risks. The underdeveloped insurance market in Russia offers only limited opportunities for insuring risks associated with the Group's businesses, and reinsurance with an international insurance house may substantially increase costs. As a result, the Group, as a participant in mineral exploration and development activities, may become subject to liability for risks that cannot be insured against or against which it may elect not to be so 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 its business, revenues, financial condition, results of operations or prospects.

The Group is subject to exchange rate risks

The Group's income is subject to exchange rate fluctuations and may become subject to exchange control or similar restrictions. Gold is sold throughout the world principally in US dollars, but the Group's operating costs are incurred principally in Russian roubles, and to a lesser extent the Kazakh tenge and other currencies. Any significant and sustained appreciation of the rouble against the US dollar could have a material adverse effect on the operating margins of the Group. The rouble appreciated relative to the US dollar in the years prior to the global economic

13

Description of principal risks

continued

crisis that began in 2008, although the exchange rate has since been volatile, with the rouble depreciating by approximately 27 per cent. in 2009 followed by an appreciation of 4 per cent. in 2010 and an appreciation of 3 per cent. in 2011.

Russian currency control regulations may hinder the Group's ability to conduct business

The Group's operational expenses are primarily denominated in Russian roubles. The current Russian currency control laws and regulations impose a number of limitations on banking and currency transactions. Currency control restrictions include a general prohibition on foreign currency operations between Russian residents, except for certain specified operations permitted by law, and the requirement to repatriate, subject to certain exceptions, export-related earnings in Russia. The Group does not currently undertake any hedging activities in relation to currency fluctuation risk and accordingly, is fully exposed to any adverse fluctuations in the relevant exchange rates. These currency control restrictions may restrict the Group's operational flexibility, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Further, the Law of the Republic of Kazakhstan "On Currency Regulation and Currency Control" No. 57-111, dated 13 June 2005, empowers the President of Kazakhstan to implement a special regime for currency operations, as well as to define the restrictions related to the currency operations which would fall under this regime, in case of a threat to the economic safety and financial stability of Kazakhstan. The law does not define what might constitute a relevant threat. These currency control restrictions may restrict the Group's operational flexibility, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Russia's property law is subject to uncertainty and contradiction and title to some of the Group's mineral properties or production facilities may be challenged

The legal framework relating to the ownership and use of land and other real property in the Russian Federation is not yet sufficiently developed to support private ownership of land and other real property to the same extent as in common in some of the more developed market economies, such as those of North America and Western Europe. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to a lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that the Group's business is reorganised. It is often difficult to determine with certainty the validity and enforceability of title to land in the Russian Federation and the extent to which it is encumbered. Moreover, in order to use and develop real property in the Russian Federation, approvals, consents and registrations of various federal, regional and local governmental authorities are required, and this can be a lengthy and cumbersome process. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences, including in respect of any current construction activities. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the use of such real property, which could have a material adverse effect on the Group's business, financial condition, results of operation and future prospects.

If transactions that the Group's Russian subsidiaries have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities imposed on the Group

The Group's Russian subsidiaries have taken a variety of actions relating to share issuances, share and asset disposals and acquisitions, charter capital increases and decreases, valuation of property, interested party transactions, major transactions, currency control and anti-monopoly issues, in respect of which the applicable legal procedures are not always clear and which, therefore, could be subject to legal challenges. If any such challenge was successful, it could result in the invalidation of the relevant transaction, seizure of the relevant assets or the imposition of liabilities on the Group. Moreover, since many provisions of Russian law are open to many different interpretations, the Group's Russian subsidiaries may not be able to defend successfully any challenge in respect of such transactions. For example, the provisions of Russian law defining which transactions must be approved as "interrelated major transactions" are subject to differing interpretations and there is no assurance that former or current minority shareholders of OJSC Polyus Gold or shareholders of its Russian subsidiaries or any other interested parties will not challenge such transactions in the future. Although the Company does not expect any past transaction to be so challenged, the invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

13

Description of principal risks

continued

Inflation may materially adversely affect the Group's results of operations

The activities of the Group are located primarily in Russia, and the majority of its costs are incurred in Russia and in Russian roubles. Russia has experienced high levels of inflation since the early 1990s. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has significant negative costs, contributing to economic uncertainty. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4 per cent. that year. The inflation rate was 8.8 per cent. in 2009, 8.8 per cent. in 2010 and 6.1 per cent. in 2011, and Russian companies have generally experienced inflation-driven increases in their costs that are linked to the general price level in Russia, such as supplies and materials, as well as salaries. Accordingly, high rates of inflation in Russia are likely to increase the costs of the Group, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects. High inflation rates in Russia have historically been accompanied by a deprecation of the rouble vis-a-vis the US dollar, which reduces the cost of the Group's rouble operating expenses in US dollar terms. See "– The Group is subject to exchange rate risks".

The Group is subject to anti-monopoly laws enforced by the Federal Anti-monopoly Service, which may result in certain limitations being imposed on the Group's activities

The Group's operations in Russia are subject to anti-monopoly laws enforced by the Federal Anti-monopoly Service, which may impose certain limitations on the Group's activities. If the Group's activities are found to be in violation of anti-monopoly legislation, the Group could be subject to penalties or requested to change its business operations in a manner that may increase the Group's costs or reduce the Group's profit margin and revenues. As such, these factors could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects. In addition, the Federal Anti-monopoly Service may impose certain conditions on the Group in connection with any anti-monopoly approvals of the Group's transactions.

The Company believes that the Group's operations are currently in compliance with Russian anti-monopoly regulations. However, if the Federal Anti-monopoly Service undertakes an investigation into some aspect of the Group's operations or transactions and decides to impose penalties or other sanctions against the Group, such penalties or sanctions could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Transactions in the securities of the Company may be subject to restrictions under Kazakh laws

The Company believes that following the acquisition of the majority interest in OJSC Polyus Gold, transactions in the securities of the Company are no longer subject to the prior approval of the Kazakh Government and preemptive rights of the state of Kazakhstan. Under Kazakhstan laws, transactions in the Company's securities, may be subject to prior approval and preemptive rights if the Company's principal activity was deemed connected with subsoil use in the Republic of Kazakhstan. Since the value of the Kazakhstan assets represents not more than six per cent. of the aggregate value of the Group's assets and the amount of reserves represents approximately four per cent. of the Group's reserves, the Company does not believe that its principal activity should be deemed connected with subsoil use in the Republic of Kazakhstan. Since there is no clear definition of the concept of "principal activity" under Kazakh law, there can be no assurance that the authorities in Kazakhstan would not take a different view and determine that the Company's principal activity is connected with subsoil use in Kazakhstan. In the event of such determination, the Kazakh authorities could take steps to terminate the agreements for subsoil use in Kazakhstan held by the Group's Kazakhstan subsidiaries, and any resulting suspension or cessation of operations in Kazakhstan would lead to a reduction in Group gold production, as well as a decrease in revenues and a diminuation of the valuation of the Kazakhstan subsidiaries. The Kazakh business unit represented 8 per cent. of the Group's total production in 2011.

Risks Relating to the Countries in which the Group Operates

Emerging markets are subject to greater risks than more developed markets, including significant legal, economic and political risks

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal and economic risks. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, including during the current global economic crisis, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging

13

Description of principal risks

continued

markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, even if the Russian economy remains relatively stable, financial turmoil in Russia could seriously disrupt the Group's business, as well as result in a decrease in the price of the Company's securities. Companies operating in emerging markets may also be exposed to political risks. Mr. Mikhail Prokhorov, the ultimate beneficial owner of Onexim (one of the Company's two Principal Shareholders), participated as a candidate in the elections for the presidency of the Russian Federation which were held in March 2012 and resulted in the election of Mr. Vladimir Putin. Following the elections, Mr. Prokhorov indicated that he may continue his political activities. Investors should also note that an emerging economy such as that of Russia is subject to rapid change and that the information set out in this Annual Report may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisors before making an investment in the Company's securities.

In addition, the Group currently has operations in Kazakhstan, and, to the extent that the Group does not dispose of its operations in Kazakhstan, it will continue to be exposed to political, economic, legal, regulatory and taxation risks in Kazakhstan. Kazakhstan has a relatively short history as an independent state and there remains potential for social, political, economic, legal and fiscal instability. These risks include, among other things, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes to tariffs applicable to the Group's Kazakhstan business unit and its products, changes with respect to taxes (including the possibility of audits of prior tax periods resulting in fines), royalty rates, or withholding taxes on distributions to foreign investors; changes in anti-monopoly legislation, nationalisation or expropriation of property; and interruption or blockage of hydrocarbons or other strategic materials exports.

In emerging markets generally, the bribery of officials remains at a high level relative to developed markets. The Group's business, financial condition, results of operations and future prospects could be adversely affected by illegal activities by others, by corruption or by claims, even if groundless, implicating the Group in illegal activities.

The Group is subject to limitations imposed by Russian legislation which restricts the rights of foreign entities to invest in certain Russian companies and in the subsoil sector

Under the Federal Law dated 29 April 2008 No. 57-FZ "On Procedure of Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State" (as amended) (the "**Strategic Investment Law**") the acquisition by a foreign investor, or a "group" of persons, as such term is defined under Russian law, including one or more foreign investors, of 25 per cent. or more of the voting shares in a company undertaking operations at subsoil plots of federal importance (a "**Strategic Subsoil Company**"), requires the prior approval of the Russian Government. Furthermore, if a foreign investor, or a group of persons including one or more foreign investors, already exercises direct or indirect "control" (as defined in the Strategic Investment Law) of over 25 per cent. or more of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of such Strategic Subsoil Company by the foreign investor, or group of persons including a foreign investor, requires the prior approval of the Russian Government (with the exception of transactions which do not result in the increase of the ownership percentage of a foreign investor of a group including a foreign investor, in the charter capital of a Strategic Subsoil Company). Failure to obtain such prior approval renders a transaction void or may lead to limiting a foreign investor's voting rights. As at the date of this Annual Report, gold mining subsidiaries within the Group, comprising subsidiaries of OJSC Polyus Gold, CJSC Polyus, CJSC Tonoda, OJSC SVMC ("**SVMC**"), OJSC Matrosov Mine ("**Matrosov Mine**"), LLC Amurskoye GRP and OJSC Pervenets, hold licences to subsoil plots of federal importance, as defined in the Strategic Investment Law, which comprise in aggregate approximately 90 per cent. of the Group's reserves. As a result, each of these subsidiaries is considered a Strategic Subsoil Company. The Strategic Investment Law is not clear as to whether the acquisition of 25 per cent. or more of the voting shares in a direct or indirect holding company of a Strategic Subsoil Company, such as the Company, would be subject to similar limitations.

In 2011, the Company filed an application for the approval under the Strategic Investments Law of the acquisition by Polyus Gold plc, a newly established company incorporated in the United Kingdom, of 100 per cent. of the shares in the Company through a scheme of arrangement, which, if implemented, would have put it in place as a new parent company for the Group. The period for processing the application continued longer than the Company had anticipated, and, in March 2012, the Company withdrew its application.

13

Description of principal risks

continued

If shares are acquired in circumstances where approval under the Strategic Investment Law is required but has not been obtained, there is a risk that action could be taken against the Company to limit its voting rights in respect of the Group's Strategic Subsoil Companies, or seeking to invalidate the corporate decisions and transactions of such Strategic Subsoil Companies that were made following the relevant acquisition of shares without approval. Given the absence of legally binding guidance on the scope of application of the Strategic Investment Laws, no assurance can be given that the Russian authorities will not seek to apply a more extensive interpretation of the Strategic Investment Law to the acquisition of securities in the Company.

Some of Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity of the Group or lead to increased costs

Some of Russia's physical infrastructure is in very poor condition. The rail and road networks, power generation and transmission, communications systems and building stock have been particularly affected. In the past, Russia has experienced electricity and heating shortages and blackouts, and the Russian railway system is subject to risks of disruption as a result of the declining physical condition of rail tracks and a shortage of rail cars. The poor condition or further deterioration of the physical infrastructure in Russia may harm its national economy, disrupt the transportation of goods and supplies, increase the costs of doing business and interrupt business operations, each of which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Findings of failure to comply with existing laws or regulations, unlawful or arbitrary government action or increased governmental regulation of the Russian operations of the Group could result in substantial additional compliance costs or various sanctions

The Group's operations and properties in Russia are subject to regulation by various government entities and agencies at both the federal and regional levels. Regulatory authorities often exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences and permits and in monitoring licencees' compliance with licence terms. Russian authorities have the right to, and frequently do, conduct periodic inspections of operations and properties of Russian companies throughout the year. Any such future inspections may conclude that the Group violated applicable laws, decrees or regulations. Findings that the Group failed to comply with existing laws or regulations or directions resulting from government inspections may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Group's licences or permits or in requirements that the Group cease certain business activities, or in criminal and administrative penalties being imposed on the Group's officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Russian operations of the Group, could increase the Group's costs and could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

In addition, government officials have a high degree of discretion in Russia and at times act selectively or arbitrarily, without a hearing or prior notice, and sometimes in a manner that is contrary to law or is influenced by political or commercial considerations. Unlawful, selective or arbitrary actions of Russian government officials have reportedly included the denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. The Group's competitors may receive preferential treatment from Russian government officials, potentially giving them a competitive advantage over the Group.

Unlawful, selective or arbitrary action of government officials, if directed at the Group or to the competitive advantage of the Group's competitors, could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its applicable subsidiaries

Under Russian law, the Group may be primarily liable for the obligations of its Russian subsidiaries jointly and severally with such entities if (i) the Group has the ability to make decisions for such Russian subsidiaries as a result of its ownership interest, the terms of a binding contract or in any other way, (ii) the Group has the ability to issue mandatory instructions to such Russian subsidiaries or joint venture entities and that ability is provided for by the charter of the relevant Russian subsidiary or in a binding contract and (iii) the relevant Russian subsidiary concluded the transaction giving rise to the obligations pursuant to the Group's mandatory instructions. In addition, the Group may have secondary liability for the obligations of its Russian subsidiaries if (i) the Group has the ability to make decisions for the relevant Russian subsidiary as a result of its ownership interest, the terms of a binding contract, or in any other way and (ii) the

13

Description of principal risks

continued

relevant Russian subsidiary becomes insolvent or bankrupt due to the Group's fault (i.e. the Group has used its ability referred to in (i) above, knowing that this would result in insolvency or bankruptcy of the relevant Russian subsidiary). This type of liability could result in significant losses, and could have a material adverse effect on the Group's business, revenues, financial condition, results of operations and future prospects.

Russian legislation may not adequately protect against expropriation and nationalisation

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including weaknesses in the judiciary and insufficient mechanisms to enforce judgements, as well as reports of corruption among state officials. In addition, it is possible that due to a lack of experience in enforcing these provisions or due to political change, legislative protections may not be enforced in the event of an attempted nationalisation. Furthermore, there is little experience in enforcing legislation enacted to protect private property against nationalisation. Although the Company does not believe that there is a legal basis for the expropriation or nationalisation of any of its assets, any expropriation or nationalisation of the Group's business could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Risks Relating to Taxation

Tax consequences of UK tax residence

The Company is managed and controlled in the UK and is currently treated as UK resident for UK tax purposes. As a UK resident company, the Company will be subject to corporation tax on its worldwide profits. There are also rules which could in certain circumstances impose UK tax on the Company in relation to the profits or gains of subsidiaries.

The Company and other UK resident members of the Group are subject to the UK controlled foreign company ("**CFC**") rules by virtue of being resident for tax purposes in the United Kingdom. The CFC rules can operate to subject UK tax resident companies to UK tax on the profits of certain non-UK tax resident companies in which they have a direct or indirect interest. Although it is not expected that the Group will generate profits which would give rise to a CFC charge, it will be necessary to monitor the activities of these non-UK resident operating companies to evaluate the application of the CFC rules in force at all relevant times that they are not resident in the UK. The Company obtained a clearance from HMRC under which its subsidiaries are exempt from application of the CFC rules, effective until 31 December 2012. Should the proposed CFC reform, mentioned below, introduce changes in the CFC legislation prior to 31 December 2012, this clearance may no longer be valid.

The UK Government has proposed wide-ranging reforms to the CFC rules, which are currently expected to be enacted in the Finance Act 2012. Following that, on 29 February 2012 the Government published an update on CFC reform, together with revised draft legislation. The most recent update on the proposed new CFC rules was published on 29 February 2012 together with the revised draft of the legislation which is now contained in the Finance (No. 4) Bill 2012. Further amendments are likely to be introduced prior to the enactment of the new legislation. The Company considers that the UK Government's objectives in reforming the UK tax system should not lead to the Company being significantly disadvantaged, although the effect of any amendments to the CFC rules on the Company cannot be certain until the new legislation is published and enacted in its entirety. The Company will monitor the proposed amendments in order to address, and seek to mitigate, their effects (if any), but the possibility cannot be excluded that the new legislation may have a material adverse impact on the Group.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and the Group may be subject to greater than expected tax burdens

Russian tax law and practice are not as clearly established as in more developed market economies and there are a number of practical uncertainties in applying tax legislation. The Russian tax authorities do not always apply the law evenly to all taxpayers, in certain instances, allegedly due to political motivations. It is possible that the current interpretation of the law or understanding of practice may change or that the law may be changed with retroactive effect, even though legislation with retroactive effect that prejudices taxpayers' positions is generally prohibited under Russian law.

13

Description of principal risks

continued

Generally, taxes payable by Russian mining companies include, among others, profit tax, value-added tax, transportation tax, land tax, water tax, property tax and mineral extraction tax.

Additionally, Russian companies are liable to pay social contributions to certain state regulated funds and import duties, and to make other non-tax payments. Mining companies are also subject to regular payments for subsurface use.

Historically, the tax environment in Russia has been complicated by the fact that various authorities often issued contradictory or retroactive pieces of tax legislation. For example, tax laws are unclear with respect to the deductibility of certain expenses. In addition, certain aspects of the process by which the Russian subsidiaries of the Group were incorporated were not specifically covered by Russian tax legislation. As a result, in the past, the Group may have taken positions which management considered at the time to be in compliance with then-current tax law, but such positions could be subject to challenge by the tax authorities in the future. Such uncertainty potentially exposes the Group to the risk of a greater-than-expected tax burden.
The Russian taxation system has recently been undergoing significant changes. Currently, Russia is in the process of amending legislation regulating the application of major taxes, including some changes to VAT and profit tax.

While the description of tax consequences in this Annual Report includes the provisions of current law, additional and potentially significant changes to Russian tax law may still be introduced in the future.

In practice, the Russian tax authorities often interpret tax laws in a way that does not favour taxpayers, who often have to resort to court proceedings to defend their positions against the tax authorities. Differing interpretations of tax regulations exist both as between and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose individual fines, penalties and interest charges.

Generally, taxpayers are subject to inspection in relation to a period of three calendar years preceding the year in which an audit is carried out. Previous audits do not exclude subsequent claims relating to the audited period because Russian tax law authorises upper-level tax inspectorates to revisit the results of tax audits conducted by subordinate tax inspectorates. The tax inspectorate is also entitled to carry out a further field audit in the event of liquidation or reorganisation of the taxpayer, as well as if the latter files an adjusted tax return to reduce the amount of tax due. This limitation of the tax audit period corresponds to the statute of limitations on the commission of a tax offence, which is also limited to three years from the day on which a tax offence was committed or from the day following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

On 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the normal three-year period if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Russian Tax Code provides for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because the terms “obstructed”, “hindered” or “created insurmountable obstacles” are not defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed”, “hindered” or “created insurmountable obstacles” in respect of an inspection and ultimately seek tax, interest and penalties beyond the three-year term.

Despite the Russian government's steps to reduce the overall tax burden in recent years, Russia's continuing budgetary funding requirements may increase the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, and it construes transactions based on their form rather than substance. However, the Russian tax authorities are increasingly taking a “substance over form” approach. While certain reductions in the rates,such as for profit tax, have been made, it is expected that Russian tax legislation will become more sophisticated in addressing tax-minimisation techniques and introduce additional tax-raising measures. Although it is unclear how these provisions will operate, the introduction of these provisions may affect the Group's overall tax costs and may result in significant additional taxes becoming payable. Although the Group will continue to seek to minimise such exposures through tax planning, it cannot offer investors any assurances that the effective tax burden will not increase. Russian officials may challenge the Group's tax planning and impose additional taxes, penalties and interest. Additional tax exposures could adversely affect the Group's business, financial condition or results of operations.

13

Description of principal risks

continued

The Group's operations as a mining company mean that it may be subject to increases in taxes

The amount of tax that the Group pays could substantially increase as a result of changes in, or new interpretations of, taxation laws applicable to mining companies. In particular, in recent years, there have been various calls to impose higher taxes on companies in the mining and energy sectors in response to sustained increases in commodities prices. For example, the Australian government in 2010 introduced a new tax payable by iron ore and coal mining companies at a rate of 30 per cent. In addition, on 23 March 2011, the UK government announced that the rate of supplementary charge paid on oil and gas production, in addition to corporation tax, would increase by 12 per cent. to 32 per cent. with effect from that date. The Group is subject to the tax laws of several jurisdictions, including Russia, Kazakhstan and Jersey. There can be no guarantee that any or all of these jurisdictions will not increase taxes or impose windfall taxes on mining companies, including the Group. Were this to occur, this could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Risk of unjustified tax benefit for the Group

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued a ruling aimed at differentiating between acceptable tax planning, on the one hand, and tax evasion, on the other. According to the position of the Supreme Arbitration Court, a tax benefit (which may include any reduction of the taxable base, increased tax deduction, recovery, application of a reduced tax rate or tax exemption) may be treated as unjustified if it is received as a result of transactions which are economically or commercially unreasonable, or as a result of transactions the form of which differs from their substance. Such transactions are primarily aimed at receiving an unjustified tax benefit rather than being driven by a valid business or economic purpose. As a result, a tax benefit cannot be regarded as a business objective in its own right. The fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance.

If the tax authorities conclude that any transactions performed within the Group, as well as transactions performed with third parties, have no strong economic rationale and are aimed at receiving an unjustified tax benefit, the tax authorities or arbitration courts may treat the transactions as resulting in an "unjustified tax benefit" for any of the parties involved, which may lead to the imposition of additional taxes payable by the Group.

The tax authorities have actively sought to apply this concept when challenging tax positions taken by taxpayers in court, and it is anticipated that this trend will increase in the future. Although the intention of this ruling was to combat abuses of tax law, in practice, there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court.

The foregoing conditions create tax risks in Russia that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks may impose additional burdens and costs on the Group's operations, including management resources. Further, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, despite its efforts to comply with all applicable tax laws, and these could materially adversely affect the Group's business, revenues, financial condition, results of operations or prospects.

Russian companies of the Group cannot be consolidated for tax purposes under current tax legislation

Under the Russian tax legislation in effect on the date of this Annual Report, the financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of the Group's Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the profit or loss of any of the Group's other subsidiaries. This may result in a higher than expected effective tax rate for the Group's consolidated Russian activities. However, in its Main Directions of Russian Tax Policy for 2011–2013, the Russian Ministry of Finance has proposed the introduction of consolidated tax reporting to enable the consolidation for profit tax purposes of the financial results of Russian taxpayers which are part of one group. On 22 October 2010, the State Duma, the lower chamber of the Russian Parliament, started to implement consolidated tax reporting by adopting the first reading of the draft Federal law, "On Amending First and Second Parts of the Russian Tax Code due to the establishment of consolidated group of taxpayers". The law currently limits participation to only the largest Russian groups. At this time, it is not possible to predict whether, when and how such consolidated tax reporting will be enacted and, if enacted, how it would be interpreted by the tax authorities in practice.

13

Description of principal risks

continued

Foreign companies of the Group may be considered residents for Russian tax purposes

Russian tax legislation in effect does not contain a concept of corporate tax residency and, so, companies are considered to be tax resident in Russia by virtue of the fact that they are incorporated there. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009–2011 has proposed the introduction to domestic tax law of a concept of tax residency for legal entities. Under the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. At present no assurance can be given as to whether and when these amendments will be enacted, their exact nature, their possible interpretation by the tax authorities and the possible impact on the Group companies. It cannot be ruled out that, as a result of the introduction of these changes to Russian tax legislation at any date in the future, any company of the Group might be deemed to be Russian tax resident and therefore becomes subject to all applicable Russian taxes.

The limitation of double tax treaty benefits based on the proposed "beneficial ownership" concept

Since 2006, the Russian Ministry of Finance has issued clarifications with respect to the concept of "beneficial ownership" of income applied in international tax treaties. Although, until now, the clarifications have been of limited use (such clarifications were issued with respect to American Depositary Receipts), they demonstrate an attempt by the Russian tax authorities to investigate the beneficial ownership of income in international financial transactions and holding structures.

The Russian President, in his budget message of 25 May 2009, expressed the aim of introducing legal mechanisms to combat the use of international double tax treaties for the purpose of minimising taxes where the ultimate beneficiaries are not residents of the jurisdiction which is a party to the relevant double tax treaty. Furthermore, a draft law was under discussion by the Russian Government that proposed to amend the Russian Tax Code by providing a general approach to addressing beneficial ownership on income when applying international tax treaties. This draft law may be considered to be additional guidance for tax authorities addressing the issue. It cannot be predicted if this or similar draft law will be enacted or how it will be applied in practice.

In its Main Directions of Russian Tax Policy for 2011–2013, the Russian Ministry of Finance has further proposed the limitation of benefits provided by international tax treaties. One of the proposed amendments restricts the application of double tax treaties when used for tax avoidance purposes and creates incentives for companies to transfer their offshore operations to Russia. In particular, it is assumed that the benefits of double tax treaties concluded with Russia will not be applicable in cases where the beneficiaries are not residents of the contracting states.

At this time, it is not possible to predict whether, when and how the "beneficial ownership" concept will be enacted and, if enacted, how it would be interpreted by the tax authorities in practice. However, irrespective of whether the changes are passed, the Russian tax authorities have already become more active in determining the eligibility of non-residents to tax treaty benefits.

Changes to Russian transfer pricing rules and documentation requirements recently introduced may impact the Group's business, financial condition or results of operations

The current version of Russian transfer pricing legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). Although some court practice is available in relation to this issue, there has been no formal guidance as to how these rules are applied. Moreover, Russian transfer pricing rules are vaguely drafted, providing the Russian tax authorities and arbitration courts wide scope to interpret their use in politically motivated investigations and prosecutions.

In addition, if a transfer pricing adjustment is assessed by the Russian tax authorities, the rules do not provide for a corresponding adjustment for the related counterparty to the transaction. Due to the uncertainties in the interpretation of transfer pricing legislation, the tax authorities may challenge the prices of certain of the Group's transactions and propose adjustments. If such price adjustments relate to the Group and are upheld by the Russian arbitration courts and implemented, the Group's results of operations could be materially adversely affected.

13

Description of principal risks

continued

On 18 July 2011, the Russian President signed Law No. 227-FZ "On introduction of changes to Russian legislation aimed at improving tax transfer pricing rules". The new law came into force from 1 January 2012, whilst some provisions are deferred until 2013 and 2014. The law is generally closer to the OECD Transfer Pricing Guidelines.

The Group may be exposed to additional taxation in Russia if non-Russian legal entities in the Group are treated as having a Russian permanent establishment

The Russian Tax Code contains the concept of permanent establishment in Russia as a means for taxing foreign legal entities that carry on regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. Russia's double tax treaties with other countries include such a concept, however, the practical application of the concept of a permanent establishment under Russian domestic law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international norms, are at risk of being treated as having a permanent establishment in Russia and therefore being liable to Russian taxation.

Although the Company intends to conduct its affairs so that is not treated as having a permanent establishment in Russia, no assurance can be given that the Company will not be treated as having such a permanent establishment. If the Company is treated as having a permanent establishment in Russia, it would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

Only the part of the income of a foreign entity that is attributable to a permanent establishment should be subject to taxation in Russia. The Russian Tax Code contains some attribution rules that are not sufficiently developed. There is a risk, therefore, that the Russian tax authorities might seek to assess Russian tax on the entire income of a foreign company with a permanent establishment in Russia. Having a permanent establishment in Russia may also have other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, a potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the tax authorities for failure to register a permanent establishment with the Russian tax authorities.

Recent events in Russia suggest that the tax authorities may more actively be seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Should they assert this against the Company, such taxes or penalties could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

The taxation system in Kazakhstan is at an early stage of development, and the interpretation and application of tax laws and regulations are evolving, which significantly increases the risks with respect to the Group's operations and investment in Kazakhstan

As tax legislation in Kazakhstan has been in force for only a relatively short time, tax risks in Kazakhstan are substantially greater than typically found in countries with more developed tax systems. Tax legislation is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. The current version of the Republic of Kazakhstan Tax Code (the "**Kazakh Tax Code**") was passed at the end of 2008 and came into force on 1 January 2009. This law has been amended more than twenty times since it came into force. Some of these amendments have affected corporate tax rates and rates of special subsurface users' taxes. The Kazakh Tax Code represents a major overhaul of the previously applicable tax system and contains numerous ambiguous provisions. No reliable practice has been established in Kazakhstan with regard to the application of these ambiguous tax provisions to date, in part due to the absence of tax audit practice guidance issued by the tax authorities in respect of these provisions.

The Group is subject to generally applicable taxes, such as corporate income tax, VAT, social tax, social insurance contributions, land tax, property tax, vehicle tax, excise and certain others, as well as the special taxes payable only by subsoil users, which include mineral extraction tax, excess profit tax and, to the extent applicable, commercial discovery bonuses, signing bonuses and the reimbursement of historical costs of a relevant field to the government. The Group is also subject to customs duties pursuant to customs legislation, and subsoil use contracts of the Group may establish obligations to make additional types of contribution to various social and governmental funds. The general risk over the interpretation and application of tax law in Kazakhstan therefore applies to a broad range of taxes paid by the Group. Tax regulation and compliance is subject to audit by the tax authorities which may impose fines, generally being 50 per cent. of the underpaid amount of tax as established by tax audit, and late payment interest charges.

13

Description of principal risks

continued

Export sales of the Group are also subject to domestic transfer pricing regulations. Generally, all cross-border as well as certain other transactions are subject to the domestic transfer pricing regulations, which state that transaction prices for tax purposes are to be determined based on "market" prices. There are special procedures provided in the regulations to determine the applicable "market" price for a given transaction. Where the prices of the Group's exports deviate from the applicable "market" prices, the Kazakhstan tax authorities are entitled to make tax adjustments and assessments to corporate income tax and any other taxes affected as well as assess fines and late payment interest if such adjustments lead to an increase in tax payments by an entity. Audits of transfer pricing issues are routinely carried out by the tax authorities in respect of exporters of oil, gas and minerals. In February 2010, Kazakhaltyn received a letter from the Kazakh tax authorities which alleged that four contracts from the 2006–2008 period had violated transfer pricing regulations. Kazakhaltyn is currently cooperating with the authorities, although, as a result of the loss of historical data due to fire and server disruptions prior to completion of the Partial Offer in August 2009, it has only been able to provide information with respect to one of the four contracts. Kazakhstan's tax laws are not always clearly determinable and have not always been applied in a consistent manner and the tax laws continue to evolve. In January 2009, a new version of the Kazakh Tax Code became effective, which, among other things, introduced a limited application of the withholding tax. Under current language of the law, the withholding tax on capital gains applies only to those gains received on disposal of shares of a non-resident or resident of Kazakhstan provided that at least 50 per cent. or more of the value of such shares (or of the value of the relevant entity's equity capital) is made up of property of subsoil users in Kazakhstan.

However, amendments to the Kazakh Tax Code, which were adopted in July 2011 and became effective from 1 January 2012, toughen the exemption rule so that the withholding tax on capital gains is waived on disposal of shares of a non-resident or resident of Kazakhstan only provided that the following conditions are met simultaneously: (i) the seller has held the shares for more than 3 years; (ii) the shares disposed are not those of the subsoil user, and (iii) more than 50 per cent. of the value of such shares (or of the value of the relevant entity's equity capital) is made up of property of the persons which are not subsoil users. The amendments further provide for non-applicability of this exemption to sellers which are registered in tax haven jurisdictions. The Kazakhstan government has adopted a specific list of tax havens for tax purposes which includes regular tax haven jurisdictions, such as Jersey and Cyprus.

Pursuant to the relevant provisions of the Kazakh Tax Code, a purchaser of shares in such non-resident entity is liable to calculate, withhold and pay the withholding tax in Kazakhstan either directly or by providing the funds in lieu of payment of such withholding tax to the relevant Kazakh subsoil user. If the withholding tax is not paid by the purchaser, the relevant Kazakh subsoil user will be made liable for the total amount of the tax not withheld and will be obliged to pay such tax. This withholding tax is not payable in a number of circumstances, including with respect to gain realised from sales of shares effected via open sales at stock exchanges. The provisions of the Kazakh Tax Code and implementing regulations are vaguely drafted and remain unclear; for example, it is unclear whether the withholding tax is applicable to non-residents of Kazakhstan who do not hold any shares in Kazakh subsoil users directly, which could include transactions entered into with respect the Company. Such ambiguity particularly arises due to the absence of an explicit guidance on assessment of the share of the Kazakh subsoil users' property in the value of shares (or in the value of the equity capital) of non-residents of Kazakhstan who do not hold any shares in Kazakh subsoil users directly.

It is also not clear whether such withholding tax is payable on gains received on disposal of depositary receipts issued with respect to shares in a non-resident entity. In addition, although there is a view supported by a non binding letter issued by the Kazakh tax authorities that such withholding tax should not be applicable to initial share and depositary receipts issuances, the risk that the tax authorities may try to interpret the relevant provisions of the Kazakhstan Tax Code in an adverse manner may not be excluded.

Since the Kazakh property of the Group comprises less than 50 per cent. of the value of the shares in the Company, the Company believes that the withholding tax should not apply to the disposals or issuances of its depositary receipts or shares. There is a risk, however, that the withholding tax could apply to share transactions prior to and including issuance of depositary receipts in the combination of the Company and OJSC Polyus Gold which completed in July 2011. If the Kazakhstan government were to seek payment of this tax from the Group's Kazakh subsidiaries, the Group's business, revenues, financial condition, results of operations or prospects could be materially adversely affected.

13

Description of principal risks

continued

The uncertainty of application and evolution of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's financial position and results of operations. The tax authorities are entitled to conduct tax audits and raise additional tax assessments within the statute of limitation for five years after the end of the relevant tax period. In certain cases, the tax authorities may be entitled to conduct a tax audit of a previously audited period. While local tax authorities are entitled to provide their opinion or position on certain tax matters addressed to them by taxpayers, those opinions are not legally binding on the tax authorities or courts and may be retracted by the tax authorities if their position on any given tax matter changes in the future.

The Group may encounter difficulties in recovery of VAT paid to vendors and it may also encounter difficulties with the application of a zero per cent. VAT rate

Many Russian companies encounter difficulties with the recovery of input VAT. Under the Russian Tax Code, Russian incorporated companies within the Group are entitled to recover the excess of input VAT over output VAT, either through cash refunds or as an offset against future tax liabilities, and are also entitled to earn interest on any excess input VAT amounts that have not been refunded by the Russian tax authorities.

Although the Group has not experienced significant problems in this regard, many Russian companies report that receipt of cash refunds is virtually impossible, that excess input VAT may only be recovered through an offset against future tax liabilities over protracted periods of time and that the receipt of interest thereon is not very likely. Furthermore, the Russian tax authorities often scrutinise companies showing such excess input VAT amounts in their tax declarations and sometimes seek to challenge them on different most often formal grounds.

Despite the Group's efforts at compliance, the recovery may take a significant amount of time and additional efforts, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects.

Risks relating to the Group structure

The principal shareholders of the Company have the ability to exert significant influence over the Group and its business, and the interests of the principal shareholders of the Company may conflict with those of other shareholders of the Company

The Company's principal shareholders own in the aggregate approximately 78 per cent. of the Company's share capital. The interests of the Company's principal shareholders could conflict with the interests of other holders of the Company's shares, and the Company's principal shareholders may make decisions that could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects. In particular, the Company's principal shareholders will have the ability to exert significant influence over any actions requiring the approval of the shareholders, including those corporate actions which require a special resolution of the shareholders in accordance with Jersey law.

In addition, one of the Company's principal shareholders has entered into repurchase agreements with various financial institutions under which it retains the voting rights attributable to such shares sold under the repurchase agreements. In case of unfavourable market conditions, such principal shareholder may be unable to repurchase its shares sold under such repurchase agreements, which may result in a decrease in the trading price of the Company's securities.

14

Capital market activities

14

Capital market activities

Share capital

As at 31 December 2011 the authorized share capital of PGIL comprised 3,032,149,962 ordinary shares with a par value of £0.001 each. As at 31 December 2011, 2,002,710,914 global depository receipts ("GDRs") with each GDR representing one share, were issued.

As at 31 December 2011, 25,153,897 ordinary shares and 201,805,767 GDRs (for a total holding of 226,959,664 shares, or 7.49% of the share capital) were held by Jenington International Inc., a subsidiary of the Group.

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

The Group's shares on the stock market

PGIL's GDRs are listed on the standard listing segment of the official list and admitted to trading on the Main Market of London Stock Exchange under the ticker PLGL. In the United States, PGIL's GDRs are traded on the over-the-counter market under the ticker PLZLY. The securities are also tradable off the listing on the Frankfurt Stock Exchange under the ticker KXZ1.

As at 31 December 2011, Polyus Gold's market capitalisation amounted to US$9.1 billion.

Dividends

The Group is currently formulating its dividend policy. On 30 March 2012 the Board recommended the dividend payment in respect of 2011 of US$0.041 per ordinary share. The payment is subject to the approval of the Group's shareholders at an Annual General Meeting to be held on 28 May 2012. The recommended dividend, if subsequently approved, will be the first ever dividend paid out by Polyus Gold International Limited.

Senior Notes

On 6 November 2006, KazakhGold Group Limited issued its US$200,000,000 9.375% Senior Notes due in 2013. The Senior Notes are listed on the official list of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange.

Interest on the Senior Notes is payable in arrears on 6 May and 6 November of each year until the day on which all sums due in respect of the Senior Notes are received by or on behalf of the Noteholders. The Notes are secured obligations of PGIL, ranking at least pari passu with all of PGIL's other present and future obligations, except for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Following the acquisition of KazakhGold Group Limited by Jenington, OJSC Polyus Gold became an additional limited liability guarantor of the Notes.

In July 2011, the Group completed a consent solicitation for the Senior Notes with respect to consent relating to the reverse takeover between OJSC Polyus Gold and KazakhGold Group Limited, among other things, and paid a consent fee of US$3.4 million. As part of the consent fee, the interest of the Senior Notes increased from 9.375% to 9.875% effective 6 November 2011.

On 14 February 2012, the Group announced its intention to redeem the Senior Notes due 2013 on 15 March 2012 at a redemption price of 102.344% of the principal amount of the outstanding Senior Notes, together with accrued and unpaid interest on all the Senior Notes to the redemption date. On 15 March 2012, the Senior Notes were redeemed.

The Combination of OJSC Polyus Gold and KazakhGold Group Limited

In the reporting year the reorganisation of Polyus Gold and KazakhGold was completed. The reorganisation was carried out through a reverse takeover of OJSC Polyus Gold, incorporated in Russia, by its indirect subsidiary, KazakhGold Group Limited, incorporated in Jersey. The reverse takeover consisted of a series of transactions, including a private exchange offer for ordinary shares and ADRs of OJSC Polyus Gold and the exercise of options to acquire shares and ADRs of Polyus Gold held by its indirect subsidiary, Jenington, and its principal shareholders. The private exchange offer was announced on 17 June 2011 and successfully completed on 31 August. As a result of the private exchange offer and related transactions, substantially all of the share capital of OJSC Polyus Gold was acquired by KazakhGold Group Limited, which was subsequently renamed to Polyus Gold International Limited.

Prior to the combination, OJSC Polyus Gold was an indirect holder of a 65% stake in KazakhGold Group Limited, incorporated in Jersey. The key steps of the combination process are given below.

On 17 June 2011, the proposed combination between KazakhGold Group Limited and OJSC Polyus Gold was announced. A private exchange offer was made to the minority shareholders. Polyus Gold's principle shareholders, as well as Jenington, entered into option agreements on substantially the same terms as the private exchange offer.

14

Capital market activities

continued

The Combination of OJSC Polyus Gold and KazakhGold Group Limited (continued)

On 24 June 2011, the Prospectus relating to the admission of GDRs issued in the proposed combination was published. The private exchange offer became open for acceptances.

On 15 July 2011, an Extraordinary General Meeting of KazakhGold approved resolutions relating to the proposed combination.

On 20 July 2011, the Group announced that the private exchange offer had been closed for acceptances. Jenington and the principal shareholders exercised the option agreements.

On 25 July 2011, settlements under the private exchange offer and the option agreements were completed, resulting in KazakhGold acquiring 89.14% of the issued share capital of OJSC Polyus Gold.

26-27 July 2011, KazakhGold announced the appointment of the new Board with a majority of independent directors. Robert Buchan was appointed independent Chairman. KazakhGold changed its name to Polyus Gold International Limited.

On 29 July 2011, in order to increase its holding in OJSC Polyus Gold, PGIL's indirect subsidiary, Jenington International Inc., announced a further private exchange offer to ADR holders of Polyus Gold. The offer was made on substantially the same terms as the initial private exchange offer.

On 15 August 2011, the further private exchange offer was closed for acceptances. Acceptances for approximately 1.05 per cent of Polyus Gold's total issued share capital had been received. In addition, following the completion of the second private exchange offer, Jenington agreed to acquire from the market Polyus ADRs, representing approximately 1.3 per cent of the total issued share capital of Polyus Gold.

Settlements under the further private exchange offer and market purchases were completed by 31 August 2011. Following these purchases, the aggregate number of Polyus Gold shares and ADRs held by Polyus Gold International Limited and Jenington increased to 91.5 per cent of the total issued share capital of Polyus Gold, of which 2.36% was held by Jenington.

The Mandatory Tender Offer

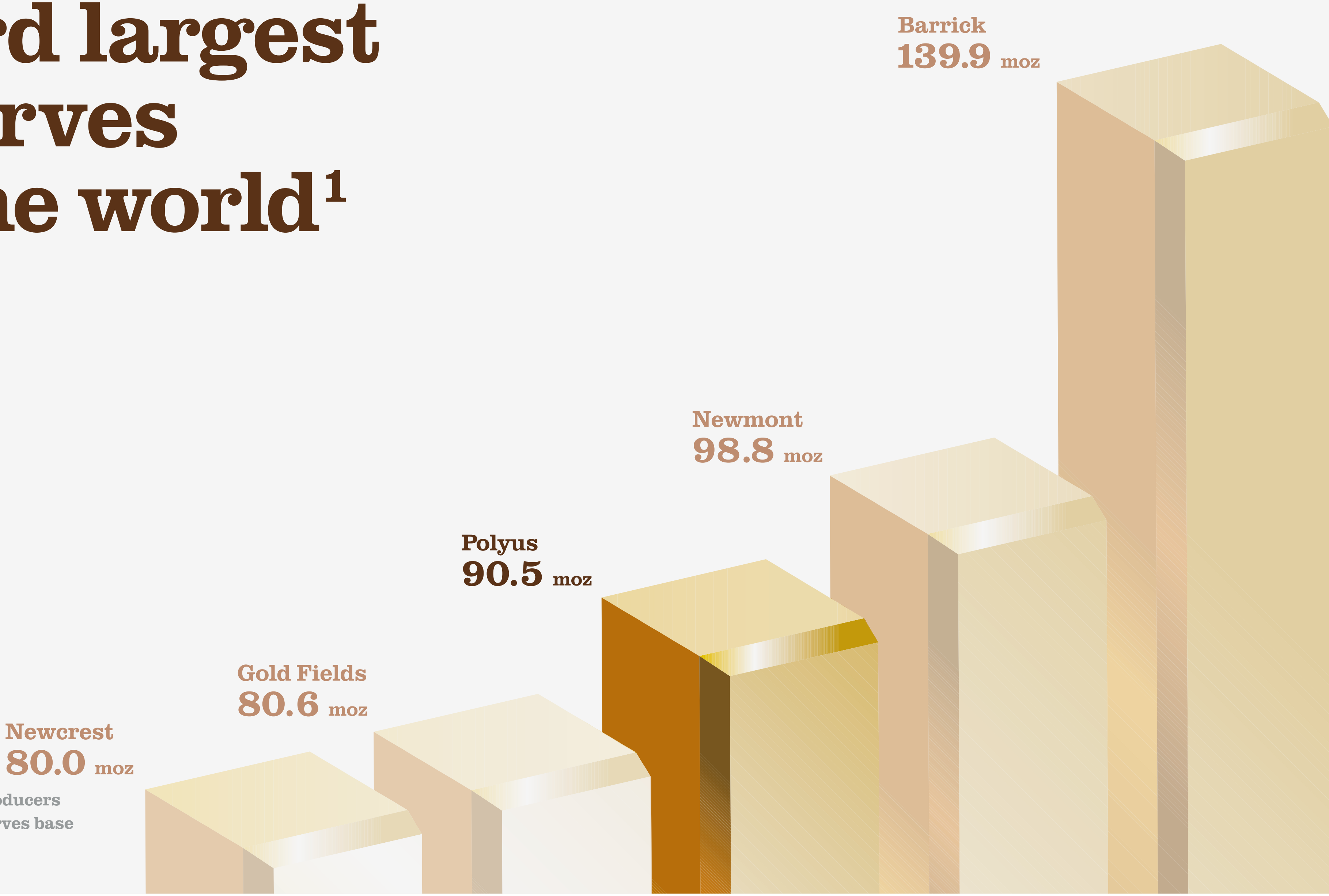
On 30 August 2011, PGIL announced that it had commenced a Russian law-governed mandatory tender offer to purchase ordinary registered shares of OJSC Polyus Gold for cash from the remaining shareholders of OJSC Polyus Gold at a purchase price of 1,900.27 Russian roubles per share. The offer period of the mandatory tender offer expired on 8 November 2011. The mandatory tender offer was closed on 23 November 2011. Transfer orders for participation in the MTO were accepted in respect of 3.81% of OJSC Polyus Gold's share capital. As a result of the Mandatory Tender Offer, PGIL's holding in OJSC Polyus Gold increased to 95.4%, including a 2.4% stake held by Jenington in the form of ADRs.

The Group funded the purchase of shares tendered under the mandatory tender offer with US$460 million borrowed under bridge facilities provided by VTB Bank and Société Générale. PGIL entered into the separate bridge facilities with VTB Bank and Société Générale for loans totalling US$800 million in September 2011.

15

Gold market in 2011

Third largest reserves in the world[1]



World's top-5 gold producers in terms of their reserves base

[1] 2011 Annual Report

15

Gold market in 2011

The most important market for gold has traditionally been the jewellery industry. Gold is also widely used in electronics and pharmacology. However, there has recently been an upsurge of interest in gold as a store of value and capital build-up. Since 2008, demand for gold has been at record highs. In 2011, investment demand accounted for nearly a third of the total global demand for gold.

Supply

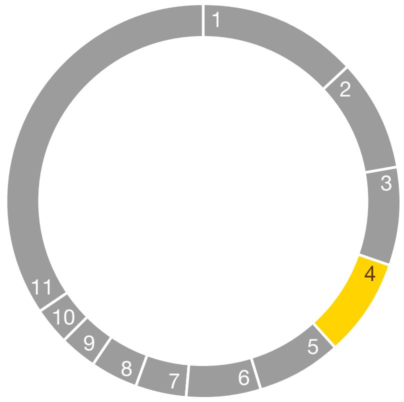
In 2011, global gold supply amounted to 4,436 tonnes, which is 2% higher than in 2010. The rise came from an increase in mine production of new metal.

According to the World Gold Council, global gold production in 2011 grew by 4% from 2010 to 2,812 tonnes. Africa, including Sudan, Ghana, Eritrea and Burkina Faso, accounted for the most of the global gold production increase, driven by both formal and artisanal mining, amongst the leading gold producing countries, gold output also increased in Canada, Russia, Kazakhstan, Chile and Mexico. China maintained its top position in 2011, increasing output by 5% to 369 tonnes.

In 2011, gold production suffered the steepest drop in Indonesia, largely due to reduced operations of the world's largest mine – Grasberg – and Batu Hijau. Gold output also declined in Peru and Argentina, mainly as a result of a drop in production at the countries' largest mining operations – Yanacocha and Veladero. South Africa recorded a decrease in production for the ninth consecutive year.

Based on 2011 gold output, Russia ranked fourth among the global gold mining industry leaders, leaving South Africa behind. According to data of the Russian Union of Gold Miners, mine production in Russia amounted to 214 tonnes, an increase of 5% over 2010 levels, mainly driven by ramp-up of the Blagodatnoye mine (Polyus Gold International), Malomir and Pioneer (Petropavlovsk) mines.

Largest gold producing countries in 2011



1	China	13%	7	Indonesia	4%
2	Australia	9%	8	Canada	4%
3	USA	8%	9	Ghana	3%
4	Russia	8%	10	Mexico	3%
5	South Africa	7%	11	Other	34%
6	Peru	6%			

Source: World Gold Council.

15

Gold market in 2011

continued

Another source of the world's gold supply is old gold scrap. In 2011, supply of scrap metal amounted to 1,612 tonnes, which is slightly lower than in the previous year. Most regions of the world recorded substantial increases in scrap supply in response to rising gold prices, but these were outweighed by a decline in eastern markets, presumably, due to expectations of still higher prices.

For the first time in the past decade, the gold market saw net producer hedging, which increased the global gold supply by a marginal 12 tonnes.

The central banks and the International Monetary Fund have been another traditional source of gold supply on the global market. However, purchases of gold by the official sector have recently surpassed sales. In 2011, official sector sales totaled 59 tonnes, of which less than 10 tonnes were sold by European banks as part of the Central Bank Gold Agreement, whereas the limit allowed for sale was 400 tonnes. This agreement is intended to stabilize the world's gold prices and mitigate the risk of excess supply by limiting bullion sales by European central banks. The latest version of this Agreement, which covers a five-year period, was signed on 27 September 2009 by the European Central Bank and the central banks of another 18 European nations. The principal sellers of gold bullion in 2011 were Libya, the Philippines and Germany.

Demand

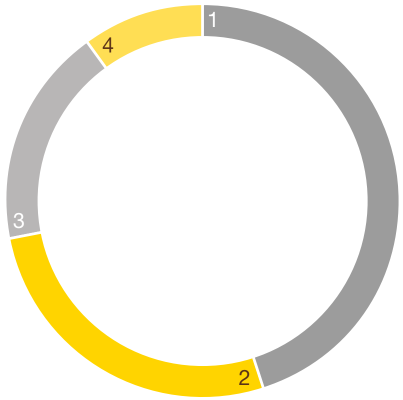
Jewellery is the largest consumer of gold on the global market. In spite of a 28% increase in the average gold price in 2011, jewellery demand decreased only slightly to 1,979 tonnes. The highest demand comes from jewellery manufacturers in India and China.

Most of the regions of the world posted losses in jewellery consumption in response to the metal's price growth and also due to the tough economic situation in the EU and US. China was the only one to demonstrate remarkable growth incentivized by higher income levels and inflationary expectations. Growing demand for jewellery made of high karat gold is proof of the interest in the metal as to a long-term investment tool.

Demand for gold from other industry sectors increased by 3% to 792 tonnes in 2011, compared to 2010, mainly due to the electronics industry. The most significant growth in demand was observed on the Chinese market.

Increased demand also comes from the official sector, meaning the IMF and central banks. According to the World Gold Council, in 2011 metal purchases for replenishing state reserves exceeded sales by 430 tonnes, which is more than five times higher than in the previous year. The largest purchases of gold were made by the Central Banks of Mexico, Russia, Thailand and South Korea. The rising interest in gold is probably due to growing concerns over the world's major currencies due to the deepening of the sovereign debt crisis in Europe and a downgrade of the US credit rating.

Global gold consumption in 2011



1	Jewellery	45%
2	Coin and bar hoarding	27%
3	Other industries	18%
4	Official sector purchases	10%

Source: World Gold Council.

15

Gold market in 2011

continued

Investment demand

Investment demand for gold includes the demand for gold bullion, coins, medals and financial instruments linked to the gold price (exchange traded funds – ETFs, etc.). In 2011, investment demand remained at a remarkably high level of 1,563 tonnes, although this was 7% less than the previous year's level. According to the World Gold Council, investments in gold bullion and coins showed the most impressive performance, with growing support from Asian markets, especially India and China, largely driven by high inflation, negative real interest rates and anticipation of further price gains. Among western countries, the largest consumers have traditionally been the US, Germany and Switzerland.

However, demand from ETFs and other gold financial instruments declined significantly from around 360 tonnes in 2010 to 154 tonnes in 2011. Although the aggregate gold reserves of these funds increased to 2,360 tonnes in 2011, the growth rate of investments in ETFs and similar funds slowed as a result of profit taking by speculative investors and a switch to gold accounts encouraged by their relative cost-efficiency.

Gold price

In 2011, the gold price continued to beat historical records for the tenth year in a row. The average PM London fixing price was US$1,572 per ounce, up 28% from the 2010 level. 2011 opened at US$1,389 and closed at US$1,531, resulting in an intra-year gain of 10%. High investment demand remained the key driving factor behind gold price performance in 2011, which in turn was encouraged by inflationary fears and bullish price expectations.

In 2011, the gold rally gained momentum in July on the back of S&P's downgrade of the US credit rating and the Federal Reserve System announcing its intention to continue quantitative easing. Attention to gold was boosted by the Swiss National Bank setting a ceiling for the Swiss franc against the Euro, disappointing economic statistics in Europe and the USA, as well as the Chinese government's plans to loosen its monetary policy. Growing demand from the official sector also played an important part in stimulating gold price growth. On 6 September 2011, the gold price on the London market reached its highest level at US$1,895 per ounce, exceeding the 2010 peak by 33%. The rally was followed by a correction by year end, which was partly due to investors reaping profits and moderate strengthening of the US dollar.

Gold price in 2011

Source: London Bullion Market Association.

16

Sustainability report

We care about the environment

Polyus Gold International Limited recognizes the impact of its operational activities on the surrounding environment. Therefore, a key goal for the Company is to mitigate and, where possible, eliminate negative environmental and social impacts in the jurisdictions where the Company operates.

Energy saved under the conservation and energy efficiency programme

16.1

About this Report

The Group operates in compliance with it's stated mission and focuses on achieving those goals and objectives stated in the Group's current strategic development plan. The Group's key strategic priority is growth of production, which it aims to achieve while remaining vigilant of stakeholder's interests and the principles of sustainable development. The Group's sustainable development activities centre primarily on:

- Effective implementation of the principles of sustainable development, the improvement of data collection procedures and the improvement of performance systems
- Developing the local communities in the regions where the Group operates
- Developing the full potential of employees
- Ensuring environmental responsibility and the health and safety of its employees, both of which are of paramount importance to the Group.

The Group strives to improve its data collection procedures and performance systems in order to ensure that it provides timely, reliable and complete information on its performance. In 2006, the Group began publishing in its annual reports information on safety, the environment and social responsibility. The Group's first annual report, which was released in 2006, covered the period for 2004-2005. The Group prepares sustainability reports on a biennial basis and intends to continue this practice in the future.

The 2010-2011 sustainability report (hereinafter, the "Report") reflects sustainability performance results for the period from 1 January 2010 to 31 December 2011, including the Group's basic principles and approaches to stated goals and objectives and their implementation.

Russian language copies of the sustainability reports and additional information on sustainability performance are available on the Polyus Gold International Limited website: http://www.polyusgold.ru/community/sustainable_development/.

Russian and English language copies of the Group's annual reports and additional information for investors are available at http://www.polyusgold.com/eng/news/reports/annual/.

Guidelines and standards

The fourth sustainability report of the Group was prepared in accordance with GRI G3 and the requirements of the Mining and Metals Sector Supplement. The Group's self-declared GRI G3 application level is C+.

Compliance with the GRI reporting framework means reflecting processes and operating results in the most reasonable, accurate and timely manner possible, which is consistent with the disclosure principles of the Group, and enables the Group to ensure the comparability of published reports with the reports of the Group and leading international mining companies.

References to informational sources relating to the disclosure of corresponding principles are presented in the table of GRI indicators included in this Report.

The Group also align its sustainability reporting with the principles of AA1000 Accountability Principles Standard (2008), which are Inclusivity, Materiality and Responsiveness.

Report boundaries

The Group applies GRI Guidelines when defining reporting boundaries for the Report as a whole, as well as for individual performance indicators. According to the Guidelines, the Report should cover those subsidiaries over which the Group has control as well as those subsidiaries which significantly influence the Group's operational, financial, social and environmental performance results.

16.1 About this Report

continued

The Report covers the performance of all wholly owned subsidiaries and joint ventures of the Group, namely: CJSC Polyus (Krasnoyarsk business unit), CJSC ZDK Lenzoloto (Irkutsk alluvial business unit), OJSC Pervenets (Irkutsk ore business unit), OJSC Aldanzoloto GRK (Yakutia business unit (Kuranakh)), OJSC SVMC, OJSC Matrosov Mine (Magadan business unit) and JSC MMC Kazakhaltyn (Kazakhstan business unit), as well as the Group's subcontractors: Construction service (LLC Polyus Stroy), Security service (PSF Polyus Schit LLC), Logistic service (CJSC Polyus Logistics), and Engineering service (LLC Polyus Project).

The Report is limited to the operations carried out in Russia and Kazakhstan.

For the purposes of the Report, data and information relating to the above-mentioned subsidiaries was presented broken down by business unit, as is required for annual reporting purposes and by the Group's internal reporting system.

Data measurement techniques

The Group uses its own corporate sustainability data collection system as its primary source of data and information when preparing sustainability reports. Once yearly, site-level reports are consolidated and verified at the corporate level for the purposes of annual and sustainability reporting.

The system aims, based on GRI G3 requirements, to collect material economic, environmental and social performance indicators from all of the above-mentioned subsidiaries, with subsequent aggregation of this data.

Labour performance indicators are calculated on the basis of headcount at the end of 2010 and 2011 and include information on the managing company for Russian assets (OJSC Polyus Gold, located in Moscow).

Environmental performance indicators were aggregated for all of the above-mentioned subsidiaries and subcontractors, except for Security service (PSF Polyus Schit LLC), Logistic service (CJSC Polyus Logistics), and Engineering service (LLC Polyus Project).

All PGIL financial performance indicators are denominated in US dollars, corresponding with the Group's audited IFRS consolidated financial statements for the year ended 31 December 2011.

Report content

The Group's sustainability information preparation procedure is consistent with GRI principles for defining quality in order to present a sound and reasonable view of the Group's performance to stakeholders. In its efforts to fully and objectively reflect performance results the Group discloses in the Report both the achievements and difficulties which occurred in the reporting period. The reported information is also comparable with previous reports and provides the base for the complex assessment of sustainability performance.

The main material issues and key topics of the Report were defined with a view to identification of the following:

— Significant issues and questions that are meaningful by virtue of their potential impact on the Group's business strategy
— Economic, social and environmental impact on those communities affected by the Group's operations
— Stakeholders' interests and expectations.

16.1

About this Report

continued

The Group considered the topics disclosed in the Report to be material from the perspective of their impact on the activities of the Group, on the interests and expectations of stakeholders, and their presentation in publicly available information sources. The report covers a wide range of issues in accordance with the strategic directions of activities, including key events during the reporting period, economic performance of the Group, industrial and occupational safety, environmental performance, employee development, development of local communities in the regions of activity, and interaction with stakeholders (shareholders, government and regulators, employees and contractors, suppliers, non-government organisations, media).

Restatements and significant changes

Compared with the Sustainability Report for 2008-2009 there have been no material changes in applicable methods for measuring and presenting data, or to the reporting boundaries.

The Group's subcontractors: Security service (PSF Polyus Shield LLC), Logistic service (CJSC Polyus Logistika), and Engineering service (LLC Polyus Proekt) were established during 2009-2011 at the split-off from CJSC Polyus.

Assurance

Reporting on sustainable development plays an important role not only in increasing the transparency of operations, but in enhancing the effectiveness of internal processes, including improved communications and identification and the subsequent elimination of problematic issues. The Group recognises that independent sustainability report assurance enables the Group to improve the quality of reported information, including compliance with the principles of balance, reliability and validity as they relate to the presented performance data, as well as to satisfy stakeholders' requirements. With this in mind, the Group engaged a professional firm for the provision of sustainability reporting assurance services.

More detailed information on the boundaries and the subject of assurance can be found in section *Independent external assurance report* of this Report.

16.2

Wins, challenges and commitments

Strategy

In July 2011 the Group adopted the Strategic Development Plan for 2011 – 2020 (the "Management's development strategy") which focuses on expanding production at current assets as well as developing new projects and new deposits. The Management's development strategy implementation will allow the Group to emerge as one of the world's five largest gold mining companies by 2016, maintain a competitive cost structure, and significantly increase its mineral resource base.

The key points of the Management's development strategy include:

— Expansion of production at current assets: Blagodatnoye, Titimukhta, Olimpiada and operating mines in Kazakhstan
— Development of new projects which best fit the Group's investment decision parameters: Poputninskoye and Panimba, and Chertovo Koryto
— Krasnoyarsk business unit to remain the core producing asset
— Increase of processing capacity and gold production at Verninskoye
— Aggressive Kuranakh development achieved by combining conventional plant processing and heap leaching
— In December 2010, the Board approved the Natalka project for construction.

The Management's development strategy implementation should help to achieve gold production of approximately 2.8 million ounces by 2015 and 4.1 million ounces by 2020 moving the Group to a leading position on the global market.

Key risks and opportunities

The scope of the Group's operations and the industry in which the Group is engaged both involve different risks that may have a significant effect on the Group's operations and results. The Group has developed an internal risk management system aimed at identifying and assessing potential risks, as well as at developing and implementing measures to mitigate potential threats.

Complying with sustainable development principles, the Group focuses on the following non-financial risks which could potentially affect interaction with stakeholders and reduce the overall effectiveness of the Group's activities: environmental, health and safety, and community risks.

Environment

— Emergency response to the environmental material incidents
— Violation of environmental laws and regulations
— Inefficient use of heat and energy
— Use of environmentally hazardous substances
— Water quality protection
— Disposal of operational waste
— Soil disturbance

Health and safety

— Injuries associated with violations of occupational health and safety requirements
— Incidents caused by an ineffective safety system
— Occupational diseases

Community

— Community grievances resulting from impacts on the environment and health
— Non-compliance with the expectations of local communities

The above risks include such threats as: rock falls; incidents in mining operations; vehicle incidents; environmental and health risks caused by air emissions; local water pollution; storage, transportation, and handling of mining wastes; and community issues caused by an absence of effective communication and poor stakeholders engagement.

Environmental issues are of great significance to the Group and the Group strives to identify the potential associated environmental risks and the impact of the Group's activities at all project stages, from design to rehabilitation and mine closure, and to take measures aimed at mitigating potential risks. The Group faces potential environmental risks associated with the disposal of operational waste and hazardous substances, soil disturbance, other threats to the environment, wildlife, health and other factors. The Group is actively developing an environmental management system for implementation at all operating sites.

16.2

Wins, challenges and commitments

continued

In order to manage and mitigate environmental, health and safety, and community risks, the Group has begun working on a sustainability framework, including the development of an appropriate organisational structure and legal compliance support. To manage non-financial risks, the Group has implemented:

— An effective risk management system
— A social policy focusing on the Group's participation in the communities of the regions in which it operates
— Innovative activities aimed at reducing negative environmental impacts
— Collaboration with public authorities, including through public-private partnership.

In 2011, the Group's Board of Directors established the Committee on Health, Safety, Environment and Community. The Group's Board and HSEC Committee regularly monitor and evaluate a range of financial and operational performance indicators as well as health, safety, environment and community impact indicators.

The Group has also begun to develop closure plans for its operating facilities, which it sees will contribute to developing and maintaining long-lasting relationships with host communities and local authorities.

The Group recognises that disclosure of reliable information mitigates risks for investors and has a positive effect on the Group's capitalisation. For this reason, the Group strives to improve its level of transparency and to maintain its reputation by disclosing both performance results and those issues and concerns faced by the Group.

For information on key material risks, please see section 13. Management report of Polyus Gold International Limited 2011 annual report.

Corruption

The Group complies with Russian Federation anti-money laundering and counter-terrorism financing legislation.

The Group approved "Rules of internal control in order to counteract the legalization (laundering) of proceeds from crime and terrorist financing" and appointed officers in the Group responsible for implementing anti-corruption procedures and programmes. Going further, anti-corruption measures at the Group require all employees to remain vigilant, identifying possible incidents of corruption and corruption risks.

Commitments to external initiatives

The Group is actively involved in various external initiatives and supports a number of activities in collaboration with such organisations as:

— Russia's Gold Producers Union (Non-profit organisation)
— Partnership Russian Mining Operators (Non-profit organisation)
— Russian Gold Prospectors' Union (Non-profit organisation)
— Russian Union of Mining Surveyors (Public organisation)
— Mining Work (Non-profit partnership for the promotion of the mining industry)
— Eurasian Business Council, a non-commercial partnership for promoting trade and economic cooperation

Active participation in global initiatives is a key priority for the Group. Therefore, the Group strives to initiate efforts aimed at obtaining International Council on Mining and Metals (ICMM) membership and review the Group compliance with the International Cyanide Management Code by 2013.

16.3

Message from the COO

Dear Stakeholders,

Ensuring compliance with national laws and regulations is an essential element of good business practice in any sector. However, although essential to a solid sustainability structure, it is just one of the facets of a healthy corporate sustainability management system. Regulatory compliance by itself cannot put a company on the path to genuine sustainable development. Sustainable mining is about going beyond mere compliance and embracing the universal principles of environmental care, stakeholder engagement and community development, workforce and community safety and security, biodiversity conservation, transparency and good governance. It is about taking a proactive stance toward those economic, social and environmental challenges facing the mining industry. Recognising and cultivating the right approach to these challenges has become critical for us as we strive to facilitate and grow the sustainability transformation at the Group.

From the beginning, the Group was essentially focused only on strict compliance with Russian laws and regulations. Since then, much has changed.

During 2010-2011 the management team initiated a massive transformation programme aimed at enhancing the social and environmental values of the Group's operations. Further to this, the Group has embarked on a step-by-step mission to transform safety culture and achieve its ambitious long-term goal of zero accidents.

In 2011, several critical steps were taken towards building an effective safety and environmental management system in the Group. The new Board structure now includes the Health, Safety, Environmental and Community (HSEC) Committee which has already become a key player in overseeing and bolstering all HSEC activities at the Group subsidiaries. A Health and Safety Policy was established to guide the Group's health and safety performance efforts. The Group has also undertaken to align its safety metrics reporting methodology with international best practice to improve safety performance. The Group is fully aware of a recent downward trend in safety statistics, which is partly due to improved reporting and investigation procedures, and is actively addressing this challenge. Significant effort has been devoted to the development and implementation of hazard identification, risk assessment and controls procedures for reversal of the current trend at those mines demonstrating poor safety performance. One important tool being introduced is root cause analysis which allows for the thorough analysis of the causal factors contributing to safety incidents and development of effective preventative actions.

A group-level third party health and safety audit programme was launched in 2011 to identify gaps with national regulations and international best practice. The audit will continue well into 2012. The Group's key goal for the next reporting period is to implement effective corrective actions based on the audit findings.

The Safety Leadership training programme is currently being introduced across the Group, with all Group's employees required to undergo health and safety training.

In 2010, the Group achieved ISO 14001:2004 certification of its environmental management systems at CJSC Polyus (Olimpiada mine) and OJSC Aldanzoloto GRK and received a positive compliance audit opinion in 2011. A corporate standard for environmental management systems and a corporate environmental policy have been developed and are currently awaiting integration with the Safety Leadership training programme. ISO 14001 accreditation of all Group's subsidiaries is a key objective for 2012.

The Group is set to systematically integrate closure considerations into all mine designs, regardless of whether such plans are required by local legislation at this time. Early integration of closure planning and provisioning in the design and engineering process is seen as a key precondition of successful mine operation.

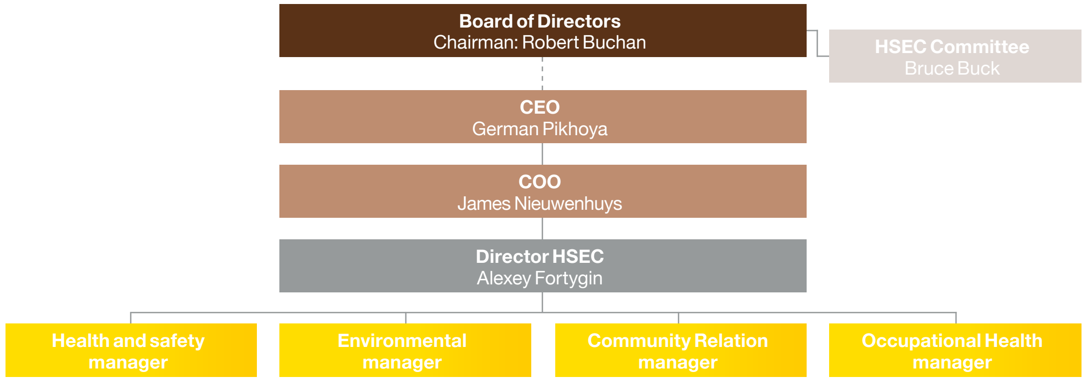
Overhauling the Group's HSEC philosophy is no easy task. It is a long journey which requires a great effort and commitment, but the Group's ultimate goal is to become a world class gold mining company which for the Group means becoming a sustainable gold mining company. This is a long-term commitment, and I am confident that we are headed in the right direction.

Anthony J. Nieuwenhuys
Chief Operating Officer
Polyus Gold International Limited

16.4

Sustainability governance

Corporate governance is one of the pillars of business performance and a key element in creating long-term value for shareholders.



Approach to sustainability

The Group believes that the sustainable development of operating sites and communities where the Group has a presence should be at the very core of its business and extend to everything the Group does. Contributing to the safety and wealth of neighboring communities and to environmental protection is critical both to the Group's success and to maintaining the necessary operating licenses.

In 2011, the Group undertook a complex review of its business processes and procedures, resulting in a revised business strategy approach and development of a roadmap for implementing a sustainability management system. The Group's sustainable business philosophy is based on a precautionary approach to governance and risk management.

Structure and responsibilities

The Group sees corporate governance as one of the pillars of business performance and as key in creating long-term value for shareholders. In 2011, the Group focused on setting new governance and performance standards and procedures. The diagram above gives an overview of the Group's targeted organisational structure as it relates to sustainable development in respect to the HSEC issues.

Board of Directors

The Group's Board of Directors is responsible for the approval of corporate strategy, assessment of possible risks and management oversight.

The Board consists of nine directors, five of which are independent. New Board members were elected in 2011, and in its new composition, the Board is better able to assure stable development of the Group and ongoing achievement of all of set strategic goals.

A broader review of the Board and its committees' performance is provided in section 6. Corporate Governance report of PGIL 2011 annual report.

Health, Safety, Environment and Community (HSEC) Board Committee

2011 witnessed significant change to the Group's organisational structure, the most significant of which was the establishment of the Health, Safety, Environment and Community Board Committee in October 2011. HSEC Committee establishment was the important step in integrating sustainability into the decision-making process and mitigating the environmental and social risks facing the Group. The Committee is now the Group's principal sustainable development governance body.

The HSEC Committee is responsible for assessing the Group's sustainability performance and senior officers' compliance with internal policies on health, safety, environment and community and applicable health, safety and environmental legislation in the jurisdictions where the Group has operations, as well as for identifying areas for development. The HSEC Committee provides Group senior management team with a framework for the identification and management of health, safety and environmental risks and community-related issues to be considered in relation to the Group's operations.

16.4

Sustainability governance

continued

The Committee met twice during 2011 and plans to meet four to six times per year, being generally aligned with the regular meetings of the Board of Directors. The HSEC Committee comprises three members: Chairman and Independent Non-Executive Director Bruce Buck, Independent Non-Executive Director Lord Clanwilliam, and Executive Director Evgueni Ivanov.

The Committee is responsible, among others, for:
- Evaluating internal policies and procedures to identify and manage health, safety and environmental risks and community related issues
- Assessing senior officers' performance in relation to the Group and personnel compliance with internal and external local health, safety and environmental requirements and regulations
- Monitoring legislative changes and other developments in health, safety, environment and community, and encouraging best practices implementation within the Group
- Reviewing management's response to health, safety and environmental incidents and accidents.

During the year, the Committee considered monthly HSE reports, lessons learned from fatal accidents, appointed an HSE auditor, and determined the main issues to be addressed. It also reviewed the Group's performance against HSEC targets and benchmarks and approved the HSEC Roadmap for 2011-2012.

Management team

The Chief Operating Officer is responsible for monthly HSEC reporting and presentations on HSEC Committee meetings. Members of senior management directly involved with health, safety environmental and community issues within the Group can be invited by the Committee on a regular basis in order to better understand the health, safety, environmental and community risks, respond to the Committee's requests and develop corrective action plans if required, and establish lines of communication.

The Group strives to develop an organisational structure which clearly outlines responsibilities for health, safety, environment and community matters at every level within the Group, from the Board to site operations. At the operational level, the Group plans to implement a regional health and safety line management function with responsibility for the development of a health and safety framework that includes policies and procedures, evaluation of risks and development of preventive healthcare measures. Seeking to create a new trend in the Group community relations, in 2011, the Group began developing a new position – Community Relation Manager – which is to be introduced first at the Natalka project in the Magadan region and later at all the Group's subsidiaries. Community relations managers will be responsible for supervising and controlling social impact assessment studies, and for instilling at operating sites grievance mechanisms for the prevention and mitigation of potential issues with neighboring communities and non-governmental organisations.

Performance review

As an indication of the Group's commitment to responsible standards in the areas of health, safety, environment and the community, a HSEC Roadmap was adopted. The Roadmap formed the basis for the development and application of HSEC management systems at all levels within the Group. The first step was the development of Group'-wide Health and Safety and Environmental policies in December 2011. The next step will be the finalization and implementation at sites of health and safety and environmental management systems that satisfy the requirements of Russian legislation and international best practices.
The HSEC Committee plans to conduct appropriate workshops and training for senior health and safety professionals at the Group's subsidiaries during February – June 2012. The central themes of the workshops will be incident investigation, root cause analysis and hazard identification.

An independent audit of the Group's mine closure plans has been scheduled for 2012 to identify gaps with the code and to develop recommendations for corrective action.

16.5

Employees

The Group is one of the largest employers in the Krasnoyarsk, Magadan and Irkutsk regions. Each tonne of gold mined by the Group creates jobs for many people. Attracting and developing talented and motivated employees aligned with the Group's corporate values are crucial to ensuring continued success.

16.5 Employees

continued

16.5.1 Our approach

Being one of the largest employers in local communities in remote regions with low population concentrations and difficult natural climatic conditions, the Group has aspired to ensure that its operations closely adhere to sustainable development principles as they relate to personnel. Focus under this approach is on:

- Creating safe labour conditions
- Training staff to detect and prevent dangers and hazards at workplaces
- Encouraging the professional growth of the Group specialists
- Boosting employees' social conditions and supporting local communities in the regions where the Group's subsidiaries operate.

The Group's human resource policies are aimed at providing its subsidiaries with effective and socially stable workforce, capable of meeting current and future challenges in accordance with the Management's development strategy. The Group's human resource policies are based on the following principles:

- Create opportunities for the professional and personal growth of employees
- Strive to empower all employees to achieve their full potential
- Ensure high performance work planning and maintenance of its security
- Raise the living standards of personnel and their families
- Based on goal setting in each area of operation, develop an incentive scheme to encourage high-performance by personnel
- Introduce social partnership and mutual responsibility principles into relationships between employer and employee representatives
- Create an inspiring and collegial workplace culture.

16.5.2 Labour commitments and values

Acknowledging that people are the Group's most valuable asset, the Group recognises that hiring and retaining highly-skilled employees is crucial to ensuring continued success. The Group has taken steps toward supporting and encouraging the development of all personnel by providing different training and other continued education and career development opportunities within the Group.

Here, the Group's top priorities are:

- Professional and personal growth opportunities provided through training conducted at the Group's training base as well as at top Russian and foreign universities. As an additional development tool, a unified information environment is created and maintained by the Group in an effort to improve communication and knowledge sharing between employees
- Competitive level of remuneration
- Opportunities for career growth via a specialized programme – "Personnel reserve" – which is aimed at ensuring transparency of appointment on the basis of a comprehensive assessment of employees' professional and personal qualities
- Compliance with the labour legislation
- Social security and stability through a benefits programme and various sport programmes for employees
- Promotion of a health and safety culture
- Adherence to the principles of fairness, respect and the promotion of human rights as they related to communications
- Support of diversity and elimination of discrimination.

Considering the Group's growth and efforts to develop new investment projects in 2012, the Group will focus on attracting, retaining and motivating talented and qualified employees. A key priority will be the attraction and development of young specialists.

The Group believes that employees should be appropriately rewarded for their investments in corporate success and team development. To achieve this, the Group is committed to improving its top-management incentive system, and to developing new standards on labour conditions and social environment.

Personnel rights

The Group is committed to protecting personnel rights at the workplace. The Group recognises the right of employees to voluntarily organise and form workers' associations that provide a foundation for effective collective bargaining and efficient negotiation of appropriate working relationships. As a follower of social partnership principles, the Group ensures personnel participation in the Group governance. In general more than half of all employees are members of labour organizations located on subsidiaries' territories.

16.5

Employees

continued

Share of employees – members of labour organisations to average headcount for 2010-2011

	2010	2011
Krasnoyarsk BU	99%	99%
Kazakhstan BU	65%	68%
Yakutia BU (Kuranakh)	65%	54%
Irkutsk alluvial BU	8%	8%
Irkutsk ore BU	6%	5%
Magadan BU	4%	4%

On behalf of employees, labour organisations are involved in the development and signing of collective agreements between the Group and personnel, monitoring of the Group compliance with labour legislation and protection of personnel rights. Additionally, labour organisations participate in the promotion of a healthy lifestyle.

At the majority of the Group's subsidiaries social and labour relations between employees and management are set by collective agreements. Collective agreements set out the liabilities of management and personnel as well as those social benefits to be provided to employees by the Group. 89% of the workforce is represented by collective agreement.

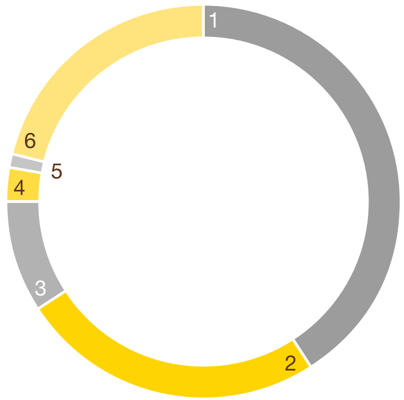
The Group ensures full compliance with labour laws at all subsidiaries, and strictly prohibits forced, compulsory or child labour and any form of discrimination.

Diversity and local hiring

In 2011, 79% of the Group's total workforce was located in the Russian Federation, including 66% in the Siberian Federal District, 12% in the Far Eastern Federal District and 1% in the Central Federal District. The remaining 21% of the workforce was located in the Republic of Kazakhstan. Compared with the previous year, the regional distribution of the number of employees has not significantly changed.

The Group adheres to the practice of preferred hiring, hiring primarily local citizens for all positions, including management positions. In the Group's subsidiaries located in the Irkutsk and Krasnoyarsk regions management positions are dominantly held by local citizens. In comparison with the previous year, the share of local senior management in the Group's management has not significantly changed and at the end of 2011 equalled 72%.

Employees by region[1], 2011



1	Krasnoyarsk region	41%
2	Irkutsk region	25%
3	The Sakha Republic (Yakutia)	9%
4	Magadan region	3%
5	Moscow	1%
6	Kazakhstan	21%

[1] Hereinafter all labour indicators are calculated on the basis of headcount at the end of 2010 and 2011

16.5

Employees

continued

Personnel structure

In 2011 the actual average headcount of the Group was 19,776 employees, a slight decrease of 1% on total average headcount in 2010[1].

This decrease reflects the end of construction at gold Mill No. 4 at Blagodatnoe mine and reorganisation of OJSC Pervenets (Irkutsk ore BU).

The personnel structure remains more or less the same as in previous reporting periods. The proportions of blue and white-collar employees were roughly 78% and 22%, respectively.

The bulk of the workforce is male (81% at year-end). This dominance of men in the total workforce is related to the nature of the Group's business and the location of major operations in harsh climates.

In general, women hold mainly administrative positions and other positions not related to the Group's main operations. In compliance with Russian labour legislation the Group respects employees' rights and restricts women from working in conditions deemed by legislation to be harmful and hazardous to them.

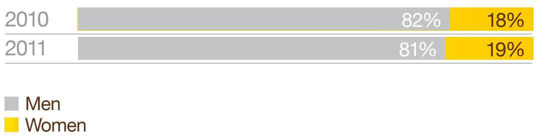
The average age across the Group is 41.1 years of age.

The Group's social responsibility policy and its continuous work on the creation of a talent pool, including its work with students and graduates, was praised in a nationwide competition organised by the Russian Union of Industrialists and Entrepreneurs – "Best Russian Companies: Dynamics, Efficiency, Responsibility – 2010". The Group won in the social responsibility category "Development of human resources potential".

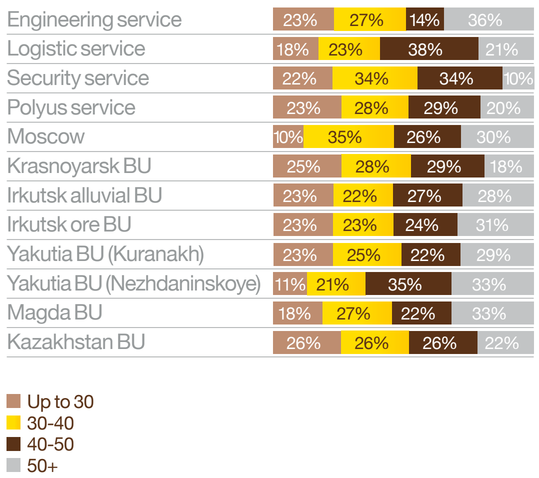
Employees by function, 2010-2011

Percentage of local management, 2010-2011

Percentage of female personnel, 2010-2011



Employees by age group, 2011



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

16.5

Employees

continued

16.5.3 Career development

Understanding the immense value of its personnel and striving to maintain that value, the Group recognises that the development of its employees is critical to its ability to maintain a competitive advantage in constantly changing economic conditions.
To ensure the qualifications of its workforce, the Group provides a wide range of training and skills and career development opportunities.

Over 2011, the Group spent approximately US$835 thousand on external training and development programmes. The scope of training for the period 2010-2011 increased by 18.3% compared to 2008-2009.

In 2011, a third of the Group employees attended training and development programmes. As a result, roughly 22% of participants improved their rank or earned a promotion. The majority of professional training events (around 75%) were held at the Group's internal learning and development system.

A growing need for additional knowledge, skills and expertise of employees has led to increased demand for internal learning opportunities, which has in turn given new relevance to the Group's existing internal learning and development system.

Year over year, the Group organises corporate-wide workshop conferences to coordinate activities, develop common approaches to achieving business objectives, and improve the competence of managers and specialists. Seven workshops, including "Investment project valuation", "Current tax issues", "Environmental protection", and "Improving human resource management efficiency" were held in 2011. More than 180 managers and specialists took part in these events. The workshops were led by both employees of the Group and external training organisations or consultants.

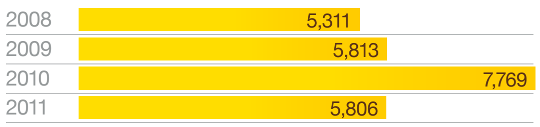
In order to improve the availability and accessibility of training for employees the Group has continued to use e-learning solutions. An absorption program was developed based on the existing e-learning course "Our Work is Gold". This programme has been successfully implemented at the Group. Other e-learning courses were also made available to all employees and included but were not limited to personal motivation, project management, successful negotiation and industrial safety.

For instance, the Group acquired the e-learning packages "Basic of industrial safety" sand "Occupational health and safety for managers and specialists at organisations" to improve its health and safety training capacity. These courses enabled employees to receive certificates.

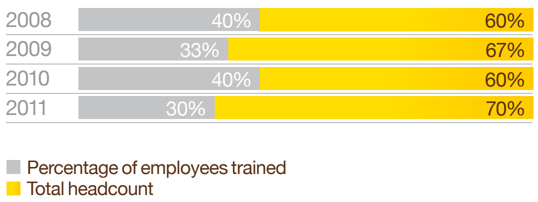
As an additional value for the Group, e-learning has helped to reduce training costs.

To comply with Russian legislative requirements, the Group has introduced a new course on anti-money laundering and counter-terrorism financing measures. This course has been designed for all staff involved in financial transactions and includes internal certification.

Employees trained, 2008-2011



Percentage of employees trained to the total head-count, 2008-2011



External training programmes' costs, thousand US$, 2010-2011

16.5 Employees

continued

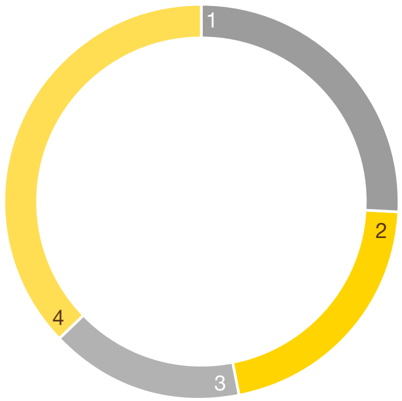
Personnel reserve

With the Group's development prospects in mind, the Group's HR department is working hard to reach out to students. Since 2008, the Group has been running a corporate programme entitled "Learn the Worth of Gold!" which aims to enhance collaboration with higher education institutions. The programme aims to create the conditions for long-term mutually beneficial cooperation with higher education institutions and to prepare young professionals for work in the Group's environment. Within this programme the Group has entered into cooperation agreements with the Siberian Federal University, Irkutsk State Technical University and the North-East State University (Magadan).

As management quality is directly correlated with the level of training and qualification of managers, the Group takes very seriously their professional development. To ensure managerial succession, and to minimize the adaptation period for new managers, the Group has formed a talent pool and is implementing programmes to develop it. The number of employees in the pool increased by 20% in 2011, comprising 280 reservists of which 24% were assigned to other positions within those subsidiaries at which they are employed, as well as in to positions in other Group's subsidiaries.

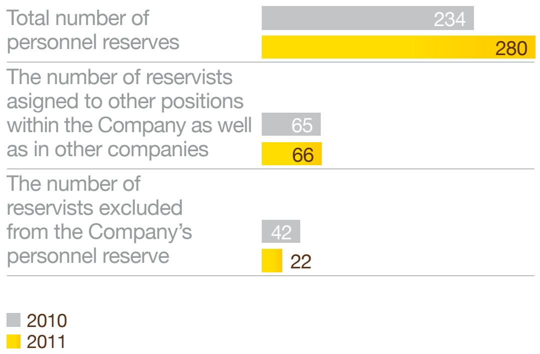
The programmes include training events for prospective talent and the middle management pool. In addition, 2011 saw the third strategic session for heads of the Group's subsidiaries that are included in the senior management talent pool. The session, held at the Olimpiada mining and processing plant, brought together managers from the Group's main business units – Krasnoyarsk, Irkutsk alluvial, Yakutia, Magadan and Kazakhstan.

Percentage of workforce by type of trainings passed, 2011

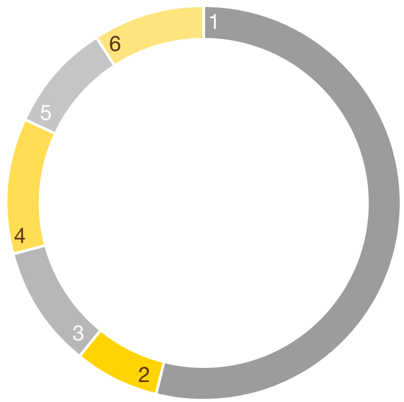


1	Completed initial training	26%
2	Obtained secondary profession	21%
3	Obtained professional development	16%
4	Upgraded skills	37%

Group's personnel reserve, 2010-2011



Breakdown of personnel reserve by business units, 2011



1	Krasnoyarsk BU	54%
2	Irkutsk alluvial BU	7%
3	Irkutsk ore BU	10%
4	Yakutia BU (Kuranakh)	11%
5	Magadan BU	9%
6	Security service	9%

16.5 Employees

continued

16.5.4 Motivation

Pursuant to the Group's social standard and collective agreements, the Group offers its employees social benefits exceeding those stipulated by legislation. Personal development opportunities are one of the most important benefits provided by the Group to its employees. Staff motivation takes the form of a combination of financial and moral incentives.

The Group's **social standard** offers its employees social benefits exceeding those stipulated by the legislation. Updated in 2011 it established key areas of employer's responsibility targeting all categories of employees, including retired and young specialists.

Financial incentives

Financial incentives are based on competitive salary and a benefits package, as well as career development opportunities. Average salaries increased by 15% during 2011, while monthly wages for blue-collar workers increased by 16%.

Financial incentives are based on KPIs, both team and individual, annual and monthly KPI reviews, and a system of KPI-based bonuses.

The Group provides its employees with social protection and benefits over and above those required by law; the Group does so on the basis of the Group social standards, introduced in 2008, and collective bargaining agreements.

The most common forms of financial assistance are:

- Payment for employees and their families to travel to their place of vacation
- Payment for employees and their families to travel to their workplace when signing an employment contract
- Provision to employees of treatment at health and rehabilitation centers and other medical institutions
- Compensation for employees' expenses on sending their children to health camps located in Russia
- Provision of free or subsidized meals for employees
- Organisation of corporate events and sporting events
- Payments to employees on special occasions (marriage, child birth)
- Retirement benefits
- Financial assistance to the relatives of deceased employees, including assistance with financing educational opportunities at higher and secondary vocational institutions for the children of deceased employees.

Moral incentive

The Group actively promotes and supports a healthy lifestyle, and employees receive healthy lifestyle incentive payments. Practice shows that this encourages employees to lead a healthy lifestyle, and thus boosts productivity and ensures that work time is used more effectively.

The Group supports employee health in various ways: in 2011, more than 85% of personnel were covered by voluntary health insurance programmes, and more than 1,000 made use of health resort treatment opportunities.

Over the reporting period, staff was offered voluntary and free-of-charge vaccinations against influenza and tick-borne encephalitis.

The most important moral incentive comes in the form of government, industry and company awards to outstanding employees. In 2011, the Group's employees have received a number of awards for their significant personal contributions to the development of the industry, or for their long and conscientious service including "Honorary Miner" (2 awards); "Honorary Metalworker" (1); and "Official Commendation" (14).

Following an analysis of individual performance results, personal contribution and social activities in the Group's business units, the following corporate awards were presented: "Best Manager" (9 awards); "Best Specialist" (10); "Best Worker" (11); and "Official Commendation" (32).

With consideration of the remote location of the Group's operating sites, the Group arranges leisure activities for its employees, including corporate events, on-site performances, and various contests for employees and their families.

16.5 Employees

continued

In 2011, the Group held its seventh annual corporate photo contest "Golden Moments of Life", in which employees from all the Group's subsidiaries are eligible to participate. The Group also held a Children's Art Competition to mark Children's Day. The theme of the competition for 2011 was "The Working Man: Work is Beautiful!". More than 100 children of employees of business units representing roughly 180 different jobs entered the competition.

The Group maintains various health support programmes for its employees. To create a favourable psychological environment and promote health activities among its employees, the Group management devotes considerable attention to sport events. To this end, the Group has various leisure and sports facilities. For example, a wide range of sport activities are available at the workers' settlement of Yeruda at the Olimpiadia mine (part of the Krasnoyarsk business unit).

In Nizhny Kuranakh (part of the Yakutsk business unit), the sport and recreation centre offers employees and their families free training in swimming, basketball, indoor football, aerobics and other sports. Since 2010, the centre has been free for all residents of the town. The Group also sponsors children's sport and has paid for participants to travel to the Far Eastern Federal District table tennis championship and for children to take part in the republic's freestyle wrestling tournaments and strength competitions.

Every year, all the Group's subsidiaries host competitions for staff teams in various sports: ice hockey, tennis, indoor football, pool, volleyball, freestyle wrestling and chess, as well as family competitions and other events. The Group's sports teams take part in district and regional competitions.

For the second time, the Group has held a corporate indoor soccer tournament featuring all the Group's business units (10 teams). The tournament's main aims were to promote healthy living among employees and their families and to develop corporate amateur sport. The tournament took place over three days in Irkutsk. All the teams showed excellent team spirit, skill and the will to win.

16.6

Health and safety

Ensuring a safe and healthy work environment for everyone who works with the Group is the Group's overarching priority and an essential part of its long-term commitment to sustainable development.

16.6

Health and safety

continued

16.6.1 Commitments and management

Ensuring a safe and healthy work environment for everyone who works with the Group is the Group's overarching priority and an essential part of its long-term commitment to sustainable development. The Group is confident that all injuries at the Group operations are preventable and is committed to integrating safety management into all aspects of the Group business. An overriding goal is to achieve zero accidents and the Group has embarked on a continuous safety improvement programme across all its subsidiaries.

Over the last two years, it has become clear for the Group that a long-term strategy to manage health and safety issues in a systematic, proactive and explicit manner is a necessity. During the reporting period, a Health and Safety Policy was established to guide the Group's health and safety performance efforts. This new policy is the cornerstone of the corporate health and safety management system currently being implemented at all the Group subsidiaries based on OHSAS 18001.

Health and safety committees with joint representation of managers and workers are in place or are being implemented at all operational sites to provide regular monitoring of workplace health and safety aspects.

The newly established Health, Safety, Environmental and Community (HSEC) Committee of the Board has already become a key player, overseeing and bolstering HSEC activities aimed at the transformation of safety culture at the Group subsidiaries. An HSEC Roadmap containing clear timetables has been developed and approved.

While the Group adheres to national safety requirements in its countries of operation, it intends to go well beyond mere legal compliance, transforming safety and making the Group a leader in this area.

16.6.2 Health and safety performance

Recent HSEC initiatives have primarily focused on targeting poor performers. Significant effort continues in the development and implementation of hazard identification, risk assessment and controls procedures to reverse the current trend and improve safety performance at the Olimpiada and Kuranakh mines. The Group has started actively implementing root cause analysis to understand the reasons behind incidents and revising management practices, procedures and improving organisation structure where necessary. Occupational health and safety risk registers are being developed for the Olimpiada and Kuranakh mines, which are set to undergo independent assessment and validation.

Third party health and safety audits of the Irkutsk business unit and Kazakhstan business unit were conducted in 2011 to assess compliance with national regulations and international best practice. The audit identified a range of safety and health issues across these subsidiaries and comprehensive action plans have been developed to address those issues. Other Group subsidiaries will be audited in 2012. The implementation of effective corrective actions and continuous improvement is a key goal for the next reporting period.

Alignment of the Group's safety metrics reporting methodology with international best practice has become a priority in the improving of safety performance. Adopting a leading indicator analysis approach, the Group plans to include medical treatment injury and property damage indicators into monthly health and safety reports in January 2012. A flash reporting system is being introduced at all operational sites, supported by a new corporate incident reporting and investigation standard, to enforce the proper immediate reporting of health and safety incidents and accident information among business units and to distribute investigation findings and lessons learnt to other sites to create awareness of health and safety issues or to provide case studies of exemplary efforts.

There was a total lost time injury (LTI) frequency rate of 0.17 in 2010 and 0.26 in 2011, respectively. The Group is fully aware of this downward trend in safety statistics, which is partly due to the improved reporting and investigation procedures put in place in 2011. It was also noted that the most common cause of accidents were related to extreme weather conditions and an insufficient infrastructure maintenance capacity (slip, trip and fall accidents on icy or snow-covered walkways). Complex operational sites with large workforces and more challenging mining conditions, such as the Irkutsk BU sites, appear to have demonstrated poorer safety performance when compared to other sites.

However, the LTI frequency rate at Krasnoyarsk business unit, the Group's largest business unit, experienced a 42% decrease over the last four years, from 0.12 in 2008 to 0.07 in 2011.

16.6

Health and safety

continued

There were six fatalities in 2011, compared to eight fatalities in 2010, a 25% decrease year-over-year. The results of internal investigations showed that most fatalities occurred as a result of workers' negligence (i.e. non-vigilance of corporate safety rules). There were two separate burn fatalities in 2010 and 2011, two fatalities related to underground accidents in 2010, three fatalities in 2011 resulting from the unsafe use of equipment, two separate slip and fall accident related fatalities in 2010 and 2011, one drowning fatality in 2010, which occurred during the cleaning of a coal barge, and one electrocution fatality in 2010. While the Group had done everything in its power to prevent such accidents, including inductions, daily "tool box" meeting discussions, and weekly safety briefings, there is a broad consensus within the Group that more stringent efforts must be taken to reduce workplace-related fatalities. The Group's target remains zero fatalities at all mines and development projects.

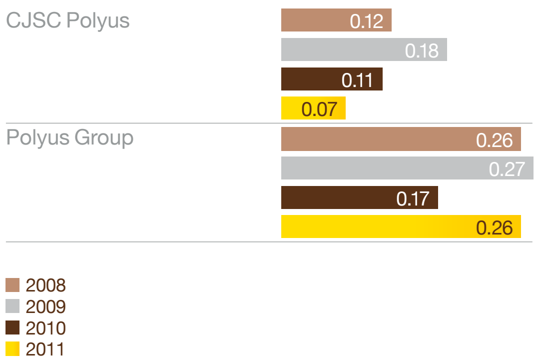
Three fatalities (two in 2010 and one in 2011) resulted from alcohol-impaired driving at work sites. Fatal accidents of this type are of great concern to the Group, and the Group is determined to clamp down on this unacceptable behaviour at all subsidiaries. The Group has implemented a zero alcohol policy across all business units and has put in place strict pre-driving check procedures. Random testing is regularly carried out during regular health and safety checks and the issue of alcohol and drug use has been included into the Group's Safety Leadership training programme.

The Group is deeply saddened by all of these tragic accidents and is committed to eliminating fatalities at its operations.

The Group achieved a 63% decrease year-over-year in total new cases of occupational diseases. There were four new cases of occupational diseases in 2011, compared to eleven new cases in 2010. The majority of new cases of occupational diseases (nine cases in 2010 and two cases in 2011) were identified at Kazakhaltyn mines, where the first comprehensive medical employee checks and health review exercises were conducted during the reporting period.

In December 2011, safety statistics on LTI frequency rate and days without LTIs began to be put on public display at Corporate Office. In 2012, the Group intends to roll out this practice at other sites, starting with the Olimpiada and Aldan mines and Irkutsk business unit. The Safety Leadership training programme, a key safety tool, is currently being developed and will be introduced across the Group. Under this programme, all the Group employees are required to undergo health and safety training where they are given the tools to create and maintain a safe and healthy working environment. In early 2012, a health and safety workshop for senior health and safety professionals is planned at Olimpiada mine to discuss new procedures for incident investigation, root cause analysis and hazard identification.

Lost time injury frequency rate (including employees and contractors) (per 200,000 hours worked)



16.7

Environmental stewardship

Ensuring environmental production safety and environmental protection is essential to sustainable development.

16.7

Environmental stewardship

continued

16.7.1 Environmental management

The Group recognises the impact of its operational activities on the surrounding environment. Therefore, a key goal for the Group is to mitigate and, where possible, eliminate negative environmental and social impacts in the jurisdictions where the Group operates.

The Group corporate environmental policy, approved in 2011, obligates the Group to:

- Fully comply with all applicable environmental legal requirements and regulations
- Identify the potential environmental risks and impacts of the Group's activities at an early stage, from project design to rehabilitation and mine closure
- Develop and implement an environmental management system for use at all operating sites, with clear definition of those environmental objectives and indicators that require continuous improvement and regular assessment of environmental performance
- Apply best industry and proved management practices to mitigate or prevent pollution by the Group's operations
- Continuously educate employees regarding the Group's environmental objectives and practices
- Enforce full compliance of the Group's contractual partners with the Group's environmental requirements and standards
- Ensure all resources necessary for implementing and improving the Group's Environmental management system performance.

The Health, Safety, Environment and Community Department, a part of the Executive Directorate, is responsible for coordinating the Group's planning, control and reporting activities related to health, safety, environment and community.

Each Group's subsidiary has health and safety and environment departments which are responsible for operating activity performance, in other words, ensuring the achievement of relevant goals and targets at subsidiary level.

Areas of activity

The Group activities are regulated by applicable Russian legislation and applicable legislation in the jurisdictions in which the Group has operations. The Group supports international and national environmental initiatives such as the principles of the Water Strategy of the Russian Federation. In addition, the Group is actively working to achieve compliance with the requirements of ISO 14001 "Environmental management system".

A new system of environmental management was implemented in the Group

For the first time in the Group, in 2010, CJSC Polyus (Olimpiada mine) and OJSC Aldanzoloto GRK developed and implemented environmental management systems in accordance with the requirements of international environmental standards which were certified in compliance with the requirements of ISO 14001: 2004. Bureau Veritas Certification conducted audits of environmental management system implementation.

An environmental management system provides a systematic approach to environmental protection that enables users to prevent environmental pollution, moving from the elimination of consequences to the prevention of incidents. Environmental management systems address environmental issues through targeted investment activities and responsibility and deadlines for planned measures. The Group's current system provides additional obligations and demonstrates the Group's conscious management. The Group plans to further improve and expand the range of areas for which it seeks environmental management system certification.

16.7 Environmental stewardship

continued

Improving the environmental management system was a key reporting period objective. In 2010, environmental management systems, developed with a view to ISO 14001:2004, were introduced at the Olimpiada mine (Krasnoyarsk business unit) and OJSC Aldanzoloto GRK (Yakutia business unit (Kuranakh)); these systems were audited and certified in 2011. The Group has completed a draft corporate standard for environmental management systems which is currently under internal review and to be introduced for short-term use at all Group's subsidiaries. As an actively developing company, the Group regularly assesses environmental protection issues and opportunities. In 2010-2011, the Group undertook large-scale work on a number of environmental activities related to atmosphere, water and land use protection, waste treatment and energy efficiency issues. Overall, the Group devotes a great deal of attention to:

- Waste dumps management
- Development of closure plans
- Water management.

With regard to mine closures, the Group has aimed to develop conceptual closure plans for all mines in accordance with Russian legislation and ICMM guidelines. Current local legislation requires the development and coordination of mine closure plans with the relevant authorities only after the decision to close a mine has been taken. Audit of the mine closure plans for currently operational the Group mines is a key objective for 2012 along with the following:

- Development of an environmental management system for all Group's subsidiaries
- Development of water management and water balance plans for the Natalka, Nezdaninskoye projects and Verninskoe mine
- Performance of an Environmental and Social Impact Assessment report for Natalka
- Development of community grievance procedures, Public Consultation Disclosure Plan and Environmental and Social Management Plan for the Group
- Acid rock drainage and metal leaching studies on waste rocks, low grade ore, tailings and pit slopes (if required) at operating sites and sites under construction at Olimpiada, Verninskoe and Nezdaninskoye.

The efficiency of the Group's environmental activities is assessed under an environmental monitoring programme, which has been implemented at all subsidiaries for the carrying out of regular controls over air, surface water and ground water, and soil condition. These comprehensive environmental monitoring programmes at operating sites are carried out at certified in-house sanitary-industrial laboratories.

The Group, as required by local law, upon completion of environmental monitoring, provides consolidated reports on environmental performance indicators to the responsible state supervisory authorities. In addition to required reporting procedures, the Group has developed an internal health, safety and environmental reporting system.

16.7.2 Energy

The Group recognises its responsibility to limit greenhouse gas emissions, and therefore, pays great attention to energy efficiency, which is important for improving both environmental and economic performance. The majority of the Group's greenhouse gas emissions are associated with energy resources consumption: fossil fuels (direct energy use) and purchased electricity (indirect energy use).

Direct energy – energy that is produced and consumed by the Group within the Group's boundaries – includes the consumption of the following direct non-renewable energy sources: diesel, coal, gasoline and oil. Indirect energy – purchased and consumed energy that is produced outside the Group's boundaries – includes electricity and heating.

Diesel fuel is used to fuel mining equipment while both oil and diesel fuel are widely used in the production of heat and electricity, as well as in technological processes (lime roasting). Coal is the main source of heat and electricity production for industrial and household equipment. Due to harsh climate conditions in locations where the Group operates (Far East and Eastern Siberia) the Group consumes large quantities of coal, which accounts for more than half of total energy resources consumption.

Total consumption of primary energy resources increased from 662,248 tonnes in 2010 to 722,850 tonnes in 2011; this increase is a direct result of increased ore processing volumes.

16.7

Environmental stewardship

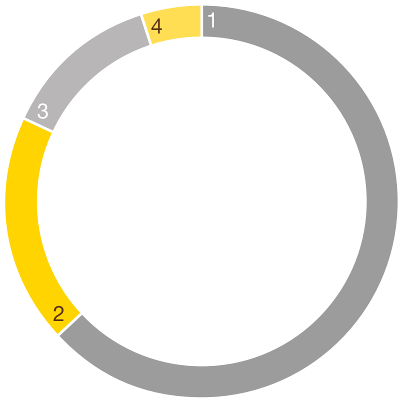
continued

Electricity and heat, used mainly for technological purposes, is either purchased from suppliers or is generated on the Group's own generating capacities. In the reporting period, electricity consumption increased by 59 million kilowatt hours, or 5%, in 2011 compared to 2010, while heating consumption increased by 190 thousand gigacalories, or 15%, in 2011 compared to 2010.

Over the reporting period Krasnoyarsk business unit consumed more electricity than any other Group's business units. Total Group electricity and heat consumption increased as a result of the growth of production volumes at most subsidiaries and the commissioning of new production units.

The dynamic growth of the Group production volumes and the related increase in energy consumption highlighted for the Group the importance of energy efficiency. In an effort to improve energy efficiency and reduce energy consumption, the Group implemented an energy conservation and energy efficiency programme at all Group's subsidiaries. Under this programme the Group regularly invests in technological developments and the installation of leading energy saving technologies, which has resulted in increased production efficiency and reduced environmental impact.

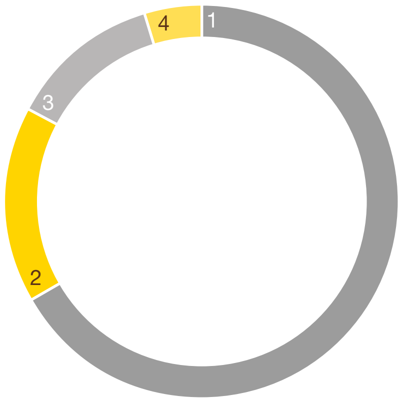
Consumption of primary energy resources in 2010, tonnes[1]



1	Coal	418,639
2	Diesel	125,441
3	Gasoline	86,864
4	Oil	31,304

[1] Data on Polyus Stroi is included into Krasnoyarsk BU in 2010, in 2011 – into Irkutsk ore BU

Consumption of primary energy resources in 2011, tonnes



1	Coal	482,360
2	Diesel	117,417
3	Gasoline	90,008
4	Oil	33,065

Electricity consumption, million kWh

Heating consumption, thousand Gcal

16.7

Environmental stewardship

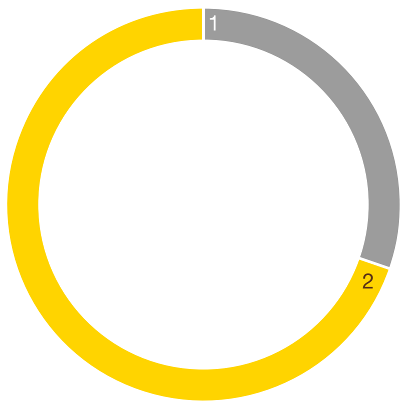
continued

In 2011, the following measures were introduced as part of the energy conservation and energy efficiency programme:

— Replacement of incandescent indoor and outdoor lighting with energy-efficient automatic lighting controls (installation of sensors, photorelay)
— Replacement of heating equipment with energy-efficient heating systems and automated heating of utility spaces (installation of temperature sensors, automatic heat regulators)
— Replacement of heat and electricity sources with more efficient sources (i.e. replacement of electric heating with a boiler-powered system)
— Optimization of electric power (i.e. elimination of excess capacity, installation of variable frequency drives, reactive power compensation, other)
— Optimization of ventilation, water supply, and other modes
— Reduction of network loss (i.e. operational commissioning of new unit substations, increase of par value of wires and cables, replacement with copper conductor)

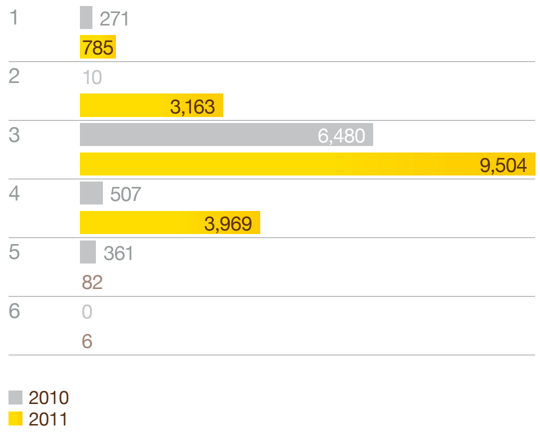
The above measures resulted in an increase in total savings from 7,630 thousand kilowatt hours in 2010 to 17,509 thousand kilowatt hours in 2011. Replacement of the electrical heating system with a boiler-powered system generated the most significant energy savings recorded by the Group in the reporting period.

Total energy saved due to conservation and efficiency improvements, thousand kWh



1	2010	7,630
2	2011	17,509

Energy saved under the conservation and energy efficiency program, thousand kWh



16.7

Environmental stewardship

continued

16.7.3 Water

The efficient use and conservation of water resources is a key concern for the Group and its stakeholders, in particular local communities. Mining activities such as processing, rock drilling and others, require the use of large amounts of water. In response to the need for water protection measures, the Group implemented a natural waters protection and rational water usage programme at its mines, which has helped the Group to minimize fresh water intake for technological needs.

As a result of these measures, in 2011 the Group's total water consumption decreased from 13,228 thousand cubic meters in 2010 to 13,056 thousand cubic meters in 2011. Krasnoyarsk business unit, Irkutsk alluvial business unit and Yakutia (Kuranakh) business unit are the Group's top water users.

The Group obtains water from surface, groundwater and municipal water sources. In 2010, approximately 50% of the total volume of water withdrawal was taken from groundwater sources, 48% - from surface water sources. In 2011 about 53% of total water withdrawal was obtained from groundwater sources. Irkutsk alluvial business unit and Yakutia (Kuranakh) business unit decreased total water withdrawal by optimizing the use of current water supplies, in other words, by increasing the amount of recycled water used in technological processes.

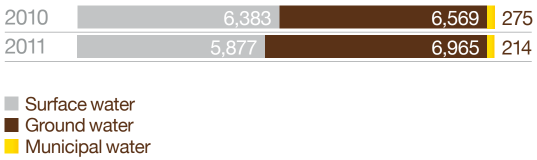
In order to reduce water withdrawal levels the Group introduced environmental measures aimed at promoting the effective use of water resources and the protection of such resources from pollution. The Group is working to create recycling water supply systems that will cover its main production processes. In 2010, total recycled water amounted to 259,774 thousand cubic meters, in 2011 – 249,481 thousand cubic meters. Closed-circuit water system technology has been implemented at four business units: Krasnoyarsk business unit, Irkutsk alluvial business unit, Yakutia (Kuranakh) business unit and Magadan business unit.

Industrial and domestic water is discharged at three business units: Irkutsk alluvial business unit, Kazakhstan business unit and Krasnoyarsk business unit. The total volume of planned and unplanned water discharges increased from 12,417 thousand cubic meters in 2010 to 13,189 thousand cubic meters in 2011. The Group subsidiaries discharged 1,337 and 2,077 tonnes of industrial effluents in 2010 and 2011, respectively.

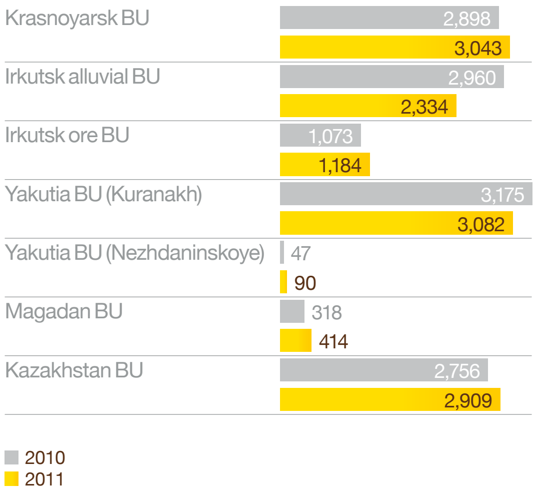
The Group pays great attention to compliance with maximum permissible discharge standards and the reduction of water discharge volumes. Additionally, the environmental monitoring of discharged water quality is performed on a systematic basis.

The Group is consistent in its efforts to improve water usage efficiency and to comply with applicable regulatory requirements.

Total water withdrawal by source in 2010-2011, thousand cubic meters



Total water withdrawal in 2010-2011, thousand cubic meters

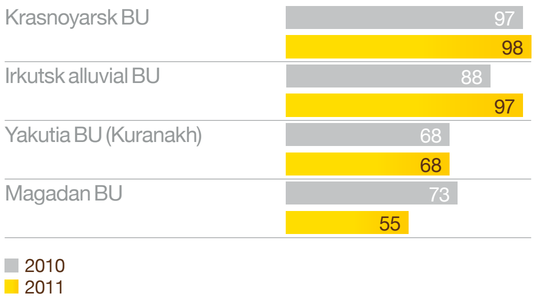


16.7

Environmental stewardship

continued

Percentage of water recycled and reused, %



Total volume of water recycled/reused, thousand cubic meters

Total volume of planned and unplanned water discharges, thousand cubic meters

Sum of water effluents discharged, tonnes

16.7.4 Land recourses and biodiversity

Land resources

An important component of the Group commitment to sustainability is protecting local ecosystems impacted by its mining operations, including reduction of land disturbed by operational activities and the rehabilitation of disturbed lands, and protection of conservation areas.

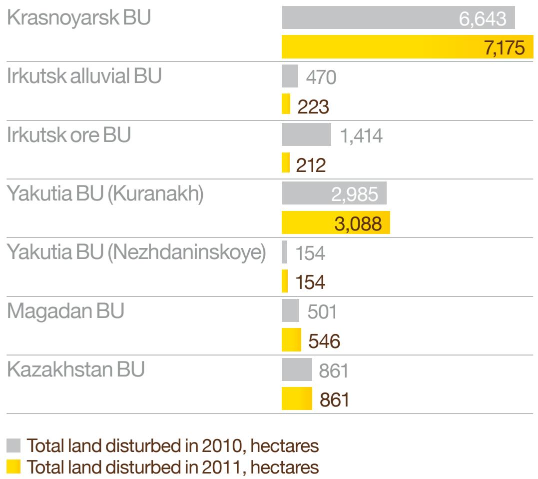
As the Group grows, commissioning new production units, it inevitably causes increased land disturbance. Having assessed the total amount of land disturbed and related subsequent remediation opportunities, the Group plans to execute a range of projects which are set to commence following the completion of gold ore extraction, the closure of quarries and associated expiration of licenses for subsoil use.

The total quantity of disturbed land of the Group's subsidiaries fell by 6% in 2011 compared to 2010. Over the reporting period, only Krasnoyarsk business unit rehabilitated disturbed lands, rehabilitating approximately 164 hectares and 8 hectares in 2010 and 2011, respectively.

Biodiversity

The Group considers biodiversity monitoring to be a mandatory condition for decision-making on the construction and subsequent operation of the Group subsidiaries. Within environmental impact assessment activities, the Group monitors the ecosystem, identifies animal and plant species and assesses the impact of operational activities on biodiversity. The Group engages third-parties for environmental impact assessment and the performance of more detailed work and additional analysis at the design stage.

Land disturbed by each subsidiary in 2010-2011, hectares



Total land disturbed in 2010-2011, hectares

16.7

Environmental stewardship

continued

Environmental impact assessments have already commenced at certain subsidiaries where it is planned to involve all business units, including new mines, such as Natalka project. Initial estimates held by the Group in the reporting period indicate that the Group subsidiaries neither are located within the territories of specially protected nature conservation areas nor border such areas. As the result of the Group's initial estimates no species included in the International Union for Conservation of Nature (IUCN) Red List and in the Red Book of the Russian Federation were identified in areas affected by the Group operations within the reporting period.

16.7.5 Emissions

Air emissions reduction is a key environmental stewardship priority for the Group. The Group makes efforts to assess and prevent possible air pollution resulting from its operations: extraction of gold-bearing ore and coal, blasting, ore transportation, stripping works and ore crushing.

The majority of air pollutants are generated by the technologies and processes related to gold ore and coal mining, blasting, loading, ore transportation and overburden, the crushing gold ore, and gold recovery at the mill. Other impact factors are associated with the work of boilers, power plants, vehicles and diesel power plants.

Thermoelectric plants, boilers, diesel power plants and limestone roasting processes generate the majority of the Group's greenhouse gas emissions.

The Group is working to implement at its subsidiaries systems for measuring and controlling air emissions in accordance with local legislative requirements. To reduce air emissions, all ore processing installations are supplied with air cleaning equipment, including aspiration systems, battery cyclones, foam gas filters and exhaust neutralizers. The Group uses gas purification systems to control emissions at gold mills, steam power plants and boiler houses. The efficiency of gas purification systems and quantitative emission limits are controlled by the Group in-house sanitary-industrial laboratories and the authorized subdivisions of state supervisory agencies.

Total emissions fell from 24,350 tonnes in 2010 to 20,112 tonnes in 2011. This reduction was achieved through measures aimed at improving production processes and promoting the rational use of mining equipment.

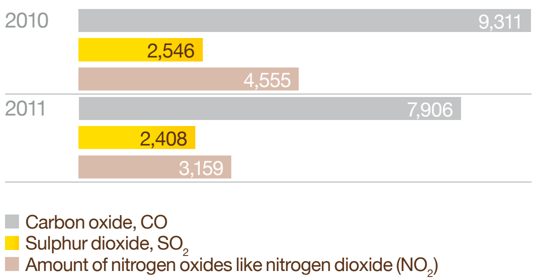
Dust is one of the most significant emissions generated by the Group operations, being produced during ore mining and crushing, as well as during road travel. In 2010, dust emissions amounted to 8,520 tonnes, in 2011 – 8,342 tonnes.

Other significant air emissions include carbon, sulphur and nitrogen oxides. Carbon monoxide dominates the Group's air emissions structure, amounting to 9,311 tonnes and 7,906 tonnes in 2010 and 2011, respectively.

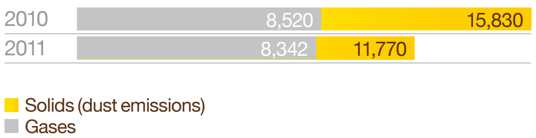
In its operations the Group does not use materials or equipment that release ozone-depleting emissions.

Krasnoyarsk business unit is the Group's biggest production unit and its biggest polluter. However, Krasnoyarsk business unit has managed to significantly reduce its air emissions (solid and gaseous emissions) – from 18,222 tonnes in 2010 to 13,778 in 2011.

Significant air emissions in 2010-1011, tonnes



Total amount of solid and gaseous emissions in 2010-2011, tonnes



16.7

Environmental stewardship

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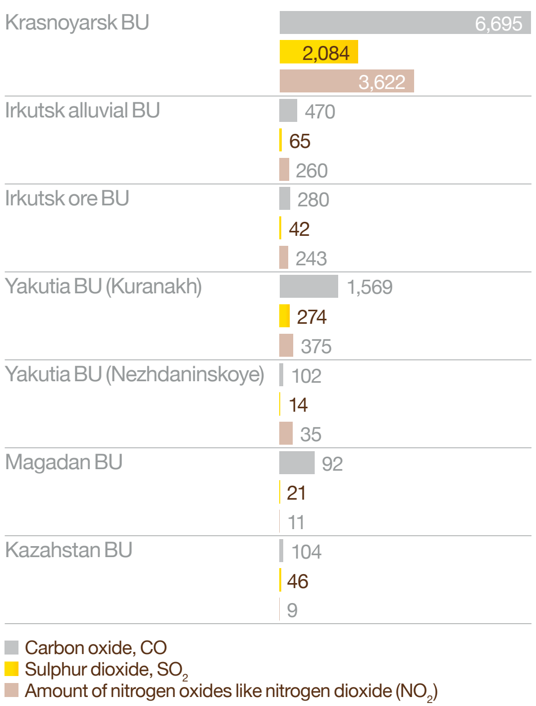
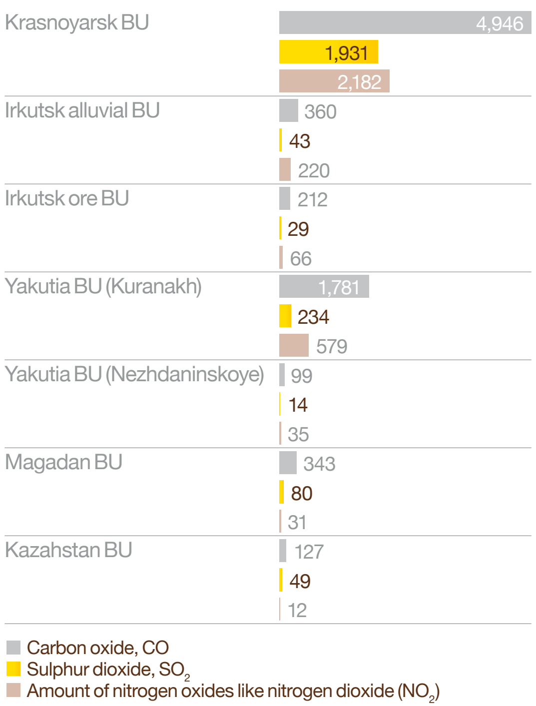
Significant air emissions in 2010, tonnes



Significant air emissions in 2011, tonnes



16.7.6 Waste

The nature of the Group's production activities presupposes the generation of large amounts of waste. Total waste generated increased from 150,507.72 thousand tonnes in 2010 to 186,706.83 thousand tonnes in 2011. This increase is the direct result of increased production volumes and the establishment of new production units in 2011.

The Group waste management entails:
- Waste management (generation, storage, use, transfer)
- Waste disposal facilities – construction, content, operation, rehabilitation
- Monitoring of waste disposal facilities
- Waste management control
- Accounting and reporting of waste management, monitoring and waste disposal facilities
- Licensing and regulation of waste management
- Waste generated by the Group on-site health care institutions
- Administrative activities, including trainings.

The Group regularly conducts **workshops on environmental issues**. Thus, in 2010, in accordance with the approved training plan, the Group held such workshops as: "Ecological-economic approach in achieving the expected results of resource conservation and sustainable development" and "Use of emulsion explosives at the Olimpiada mine".

16.7

Environmental stewardship

continued

Corporate workshop for environmental specialists

In October 2011, the Group organised the corporate workshop "Implementation of Environmental Measures in 2011, Planning of Environmental Activities at Subsidiaries in 2012 and Russian and International Requirements for Environmental and Social Impact Assessment".

The workshop was attended by the heads of and specialists from the environmental departments of business units and the corporate center as well as environmental specialists and auditors from the companies ERM Eurasia, SRK Consulting and Bureau Veritas.

ERM Eurasia, SRK Consulting and Bureau Veritas specialists provided an overview of current approaches to rehabilitation, as well as modern environmental standards.

For the first time, participants visited the IX Environmental Forum, where they discussed various environmental protection issues: changes in ecological and natural resource payments, changes in legislation regarding environmental impact assessment and implementation of best available technologies.

Evaluating the effectiveness of the workshop, participants noted the opportunity to share experiences with colleagues and discuss issues, as well as the opportunity to learn about best practices and best available environmental technologies.

Over 90% in 2010 and nearly 100% in 2011 of all waste generated by the Group subsidiaries were non-hazardous wastes and include overburden from mining operations, waste generated from sand washout, concentration tailings and coal combustion waste. Stripping rocks and other non-hazardous wastes are transported and disposed of at special waste dumps[1].

Hazardous waste is collected for further treatment or disposal by external companies on a contractual basis.

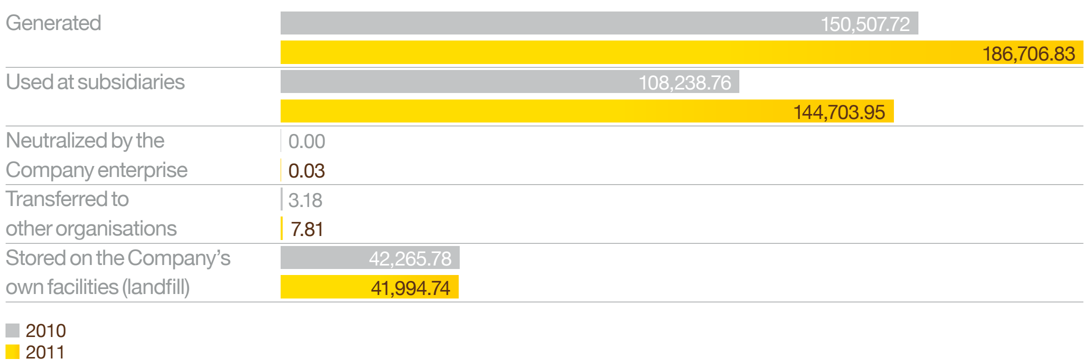
The Group recognises the potential negative impact of its waste on the surrounding environment and is consistent in its efforts to reduce waste generation and increase waste recycle and reuse. n 2011, approximately 78% of total waste was recycled and used at the Group's subsidiaries as building material or for other purposes.

Approximately 23% of waste generated in 2011 was disposed of at the Group's own facilities, using waste storage techniques aimed at minimizing potential negative impacts.

Additionally the Group develops and implements ore processing technologies, including modern cyanide neutralization methodologies, tailings treatment and dry tailings storage during new mines construction and the reengineering of the existing facilities.

The Group strives to comply with all national regulatory requirements and best practice. Compliance is confirmed by industrial environmental monitoring carried out for all waste disposal facilities by both the Group's laboratories and third party experts.

Total waste in 2010-2011, thousand tonnes



[1] Non-hazardous wastes include IV, V hazard class, hazardous wastes include I, II, III hazard class.

16.7

Environmental stewardship

continued

16.7.7 Environmental protection expenditures

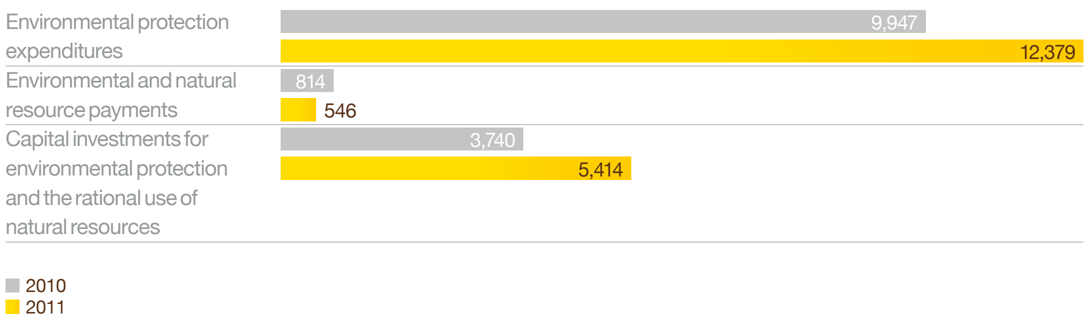
Over the reporting period the Group continued to make environmental payments and investments in environmental activities, including installation of new technologies and equipment and educational and research programmes. The Group regularly collects key environmental information, monitors compliance with national legislative requirements and procedures, and implements new environmental programmes and initiatives.

The Group's total environmental protection expenditures, which include the protection and rational use of water resources, protection of land resources, waste management and reduction of air emissions, increased from US$9,947 thousand in 2010 to US$12,379 thousand in 2011.

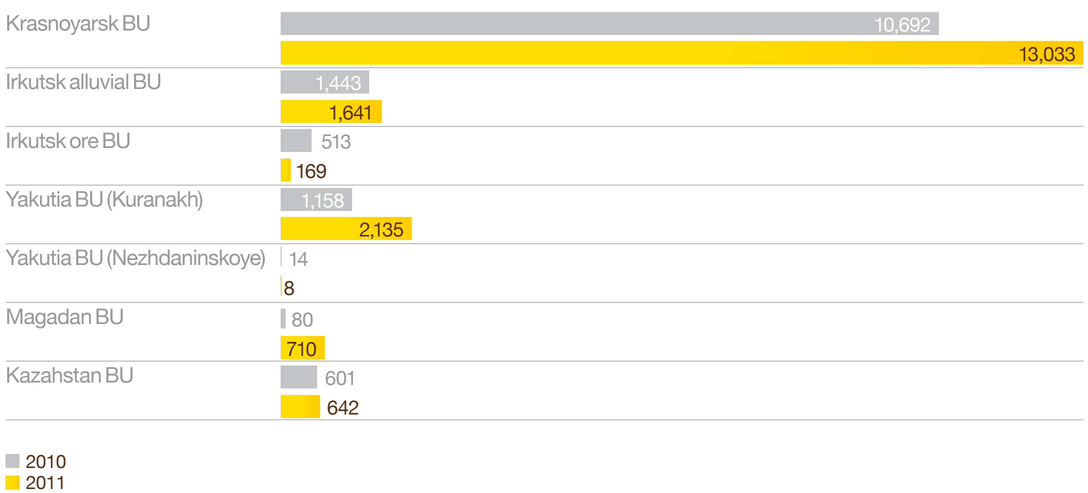
In the reporting period the Group scrutinized and evaluated inventory forms, noting that certain expenses should be allocated from the list of environmental payments. New projects were launched in 2011, the related expenses of which are to be allocated to subsequent years. Among those projects to be carried out in 2012 are:

— Audit of the Closure plans for major Group projects (Olimpiada, Kuranakh, Verninskoe)
— Construction of treatment facilities for water recycling at Olimpiada
— Modernisation of gas-cleaning equipment at Olimpiada
— Environmental and Social Impact Assessment at Natalka deposit
— Upgrade cyanide neutralization facilities at the Olimpiada, Aldan mines
— Reconstruction of ventilation systems at Olimpiada and Aldan mines
— Design of municipal solid waste and industrial waste landfills for Verninskoye and Aldan mines
— Reconstruction of the tailings facility at Kazakhaltyn.

Total environmental protection expenditures in 2010-2011, US$thousand



Total environmental protection expenditures in 2010-2011, US$thousand



16.7

Environmental stewardship

continued

Capital investments for environmental protection and the rational use of natural resources increased from US$3,740 thousand in 2010 to 5,414 thousand in 2011. At the same time, environmental and natural resource payments decreased from US$814 thousand in 2010 to US$546 thousand in 2011.

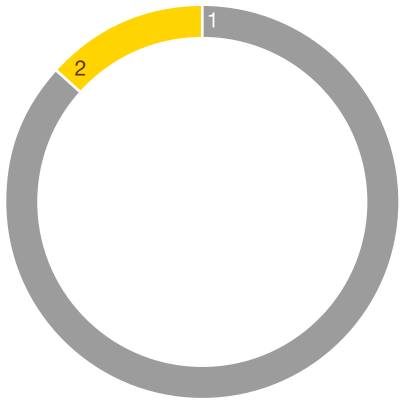
The range of environmental activities undertaken by the Company resulted in the reduction of total significant fines, which significantly decreased in 2011 compared to 2010. The same trend is observed with the number of non-monetary sanctions imposed on the Company for non-compliance with environmental laws and regulations by local environmental supervisory agencies – the number of such sanctions decreased from 21 in 2010 to 9 in 2011.

During the reporting period, the Group increased investments in environmental protection, which resulted in a reduction of air emissions, total water withdrawal and land disturbed, as well as a reduction of environmental payments and fines, and resulted in an increase in energy savings. The Group continues to strive to develop ever-more innovative technologies and implement initiatives aimed at improving environmental performance.

Thus, in 2011, Magadan business unit invested approximately US$633 thousand in an environmental laboratory, enabling monitoring of the impact of mine construction projects on the environment. Additionally, the Group, in cooperation with leading specialized companies in Russia, has developed and implemented effective disposal technologies for gold extraction plant tails waste for effective waste management at its subsidiaries.

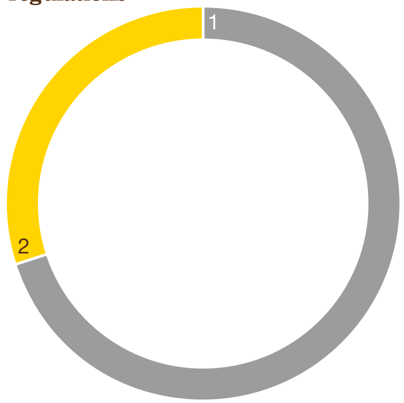
BIONORD technology, an environmentally-friendly bio-oxidation technology patented by the Group, is a prime example of the Group's dedication to ensuring that its waste management system is as efficient as possible. BIONORD technologies were specifically designed for use in unfavourable weather conditions, and have already been implemented at Olimpiada deposit (for refractory sulphide ore processing), where it has helped the Group to eliminate the release of gas and dust into the atmosphere, significantly decrease the amount of waste generated, and fully utilize all dangerous and harmful substances.

Total monetary value of significant fines, US$ thousand



1	2010	63.88
2	2011	9.68

Number of non-monetary sanctions for non-compliance with environmental laws and regulations



1	2010	21
2	2011	9

16.8

Society

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

16.8 Society

continued

16.8.1 Stakeholder engagement

The Group has developed a comprehensive stakeholder engagement plan for the project in the context of ongoing work on an environmental and social impact assessment in accordance with international standards. All stakeholders and affected parties have been identified, and the appropriate communication channels, tailored for the needs of each group, have been established. Work is underway to develop a community grievance mechanism.

The Group defines key stakeholders as those who have an interest in, or have influence over, or may be impacted by, the Group's activities. Based on stakeholders' needs and interests, the Group has identified a range of key stakeholder groups.

Shareholders

This group is interested in the creation of long-term shareholder value through consistent financial returns and good governance. Engagement methods include:

- Annual General Meetings
- Regular printed and electronic communications
- Regular meetings with institutional shareholders
- Access via PGIL website www.polyusgold.com.

Government and regulators

This stakeholder group is interested in national, regional or local legislative and regulatory policy frameworks for the natural resources sector through the full project life cycle. They are also interested in market access, environmental performance, social policy and fiscal regimes as they relate to the resources sector. The Group respects the authority of governments and the Group's subsidiaries are required to work within relevant legislative and regulatory frameworks at the local, regional, national and international levels.

At the federal level, engagement with this stakeholder group includes monitoring amendments to Russian legislation; taking part in the discussion and expert assessment of decisions developed by executive authorities; and preparing and implementing proposals on regulation of the gold mining industry.

For example, the Russian government has supported the Group's proposal to reduce import customs duties on large mining trucks. All EurAsEC Customs Union member states (Russia, Kazakhstan and Belarus) have subsequently approved this proposal.

In the regions, work with government authorities includes social infrastructure support and development, including through agreements on socio-economic partnership with regional authorities based on mutually beneficial cooperation, and charity and sponsorship work.

Employees and contractors

The health and safety of the Group's employees and business partners is a key focus for this vital stakeholder group, as are working conditions and career development opportunities.

The Group interacts with employees and contractors through:

- Direct communication with employees through immediate supervisors and management
- Operation-based newsletters and general communications
- Participation in HSEC performance improvement initiatives at subsidiaries.

Local and Indigenous communities

Most Group operations are located in rural and remote areas. The Group, therefore, interacts with a broad spectrum of local and indigenous communities with a range of interests and concerns. This group is interested in potential environmental and social impacts associated with the Group's operations, including employment opportunities. The Group engages with local and indigenous communities through:

- Their participation in the Group's activities
- Newsletters and targeted communications
- Public hearings and meetings.

Suppliers

The Group suppliers include businesses local to the areas where the Group has operations, as well as large international suppliers. The Group seeks to utilise local suppliers and support these suppliers to enhance community development opportunities. Areas of key interest for this stakeholder group include supply agreements, payment processes and required supplier standards.

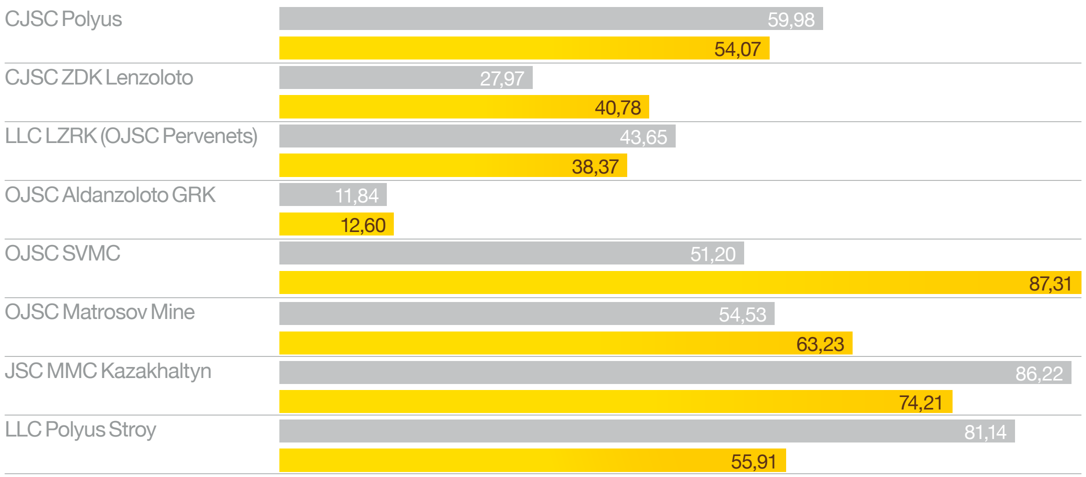
The Group's policy is to give preference to local suppliers to nurture small businesses and local economies. More than half of all goods are purchased locally by procurement departments of business units.

16.8

Society

continued

Share of goods and supplies purchased locally by procurement departments of business units, %



Non-Government Organisations

Non-Government Organisations (NGOs) with which the Group typically engages include environmental and social organisations. Their key interests are the social and environmental performance of existing operations, proposed operations or closed operations. They are increasingly interested in non-financial performance, such as better governance mechanisms and non-financial risks and mitigation. At the corporate level, the Group regularly engages with relevant national and international organisations.

Media

The media includes representatives of print, radio, online and television media. This group is interested in a broad range of issues reflecting all stakeholder interests. The Group engages with them through media releases, briefings, presentations and interviews.

16.8.2 Sponsorship and charity

A core component of the Group's commitment to corporate social responsibility is contribution to the socio-economic development of the regions where the Group operates and development of local communities.

From year to year, the Group initiates a number of sponsorship and charitable activities aimed at improving living conditions in surrounding communities. The Group's social and charitable activities include initiatives in a number of areas, focusing on:
— Children
— Education
— Sport.

The Group's investments in the development of local communities include charity and sponsorship expenditures, infrastructure investments for public benefit and social benefits. As a result of the Group's activities, total expenses increased by 46% in 2011 compared with 2010.

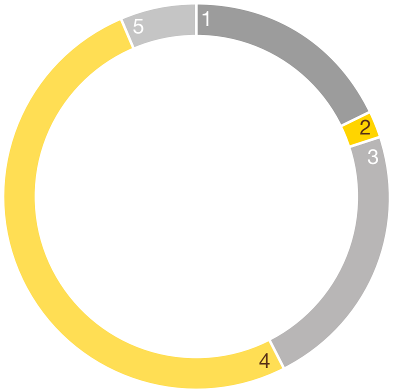
Social benefits accounted for the largest share of social expenditures, amounting 51% in 2010 and 48% in 2011. The Group's total expenses on charitable projects and infrastructure investments for public benefit amounted respectively to 21% and 24% of the Group total social expenditures in 2011.

16.8

Society

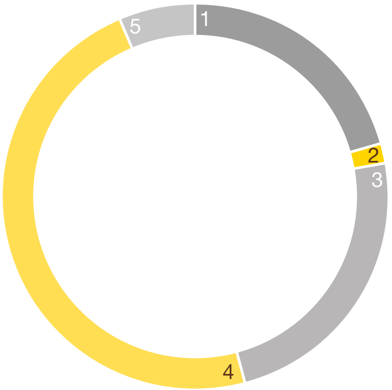
continued

Social expenditures (including expenditures of professional services) by type in 2010, %



1	Charity	17.9%
2	Sponsorship	2.1%
3	Infrastructure investments for public benefit	22.6%
4	Social benefits	51.1%
5	Other social expenditures	6.3%

Social expenditures (including expenditures of professional services) by type in 2011, %



1	Charity	20.6%
2	Sponsorship	1.8%
3	Infrastructure investments for public benefit	23.7%
4	Social benefits	47.6%
5	Other social expenditures	6.3%

Sponsorship

The Group recognises sponsorship as an effective way to support and develop culture, the arts and sport in Russia, and establish stable and long-term relations between the Group's employees and society as a whole.

One of the priority areas of the Group's sponsorship activity is the development of Russian sport. Sport plays an important social role in maintaining the nation's physical health, which depends on its development, and in promoting healthy living and a developed sports infrastructure, which are both key features of a modern society.

For the last four years, the Group has been a sponsor of the Russian Student Basketball Association championship. The Group's sponsorship aims primarily to develop the talent of young people and by doing so to contribute to the country's Olympic teams, and thus, to the future of Russian sport.

The Group's major regional sports projects include supporting the organisation and staging of the Manchaary Games (a competition featuring local sports), held every year by the Bargaryy National Revival Fund with the support of the President of the Sakha (Yakutia) Republic, as well as sponsorship of a wrestling tournament run by the Sakha Wresting Federation.

The Group provides charitable support to the Zvyaginets Sports and Wellness Club (an autonomous noncommercial organisation, Moscow). The mission of the Zvyaginets Club is to develop the physical abilities and talents of individuals, strengthening family values through sports. This programme provides aid to children from low-income families and to challenged children alike. Club members are tutored in the art of self-defense and judo.

The Club develops an individual training wellness programme for each club member, including persons with disabilities, fully accounting for their physical capabilities and limitations. To this end, the Club collaborates with the leading medical institutions of Moscow to monitor members' health status and provide club members with treatment.

The Group supports events of a social and patriotic nature. For instance, the Group sponsored the Spasskaya Tower International Military Music Festival, organised by the Guild of Purveyors to the Kremlin.

16.8

Society

continued

Zvyaginets Sports and Wellness Club activities held during fourth quarter 2011

The Zvyaginets Sports and Wellness Club regularly hosts a number of activities. Among past activities are:

— The 1st Moscow Judo Tournament for sportsmen ages 4-7 years was held; the tournament was held as part of Day of Unity in Russia celebrations.
— A Sambo tournament was held in Moscow between visually impaired and sight athletes under 35 years of age. This unique event – the first of its kind globally – was held at Zvyaginets Sports and Wellness Club. The tournament was organised by Zvyaginets Sports and Wellness Club, Sambo Federation in Moscow with the support of the Student Government, Department of Family and Youth Policy in Moscow and the group Civil Shift (Grazhdanskaya smena). The tournament was held in order to increase the level of sports rehabilitation offered to the visually impaired and the promotion of tolerance towards disabled persons in society.
— In December 2011, during a SAMBO Federation conference, Zvyaginets Sports and Wellness Club received its third consecutive Crystal Award "Best Club of the Year" for its work with athletes with disabilities.

Spasskaya Tower Festival

The Spasskaya Tower Festival is a thrilling spectacle of music and performance. It is a great "battle" of military music bands from around the world who vie for the love and admiration of the audience. The festival is staged against the Kremlin's monumental walls. The Spasskaya Tower Festival is a carefully tuned "instrument" of international cultural exchange. The festival brings together leading performers and musicians from all over the world. Each, with its unique national interpretation, speaks the universal language of music, helping to improve cross-cultural understanding. It is symbolic that military musicians representing the full diversity of national, artistic and military traditions from around the world become ambassadors of peace and cross-cultural understanding thanks to the festival.

The festival reveals and demonstrates the great historic role of military music, which can inspire genuine national pride in listeners. The festival also aims to revive the tradition of open-air marching band performances. The festival also includes a substantial charity programme, the impact of which is widely felt.

Charity

The Group is actively involved in the socio-economic development of the regions where it operates. The Group aims to support local communities by initiating new projects and activities and by investing in sustainable development.

The main charitable programme of the Group, which plays an important social role in the regions, is **Grant Competition Polyus Gold-CAF**. This programme is aimed at identifying and supporting social initiatives, programmes and projects of non-profit organisations (public, municipal, governmental) in the regions of the Group's presence. The programme helps to improve quality of life by encouraging local creativity and facilitating the implementation of social projects.

This programme was designed and is implemented by CAF Russia with the financial support of the Group. The programme has been running since 2007 in the regions where the Group operates: Magadan and Magadan region, Krasnoyarsk and Krasnoyarsk regions, the Sakha Republic, Irkutsk and Irkutsk regions. The programme's main goal is to support initiatives aimed at developing sport and leisure, improving the quality and accessibility of education, creating employment, and promoting healthy living, ecology and environmental protection.

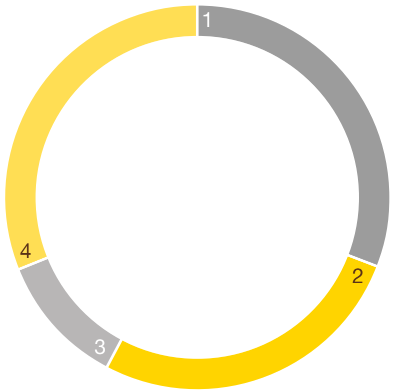
In 2010-2011, local communities implemented more than 87 projects within this programme, including 17 projects which were implemented by individuals.

16.8

Society

continued

Distribution of projects within the Grant Competition Polyus Gold-CAF programme by region, %



1	Magadan and Magadan region	31%
2	Kranoyarsk and Kranoyarsk region	27%
3	Republic of Sakha (Yakutia)	11%
4	Irkutsk and Irkutsk region	31%

Under the Grant Competition Polyus Gold-CAF programme, a great deal of work is being done on information and advisory support for projects, including educational workshops such as "Project management" and "Financial reporting", and on consultation during project implementation. In 2010-2011, 37 educational events (training and workshops), with a total of more than 770 participants, were held. More than 500 people have received advice on project management and financial reporting.

Within the Grant Competition Polyus Gold-CAF programme, the Group holds socially-oriented events every year, such as: round table discussions of the previous year's results, expert panel meetings aimed at selecting projects for financing, awards ceremonies for participants, and social projects exhibitions. During the reporting period, 30 different events, with a total of more than 750 participants, were held.

Among the projects implemented in Irkutsk, Magadan, Krasnoyarsk and the Sakha Republic in 2010-2011 were:
— I'm going to be an Olympian!
— Mineralogy Exhibition
— Dance – a Festival for the Body and Soul
— Mountain Tourism
— Children's Theatre
— Breast Cancer Prevention in Bodaibo Region
— Legal Workshop
— Energy Savers – the Future Generation
— Summer for All
— Young Sculptor
— I Want to be Healthy
— other.

The Group is active in remote regions, including in settlements and villages of the Irkutsk and Magadan regions as well as in the Krasnoyarsk region and Republic of Sakha (Yakutia). A prime example of this would be Marakan Settlement in the Irkutsk region, one of the remotest settlements of the Bodaibo District. CAF Russia and the Group have collaborated on projects in such settlements to improve the tough living conditions faced by their residents.

Another important focus of the Group charitable activity is care for children without homes or without parental care. The Group cooperates with various charitable organisations that assist children living in orphanages and children who have been left without parental care. Since 2008, jointly with the charity fund Homeless Children's Assistance Center established by the Russian Chamber of Commerce and Industry, the Group has been carrying out charitable initiatives aimed at assisting orphanages, boarding schools, rehabilitation centers and other children's institutions in Russia. In March 2010, the Group and the Homeless Children's Assistance Center fund signed a cooperation agreement for the next three years.

The main focus of the Group's children's charity programme is to provide children living in below standard conditions with educational opportunities and support aimed at helping ease their integration into society. The programme aims at supporting children's educational institutions, providing help to children in social risk groups, preventing homelessness and providing health care to children living with illness. The Group primarily supports initiatives in those regions in which it has a presence (Republic of Sakha (Yakutia), Krasnoyarsk, Irkutsk and Magadan regions). Additionally, the Group sponsors institutions that provide professional education opportunities to orphaned children and children left without parental care in order to help them to integrate into society.

16.8 Society

continued

Grant competition Polyus Gold – CAF wins for "Best Corporate Philanthropy – 2009"
The results of the research project Leaders of corporate philanthropy – 2009, which is a joint project of the business newspaper Vedomosti, the Donors Forum and the international advisory firm PwC were summarized in a November 2010 report. Launched in 2008, the project, aims to identify best practices in the creation and implementation of charitable programmes, as well as to promote the sharing of information about such practices among companies and with the public.

The project consists of two parts – a research stage where data on companies' corporate philanthropy is collected and rankings are subsequently formed, and a competition between companies' charitable programmes.

The research methodology was developed by PwC experts with the support of the Donors Forum. The project is supported by the Ministry of Economic Development Ministry, the Russian Union of Industrialists and Entrepreneurs and the Russian Public Chamber Commission on the Development of Civil Society.

The Ministry of Economic Development nominated The Group's Grant competition Polyus Gold – CAF programme for "Best programme supporting the development of local communities and improving the social climate in the region where the company operates"; the programme won in this category.

In 2010, the programme supported 14 child care institutions in the Krasnoyarsk, Irkutsk and Magadan regions and the Republic of Sakha (Yakutia).

In 2011, equipment was donated to the following educational institutions: Aldan Polytechnical College, Sakha Republic; Krasnoyarsk Industry and Metalworking College, Krasnoyarsk; Bodaibo Mining College, Irkutsk region; and Magadan Polytechnical College, Magadan.

In 2011, the following equipment was purchased for orphanages: sports gear, computers and computer equipment, and sports/playing fields.

Both the Grant Competition Polyus Gold-CAF and children's charity programme have been successfully implemented by the Group and are highly appreciated by in the regions where the Group has a presence. In 2010 both programmes received awards as the best the corresponding categories of the Leaders of Corporate Philanthropy – 2009 project: Grant Competition Polyus Gold-CAF was named "Best programme supporting the development of local communities and improving the social climate in the region where the company operates" and children's charity programme the "Best programme developing a corporate charity policy and principles of social investment".

In 2011, the Group signed an agreement with Frank Foundation Child Assistance International, Inc. (USA), under which was provided the following support:

— Rehabilitation equipment and equipment to facilitate the movement of children with reduced mobility
— Funds towards payment for treatment, educational programmes, grants and scholarships for orphaned children and children without parental care
— Humanitarian aid in the form of medicine, clothing and shoes.

The Group has developed a special corporate culture encouraging employees to take part in various volunteering and charity initiatives. The Group regularly holds Blood Donor Days at its enterprises. The Group employees regularly donate to help children fighting illnesses. In 2011, employees participated in the charity initiative "A person's life is no trivial matter", a joint project with the Life-Line charity foundation; all the funds raised went towards helping children with life-threatening heart and brain conditions.

16.9

Plans and perspectives

The table below shows the Group HSEC performance for 2011 and targets for 2012.

Target	Target performance	Target date
Health and Safety		
Zero fatalities	not achieved in 2011	Monthly
Develop and implement accurate and timely safety reporting system	in progress	Monthly
Monthly reporting medical treatment injuries	in progress	May 2012
OHSAS 18001certification (Olimpiada, Kuranakh)	in progress	June 2012
Development of Health and Safety Policy	met	December 2011
Development of Health and Safety Management System (Standard)	in progress	February 2012
Health and Safety hazard identification, risk assessment and risk mitigation, control procedure (Site procedure)	developed and implemented at the Olimpiada and Aldan operating sites	October 2012
Development of the Safety Leadership training programme	in progress	June 2012
Environment		
Development of Environmental Policy	met	December 2011
Development of Environmental Management System (Corporate procedure)	in progress	February 2012
Audit of the Closure plans for the Group major projects (Olimpiada, Kuranakh, Verninskoe)	in progress	February – July 2012
ESIA report (Natalka)	in progress	February 2012
Water management plan and water balance development	in progress	October 2012
ARDML Studies at the operating and constructing sites	in progress	December 2012
Community		
Review of the Community Development Plans	in progress	July 2012
Membership		
ICMM membership	in progress	2012-2013
International Cyanide Management Code: site audit	in progress	2012-2013

16.10

Independent Assurance Statement

To the Directors of Polyus Gold International Limited

Introduction

Bureau Veritas Certification Rus was engaged to conduct of independent assurance statement to the Polyus Gold's Sustainability Report for 2010-2011 (hereinafter the Report). The Report was prepared for Polyus Gold International Limited (hereinafter referred the Company), which bears responsibility for the collection and presentation of all the information in the Report. We bear responsibility for the assurance only to the Company within the framework of the technical assignment agreed upon with it and do not take any responsibility for any other evaluation or to any other third party.

Objectives and level of the Assurance Statement

— To assure the character and extent to which the Report is compliant with the principles Inclusivity, Materiality and Responsiveness set forth in the AA1000 Accountability Principles Standard (2008);
— To assure the quality of the information disclosure by the Company in area of sustainable development on the basis of AA1000 Assurance Standard (2008);
— To assure degree and quality of the stakeholder engagement in the reporting process in accordance with AA1000 Stakeholder Engagement Standard (2011);
— To assure that the report is compliant at the level C+ as to the recommendations of the Global Reporting Initiative Sustainability Reporting Guidelines GRI-G3 (2006);
— To apply the assurance level "moderate" («reasonable») as per the AA1000 AS (2008).

During the assurance of the Report, information was taken into consideration which was published on the corporate website of the company www.polyusgold.com, as well as publications in the other mass media.

Methodology

In order to provide assurance of the Report, we performed the following work:
— We conducted interviews with Company management about economic, social, and environmental aspects of Company's activities, social responsibility and corporate sustainability and in order to confirm the Company's adherence to the principles of corporate responsibility in sustainable development, to evaluate its approach to involving and taking into account the opinions and expectations of stakeholders.
— We studied a selection of corporate documents which characterize the status of the Company in the area of environmental commitments, social responsibility and corporate sustainability.
— We evaluated adequacy of the methods used at the Company for the collection, processing, documentation, transfer, analysis, selection and consolidation of data which were to be included in the Report.
— We traced the selection of statements and data included in the Report regarding production activity, the management of personnel, ensuring industrial safety, occupational safety and environmental protection and investments in social programs to the corporate documents.
— We analyzed a selection of information from mass media and the published statements of third parties regarding Company's adherence to its mission and values in the area of sustainable development responsibility as a reference point for examining the justification of the statements in the Report.
— We took into account the results of certification audit of the Company's Environmental Management System conducted by CJSC Bureau Veritas Certification Rus in 2011.

Assurance limitations

— The assurance was limited to the current 2010-2011 reporting cycle.
— The assurance did not take into account statements expressing the opinions, reassurances or intentions of the Company to take any actions in the future.

Assurance level

The assurance activity is based on analysis of information and documents provided to us by Company's management and information from all accessible public sources with the use of analytical assurance methods. Our assurance statement takes account of mining sector specificity in Company's activity and objective confidentiality limitations.

We are aware that the selective analysis of the information in the Report carried out by us provides a lower level of assurance guarantee than the verification of all data. We believe that the information collected provides a sufficient basis for our conclusions on the accepted "moderate" assurance level regarding each of the AA 1000 ASP (2008) principles (Inclusivity, Materiality, Responsiveness) as well as quality of information disclosure about indicators of sustainable development effectiveness in conformity with criteria of the assurance standard AA 1000 AS (2008) and GRI G3 recommendations together with Supplement on the Final Mining and Metals Sector.

16.10

Independent Assurance Statement

continued

Our opinion

— The information included in the Report is adequate and reflects the indicators of the Company's activity from the perspective of sustainability and social reporting.
— The Report is stated in a clear and understandable manner, and allows readers to form a balanced opinion regarding Company's performance and position in the 2010-2011 reporting period.
— The Company has management instruments which enables it to plan, manage, control and improve the sustainable responsibility reporting process.
— The Report adequately reflects the organisation's alignment to, and implementation of, the AA1000AS (2008) principles of Inclusivity, Materiality and Responsiveness in its operations (cf. below).
— The Report follows the recommendations of the GRI G3 Guidelines for Reporting in the Area of Sustainable Development and contains information an practically all the standard GRI G3 reporting elements which are applicable to Russian practice, including the effectiveness indicator (coverage 53%). The reporting indicators meet level C+ of GRI G3 Application.

Compliance with AA 1000 AS principles

Inclusivity

— The information provided in the Report and backed by available objective evidences demonstrate that the Company took key stakeholder interests into account during preparing the Report.
— The Company identified all their stakeholders and established appropriate communication channels for the each group thereof.
— The Company defines key stakeholders as those who have an interest in, or have influence over, or may be impacted by, the Company's activities. Based on stakeholders' needs and interests, the Company has identified in the Report a range of key stakeholder groups.
— Different communication means including the present Report, public hearings, dialogs, press releases, publications, interviews, negotiations and corporate website are main instruments for informing and interaction with stakeholders.
— The information provided in the Report and on the corporate site is significant for stakeholders and may influence on them in their future decisions and conduct towards the company.
— The Company has developed a comprehensive stakeholder engagement plan for the Natalka project in the context of ongoing work on an environmental and social impact assessment in accordance with international standards.
— The Report reflects the Company's strong production, social and ethical potential for increasing its contribution to the social and economic development of the regions where the company is located and to the country as a whole.

Materiality

— The Report provides a balanced statement of the significant economic, ecological and social aspects of the Company's activity which determines the Company's sustainable development indicators in the context of the Strategic Development Plan for the Period of 2011-2020.
— During reporting period the Company implemented and maintained the process of identifying significant activity aspects on the basis of clear indicators.
— The substantive information on production and economic activity and engagement with stakeholders is strengthened by an exhaustive review of internal and external risks, and the risk management is considered to be a guarantee of sustainable development.
— The Report disclosure substantial information about maintaining economic sustainability and development of investment program, demonstrates self-fulfilment of sustainable development and measures of social obligations, states the objectives for modification of social reporting system. The degree of attention given to various reporting themes is proportional to their relative materiality.
— The Company demonstrates understanding of the concept of sustainable development and uses objective information for various themes in their Report.
— We cannot name any significant aspect of social reporting which was omitted during the complication of the Report or excluded from reporting without proper justification.
— We consider that the Company's primary data on key effectiveness indicators were correctly consolidated and presented in the Report.
— We did not discover any omissions which may influence on the completeness of the disclosure in the Report of information on significant economic, ecological and social aspects of the Company's activity in the context of sustainable development.
— The presented information about significant aspects of the Company' sustainable development has adequate traceability in the processes of collection, consolidation, transfer and presentation of data.

16.10

Independent Assurance Statement

continued

— The Report contains sufficient information on compliance Russian legislation, regulations and industry standards for mining industry.

Responsiveness to stakeholder needs

— We cannot name any area which could have been disclosed in the Report, but was not, for which the Company would be unable to react to the justified requests of stakeholders.
— Responses to the needs of the regions/cities of the Company's presence are realized through implementing social projects within the framework of agreements on socio-economic cooperation with local administration and contribution to social development of local communities (charity and sponsorship expenditures, infrastructure investments for public and social benefits, support of cultural, art and sport activity).
— The interests and expectations of Company's employees are taken into account through the adoption of a Collective Bargaining Agreement between the company and their personnel.
— The public right to auspicious environment is ensures by compliance with established norms for environmental impact and by undertaking environmental protection measures, for example implementation a natural waters protection and rational water usage program at Company's mines.
— Interests of stakeholders are taken into account through implementing Company's corporate governance principles, including holding annual shareholders meetings.
— The Company's policy is to give preference to local suppliers to nurture small businesses and local economies as enhancement of community development opportunities. The Company purchases more than half of products and services locally.

Bureau Veritas Certification statement on its independence, impartiality and competency

Bureau Veritas Certification is an independent professional international company which specializes in providing services for the evaluation of compliance in the areas of quality management, professional health and safety, environmental protection and social responsibility.

Bureau Veritas Certification officially states that this Conclusion is an independent evaluation of a third party auditor. Bureau Veritas Certification does not have any significant commercial interest in the activity of Polyus Gold except for providing assurance services.

CJSC «Bureau Veritas Certification Rus»

Evgeniy Prudnikov
Lead Auditor, PhD in Biology

30 March 2012

16.11

GRI content index[1]

This table indicates the sections of the Report in which are described the specific measures that the Group has taken to address the Global Reporting Initiative (GRI).

In terms of the GRI, material 'core' and 'sector supplement' indicators have been addressed and 'additional' indicators have been included where we consider they are material to our business or of particular interest to our stakeholders. Material indicators are anything that reflect the Group's significant economic, environmental, and social impacts, or that would substantially influence the assessments and decisions of stakeholders.

Application Level C+

Disclosure	Description	Reported	Page/Section
1.1	Statement from the most senior decision-maker of the organisation.	●	113, Message from COO
1.2	Description of key impacts, risks, and opportunities.	●	111-112, Wins, challenges and commitments
2. Organisational profile			
2.1	Name of the organisation.	●	2-4, Brief description of Polyus Gold International Limited
2.2	Primary brands, products, and/or services.	●	8-11, Highlights
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	●	2-4, Brief description of Polyus Gold International Limited
2.4	Location of organisation's headquarters.	●	2-4, Brief description of Polyus Gold International Limited
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	2-4, Brief description of Polyus Gold International Limited
2.6	Nature of ownership and legal form.	●	2-4, Brief description of Polyus Gold International Limited
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	71-72, Management report
2.8	Scale of the reporting organisation.	●	19, Operating review
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	108-110, About this report
2.10	Awards received in the reporting period.	●	120, Career development 145, Sponsorship and charity

[1] ● Reported
● Partially reported
● Not reported

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
3. Report parameters			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	●	108-110, About this report
3.2	Date of most recent previous report (if any).	●	108-110, About this report
3.3	Reporting cycle (annual, biennial, etc.)	●	108-110, About this report
3.4	Contact point for questions regarding the report or its contents.	●	108-110, About this report
3.5	Process for defining report content.	●	108-110, About this report
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	●	108-110, About this report
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●	108-110, About this report
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	●	108-110, About this report
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	●	108-110, About this report
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years /periods, nature of business, measurement methods).	●	108-110, About this report
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	108-110, About this report
3.12	Table identifying the location of the Standard Disclosures in the report.	●	150-157, GRI Context Index
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	108-110, About this report

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
4. Governance, commitments, and engagement			
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	●	114-115, Sustainability governance Section 6, Annual report 2011
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	Section 6, Annual report 2011
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	●	Section 6, Annual report 2011
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	Section 6, Annual report 2011
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	●	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	●	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	111-112, Wins, challenges and commitments
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	114-115, Sustainability governance
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	114-115, Sustainability governance Section 7-11, Annual report 2011
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	●	111-112, Wins, challenges and commitments
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	●	111-112, Wins, challenges and commitments 114-115, Sustainability governance
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	●	111-112, Wins, challenges and commitments 114-115, Sustainability governance

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
4.14	List of stakeholder groups engaged by the organisation.	●	140-141, Stakeholder engagement
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	140-141, Stakeholder engagement
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	140-141, Stakeholder engagement
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	●	140-141, Stakeholder engagement
Economic			
EC1 COMM	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	●	66, Management report
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	●	111-112, Wins, challenges and commitments 114-115, Sustainability governance
EC3	Coverage of the organisation's defined benefit plan obligations.	●	
EC4	Significant financial assistance received from government.	●	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	●	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	●	140-141, Stakeholder engagement
EC7 COMM	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●	117, Labor commitments and values
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●	142-145, Sponsorship and charity
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	
Environmental			
EN1	Materials used by weight or volume.	●	129-131, Energy
EN2 COMM	Percentage of materials used that are recycled input materials.	●	
EN3	Direct energy consumption by primary energy source.	●	129-131, Energy
EN4	Indirect energy consumption by primary source.	●	129-131, Energy
EN5	Energy saved due to conservation and efficiency improvements.	●	129-131, Energy
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	131, Energy
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	129-131, Energy
EN8	Total water withdrawal by source.	●	132, Water

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
EN9	Water sources significantly affected by withdrawal of water.	●	132, Water
EN10	Percentage and total volume of water recycled and reused.	●	132, Water
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	133-134, Land recourses and biodiversity
EN12COMM	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	●	
MM1	Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated.	●	133-134, Land recourses and biodiversity
EN13COMM	Habitats protected or restored.	●	
EN14COMM	Strategies, current actions, and future plans for managing impacts on biodiversity.	●	
MM2	The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place.	●	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	●	133-134, Land recourses and biodiversity
EN16	Total direct and indirect greenhouse gas emissions by weight.	●	
EN17	Other relevant indirect greenhouse gas emissions by weight.	●	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	
EN19	Emissions of ozone-depleting substances by weight.	●	134, Emissions
EN20COMM	NOx, SOx, and other significant air emissions by type and weight.	●	134, Emissions
EN21	Total water discharge by quality and destination.	●	132, Water
EN22COMM	Total weight of waste by type and disposal method.	●	135-136, Waste
MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks.	●	
EN23COMM	Total number and volume of significant spills.	●	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	●	Over 90% in 2010 and nearly 100% in 2011 of all waste generated by Polyus Group subsidiaries are non-hazardous wastes
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	●	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	137-138, Environmental protection expenditures
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	●	

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	🟢	137-138, Environmental protection expenditures
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	🔴	
EN30	Total environmental protection expenditures and investments by type.	🟢	137-138, Environmental protection expenditures
Social: Labour practices and decent work			
LA1	Total workforce by employment type, employment contract, and region.	🟢	117, Labour commitments and values
LA2	Total number and rate of employee turnover by age group, gender, and region.	🔴	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	🔴	
LA4	Percentage of employees covered by collective bargaining agreements.	🟢	117, Labour commitments and values
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	🔴	
	Number of strikes and lock-outs exceeding one week's duration, by country.	🔴	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	🔴	
LA7 COMM	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	🟢	125-126, Health and safety performance
LA8	Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	🔴	
LA9	Health and safety topics covered in formal agreements with trade unions.	🔴	
LA10	Average hours of training per year per employee by employee category.	🟢	120-123, Career development
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	🔴	
LA12	Percentage of employees receiving regular performance and career development reviews.	🔴	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	🟡	117, Labour commitments and values
LA14	Ratio of basic salary of men to women by employee category.	🔴	

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
Social: Human rights			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	●	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	●	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	●	
HR4	Total number of incidents of discrimination and actions taken.	●	No incidents within the reporting period
HR5 COMM	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	●	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	●	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	●	
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	●	
MM5	Total number of operations taking place in or adjacent to Indigenous Peoples' territories, and number and percentage of operations or sites where there are formal agreements with Indigenous Peoples' communities.	●	
HR9	Total number of incidents of violations involving rights of Indigenous People and actions taken.	●	
Social: Society			
SO1 COMM	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	●	142-145, Sponsorship and charity
MM6	Number and description of significant disputes relating to land use, customary rights of local communities and Indigenous Peoples.	●	
MM7	The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and Indigenous Peoples, and the outcomes.	●	
MM8	Number (and percentage) or company operating sites where artisanal and small-scale mining (ASM) takes place on, or adjacent to, the site; the associated risks and the actions taken to manage and mitigate these risks.	●	
MM9	Sites where resettlements took place, the number of households resettled in each, and how their livelihoods were affected in the process.	●	

16.11

GRI content index

continued

Disclosure	Description	Reported	Page/Section
MM10	Number and percentage of operations with closure plans.	●	
SO2	Percentage and total number of business units analyzed for risks related to corruption.	●	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	●	
SO4	Actions taken in response to incidents of corruption.	●	112-113, Wins, challenges and commitments
SO5	Public policy positions and participation in public policy development and lobbying.	●	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	●	
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	●	
SO8COMM	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	●	
Social: Product responsibility			
MM11	Programmes and progress relating to materials stewardship.	●	
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	124-126, Health and safety
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	●	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	●	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	

17

Consolidated financial statements for the year ended 31 December 2011

17

Statement of Directors' responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2011

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, set out at page 160, is made with a view to distinguish the responsibilities of the Board of Directors and those of the independent auditors in relation to the consolidated financial statements of Polyus Gold International Limited.

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2011, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, the Board of Directors is responsible for:
— properly selecting and applying accounting policies;
— presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
— providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
— making an assessment of the Group's ability to continue as a going concern.

The Board of Directors is also responsible for:
— designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
— maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
— maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Group operates;
— taking such steps as are reasonably available to them to safeguard the assets of the Group; and
— preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2011 were approved on 30 March 2012 by the Board of Directors.

On behalf of the Board of Directors:

Pikhoya G.R.
Chief Executive Officer

London
30 March 2012

17

Independent Auditors' report

To the Shareholders of Polyus Gold International Limited:
We have audited the accompanying consolidated financial statements of Polyus Gold International Limited and its subsidiaries (hereinafter the "Group"), which are comprised of the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2011 and a summary of significant accounting policies and other explanatory information.

Director's responsibility for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated 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 2011, and its financial performance and its cash flows for the year ended 31 December 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte Touche Tohmatsu Limited

Moscow, Russia
30 March 2012

17

Consolidated income statement for the year ended 31 December

(in thousands of US Dollars, except for earnings per share data)

	Notes	31 December 2011	2010
Gold sales	7	2,340,650	1,711,298
Other sales		62,060	37,506
Total revenue		**2,402,710**	**1,748,804**
Cost of gold sales	8	(1,162,019)	(895,555)
Cost of other sales		(46,343)	(33,424)
Gross profit		**1,194,348**	**819,825**
Selling, general and administrative expenses	9	(225,618)	(194,549)
Impairment of stockpiles	21	(25,209)	–
Impairment of exploration and evaluation assets	17	(54,708)	(13,584)
Impairment of property, plant and equipment		(23,501)	(27,179)
Research expenses		(2,581)	(2,412)
Other expenses, net	10	(24,077)	(35,101)
Operating profit		**838,654**	**547,000**
Finance costs	11	(71,403)	(42,717)
Income/(loss) from investments, net	12	3,630	(23,711)
Foreign exchange (loss)/gain		(5,814)	765
Profit before income tax		**765,067**	**481,337**
Income tax	13	(207,052)	(124,840)
Profit for the year		**558,015**	**356,497**
Attributable to:			
Shareholders of the Company		468,998	332,169
Non-controlling interests		89,017	24,328
		558,015	**356,497**
Earnings per share			
Basic and diluted (US Cents)	15	16	11

17

Consolidated statement of comprehensive income for the year ended 31 December

(in thousands of US Dollars)

	Notes	31 December 2011	2010
Profit for the year		**558,015**	**356,497**
Available for sale financial assets:			
(Loss)/gain from change in fair value of available-for-sale investments		(8,976)	33,340
Losses recycled to profit or loss on disposal or impairment of available-for-sale investments	12	(17,023)	(20,289)
		(25,999)	13,051
Effect of translation to presentation currency		(194,307)	(32,803)
Other comprehensive loss for the year		**(220,306)**	**(19,752)**
Total comprehensive income for the year		**337,709**	**336,745**
Attributable to:			
Shareholders of the Company		304,309	316,968
Non-controlling interests		33,400	19,777
		337,709	**336,745**

17

Consolidated statement of financial position at 31 December

(in thousands of US Dollars)

ASSETS	Notes	31 December 2011	2010
Non-current assets			
Property, plant and equipment	16	2,056,417	2,058,636
Exploration and evaluation assets	17	399,846	442,316
Deferred stripping costs	18	64,460	61,023
Inventories	21	207,789	201,030
Investments in securities and other financial assets	20	3,643	50,273
Other non-current assets		35	1,860
		2,732,190	**2,815,138**
Current assets			
Inventories	21	543,023	455,144
Deferred expenditures	19	18,512	18,282
Trade and other receivables	22	24,712	21,244
Advances paid to suppliers and prepaid expenses		29,636	22,968
Investments in securities and other financial assets	20	63,468	177,332
Taxes receivable	23	150,022	167,161
Cash and cash equivalents	24	657,448	326,905
		1,486,821	**1,189,036**
Total assets		**4,219,011**	**4,004,174**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	482	519
Additional paid-in capital		2,189,240	2,087,978
Treasury shares		(765,013)	(626,313)
Investments revaluation reserve		4,557	30,556
Translation reserve		(258,426)	(119,736)
Retained earnings		1,424,516	1,810,641
Equity attributable to shareholders of the Company		**2,595,356**	**3,183,645**
Non-controlling interests		235,317	56,886
		2,830,673	**3,240,531**
Non-current liabilities			
Site restoration and environmental obligations	26	149,876	136,410
Borrowings	27	123,048	29,686
Deferred tax	28	180,741	182,948
Other non-current liabilities		24,008	19,666
		477,673	**368,710**
Current liabilities			
Borrowings	27	675,632	173,762
Trade, other payables and accrued expenses	29	192,077	169,037
Taxes payable	30	42,956	52,134
		910,665	**394,933**
Total liabilities		**1,388,338**	**763,643**
Total equity and liabilities		**4,219,011**	**4,004,174**

17

Consolidated statement of changes in equity for the year ended 31 December

(in thousands of US Dollars)

		Equity attributable to shareholders of the Company								
	Notes	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2009		519	2,087,978	(626,313)	17,505	(91,484)	1,549,792	2,937,997	59,874	2,997,871
Profit for the year		–	–	–	–	–	332,169	332,169	24,328	356,497
Other comprehensive income/(loss)		–	–	–	13,051	(28,252)	–	(15,201)	(4,551)	(19,752)
Total comprehensive income		–	–	–	13,051	(28,252)	332,169	316,968	19,777	336,745
Increase of ownership in subsidiary		–	–	–	–	–	33,023	33,023	(11,068)	21,955
Dividends to shareholders of the Company	14	–	–	–	–	–	(104,343)	(104,343)	–	(104,343)
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	–	(11,697)	(11,697)
Balance at 31 December 2010		519	2,087,978	(626,313)	30,556	(119,736)	1,810,641	3,183,645	56,886	3,240,531
Profit for the year		–	–	–	–	–	468,998	468,998	89,017	558,015
Other comprehensive loss		–	–	–	(25,999)	(138,690)	–	(164,689)	(55,617)	(220,306)
Total comprehensive income		–	–	–	(25,999)	(138,690)	468,998	304,309	33,400	337,709
Effect of reorganisation	2	(37)	220,885	(258,323)	–	–	(417,460)	(454,935)	417,460	(37,475)
Increase of ownership in subsidiary	2		(119,623)	119,623			(365,336)	(365,336)	(223,480)	(588,816)
Dividends declared	14	–	–	–	–	–	(72,327)	(72,327)	–	(72,327)
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	–	(48,949)	(48,949)
Balance at 31 December 2011		482	2,189,240	(765,013)	4,557	(258,426)	1,424,516	2,595,356	235,317	2,830,673

17

Consolidated statement of cash flows for the year ended 31 December

(in thousands of US Dollars)

	Notes	Year ended 31 December 2011	2010
Net cash generated from operating activities	31	**765,405**	**445,307**
Investing activities			
Purchases of property, plant and equipment		(343,037)	(350,327)
Payments for deferred stripping costs	19	(18,270)	(9,740)
Proceeds on sales of property, plant and equipment		1,911	643
Interest received		15,359	8,351
Purchases of investments in securities and placement of deposits in banks		(37,596)	(64,996)
Proceeds on sales of investments in securities and redemption of bank deposits		121,270	244,955
Net cash utilised in investing activities		**(260,363)**	**(171,114)**
Financing activities			
Acquisition of subsidiary's shares	2	(588,816)	–
Proceeds from borrowings	27	560,000	–
Repayment of borrowings	27	–	(10,944)
Proceeds from issuance of subsidiary's shares	2	–	21,955
Dividends paid to shareholders of the Company	14	(73,191)	(104,801)
Dividends paid to non-controlling shareholders		(26,225)	(12,226)
Other		(6,726)	(4,967)
Net cash utilised in financing activities		**(134,958)**	**(110,983)**
Net increase in cash and cash equivalents		**370,084**	**163,210**
Cash and cash equivalents at beginning of the year	24	**326,905**	**173,360**
Effect of foreign exchange rate changes on cash and cash equivalents		(39,541)	(9,665)
Cash and cash equivalents at end of the year	24	**657,448**	**326,905**

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

1 General

Polyus Gold International Limited ("PGIL" or the "Company") and its controlled entities is the resultant group of companies arising from the completed reorganisation of Open Joint Stock Company ("OJSC") Polyus Gold ("Polyus Gold"), together with its subsidiaries (the "Polyus Gold Group") and KazakhGold Group Limited ("KazakhGold"), together with its subsidiaries (the "KazakhGold Group") (the "Reorganisation" – see Note 2). The Reorganisation was effected through the acquisition of substantially all of the share capital of Polyus Gold by KazakhGold (previously a subsidiary 65% owned by Polyus Gold), through a series of transactions, including a private exchange offer for ordinary shares and American Depositary Receipts ("ADRs") of Polyus Gold and the exercise of options to acquire shares and ADRs of Polyus Gold held by Polyus Gold's principal shareholders.

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and Sakha Republic of the Russian Federation and in the Republic of Kazakhstan.

The Group also performs research, exploration and development works, primarily at the Natalka license area located in the Magadan region, Nezhdaninskoe license areas located in the Sakha Republic, Kyrgyzstan, Romania and the Republic of Kazakhstan. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 36.

2 Reorganisation

During the year ended 31 December 2011, the Group completed the Reorganisation of the shareholding structure of the Group. The Boards of Directors of both KazakhGold and Polyus Gold approved the Reorganisation in June 2011. The final conditions were satisfied on 25 July 2011. The effect of the reorganisation has been accounted for in these consolidated financial statements.

The Reorganisation comprised several transactions including:

— A conditional option agreement between KazakhGold and entities under the beneficial ownership of the principal shareholders of Polyus Gold, to acquire their holdings of Polyus Gold securities in exchange for shares in KazakhGold. The option agreement was exercised and KazakhGold acquired 139 million shares in Polyus Gold through the issuance of 2.4 billion KazakhGold shares.

— A conditional option agreement between KazakhGold and Jenington International Inc. ("Jenington") (a subsidiary of Polyus Gold, and 65% shareholder of KazakhGold), to acquire Jenington's shareholding of Polyus Gold securities in exchange for shares in KazakhGold. The option agreement was exercised, and KazakhGold acquired 10.7 million shares in Polyus Gold through the issuance of 185 million KazakhGold shares).

— A conditional Private Exchange Offer ("PEO") to eligible Polyus Gold security holders for 16% of the issued Polyus Gold securities of which 11% was accepted.

— The renaming of KazakhGold to Polyus Gold International Limited ("PGIL").

As a result of the transactions comprising the Reorganisation, KazakhGold acquired Polyus Gold ordinary shares and ADRs representing in aggregate 89.14% of Polyus Gold's issued share capital. The result of the transactions is that previous Polyus Gold shareholders held approximately 96% of the issued and outstanding shares of PGIL. After finalisation of the Reorganisation, as presented in note 25, the issued share capital of the Company constitutes 3,032,149,962 ordinary shares at par value of GBP 0.0001 (including 262,448,816 treasury shares).

(in thousands of US Dollars)

2 Reorganisation (continued)

The effect of the Reorganisation on the share capital of Polyus Gold is explained below.

The Company's shareholding structure before the Reorganisation was as follows:

	Number of shares '000	%
Jenington	77,745	65.0
GDR holders	31,263	26.1
Other shareholders	10,600	8.9
	119,608	100.0

Polyus Gold's shareholding structure before the Reorganisation is presented below as having been converted into the Company share capital at a rate of 1 Polyus Gold share for 17.14 Company's shares:

	Number of shares '000	%
Principal shareholders	2,390,109	73.1
ADR holders	522,778	16.0
Other shareholders	169,770	5.2
Treasury shares held by Jenington	184,703	5.7
	3,267,360	100.0

The effect of the Reorganisation on the Company's shareholding structure was as follows:

	Number of shares '000	%
Principal shareholders of Polyus Gold	2,390,109	78.8
Existing Company ADR holders and other shareholders	41,862	1.4
Polyus Gold ADR holders who accepted the PEO	337,730	11.1
Treasury shares held by Jenington	262,449	8.7
	3,032,150	100.0

The effect of the Reorganisation on the Group's consolidated financial statements was as follows:

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Non-controlling interest
Presentation of share capital of legal parent (note 25)	(37)	37	–	–	–
Conversion of Jenington's shareholding in KazakhGold into treasury shares (note 25)	–	220,848	(220,848)	–	–
Classification of call options over KazakhGold shares to treasury shares (note 25)	–	–	(37,475)	–	–
Non-controlling interests in Polyus Gold after Reorganisation	–	–	–	(417,460)	417,460
	(37)	220,885	(258,323)	(417,460)	417,460

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

2 Reorganisation (continued)

Significant transactions post the Reorganisation date

Increase in ownership in Polyus Gold

On 29 July 2011, and following the closing of PEO described above, the Group, through its subsidiary Jenington International Inc., launched an additional Private Exchange Offer ("Jenington PEO") to enable those eligible Polyus Gold security holders who did not participate in PEO to exchange their securities substantially on the same terms.

The Jenington PEO closed on 15 August 2011 resulting in the acquisition of 4,141,089 ADRs (equivalent of 2,070,545 ordinary shares) of Polyus Gold (or 1.09% of the issued Polyus Gold securities) in exchange for 35,489,133 treasury shares of the Company for the total value of US$119,623 thousand. In addition, by the end of August 2011, Jenington purchased 4,854,770 ADRs (equivalent of 2,427,385 ordinary shares) of Polyus Gold (or 1.27% of the issued Polyus Gold securities) for a total consideration of US$142,713 thousand.

As the result of the aforementioned transactions, the aggregated number of issued Polyus Gold securities held by the Company and Jenington International Inc. increased to 91.5% of the total issued capital of Polyus Gold with the corresponding decrease in non-controlling interest of US$86,560 thousand.

Mandatory tender offer

In accordance with the Russian Federal Law "On Open Joint Stock Companies" a company that has acquired over 30 per cent of the total number of the shares of an open joint stock company is obliged within 35 days from taking legal ownership of the shares as determined under Russian legislation, to send to the shareholders possessing the remaining shares a public offer to acquire their shares ("Mandatory Tender Offer"). The company is required to establish the price of the shares to be acquired which may not be less than the weighted average market price for the nine months prior to sending the Mandatory Tender Offer ("MTO") to the Federal Service for Financial Markets.

On 30 August 2011 a MTO for the acquisition of the non-controlling interests in Polyus Gold was made at the price of RUB 1,900.27 or US$65.85 (at 30 August 2011 exchange rate) per share. The price established exceeded the average weighted price per share of Polyus Gold as determined by reference to all publicly traded securities of Polyus Gold over a period of at least nine months preceding the date of submission of this MTO to Federal Service for Financial Markets.

On 16 December 2011 Polyus Gold International Limited completed the acquisition of the ordinary registered shares of OJSC Polyus Gold. In the MTO the Company acquired 7,263,644 shares for US$446,103 thousand, constituting approximately 3.81% of the issued and outstanding shares of OJSC Polyus Gold. After the completion of the MTO, Polyus Gold International Limited became the holder of 177,190,246 shares, representing approximately 92.95% of the issued and outstanding shares of OJSC Polyus Gold. This resulted in a decrease in non-controlling interest by US$136,920 thousand.

Increase of ownership in KazakhGold in 2010

On 1 July 2010, KazakhGold issued 66,666,667 new ordinary shares at a placement price of US$1.50 per share for a total consideration of US$98,747 thousand, net of expenses. Polyus Gold, through its subsidiary Jenington International Inc., purchased 51,194,922 of the shares, thus increasing Polyus Gold's ownership in KazakhGold to 65% of its issued share capital. As a result of this transaction, the Group recognised a decrease in non-controlling interest of US$11,068 thousand.

3 Basis of preparation and presentation

Going concern

In assessing its going concern status, the Directors have taken account of the Group's financial position, expected future trading performance, its borrowings and available credit facilities, anticipated additional borrowing facilities under negotiation and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of these consolidated financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

Compliance with the International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies set out below have been applied in preparing the consolidated financial statements for the years ended 31 December 2011 and 2010.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

3 Basis of preparation and presentation (continued)

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdiction in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial information has 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.

As described in note 2, the Group completed during the year the Reorganisation of the shareholding structure of the Group. These consolidated financial statements are issued under the name of Polyus Gold International Limited being the new parent entity following the Reorganisation but represent a continuation of the consolidated financial statements of the Polyus Gold Group except for its capital structure. Accordingly:

a) the assets and liabilities of Polyus Gold and KazakhGold are recognised and measured at their pre-Reorganisation carrying amounts as the transactions are between parties under common control;
b) the consolidated retained earnings and other equity balances are the retained earnings and other equity balances of the Polyus Gold Group immediately before the Reorganisation;
c) the share capital structure reflects the capital structure of Polyus Gold International Limited, which has been presented retroactively; and
d) the comparative statements presented in these consolidated financial statements are that of the Polyus Gold Group.

Standards and Interpretations in issue not yet adopted

At the date of approval of the consolidated financial statements, the following new or amended IFRS standards have been issued by the IASB in the year ended 31 December 2011, but are not mandatory for the current reporting period and therefore have not been applied:

	Effective for annual periods beginning on or after
IFRS 7 "Financial Instruments: Disclosures" – amendment	1 January 2013
IFRS 9 "Financial Instruments – Classification and Measurement"	1 January 2013
IFRS 10 "Consolidated financial statements"	1 January 2013
IFRS 11 "Joint arrangements"	1 January 2013
IFRS 12 "Disclosure of interests in other entities"	1 January 2013
IFRS 13 "Fair value measurement"	1 January 2013
IAS 1 "Presentation of financial statements" – amendment	1 July 2012
IAS 12 "Income taxes" – amendment	1 January 2012
IAS 19 "Employee benefits" – amendment	1 January 2013
IAS 27 "Separate financial statements" – amendment	1 January 2013
IAS 28 "Investments in associates and joint ventures" - amendment	1 January 2013
IAS 32 "Financial instruments: Presentation" - amendment	1 January 2014
IAS 34 "Interim Financial Reporting" – amendment	1 January 2013
IFRIC 20 "Stripping costs in the Production Phase of a Surface mine"	1 January 2013

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

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies

Basis of consolidation

Subsidiaries

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

Non-controlling interest in consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may initially be measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of the non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in net assets since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

Business combinations

Except for common control transactions, acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i. e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the consolidated income statement, where such treatment would be appropriate if that interest were disposed of.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Business combinations (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

— deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
— liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment;* and
— assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period may not exceed one year from the effective date of the acquisition.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group, except for the following subsidiaries operating with significant degrees of autonomy:

Subsidiary	Functional currency
Jenington International Inc.	US Dollar
Polyus Exploration Limited	US Dollar
Polyus Investments Limited	US Dollar
JSC "MMC Kazakhaltyn" and its subsidiaries	Kazakh Tenge

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Presentation currency

The Group has chosen to present its consolidated financial statements in the US Dollar ("US$"), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets, liabilities, both monetary and non-monetary are translated at closing exchange rates at each reporting date;
- all income and expenses are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve; and
- in the statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction.

Exchange rates used in the preparation of the consolidated financial statements are below.

Foreign currencies

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are included within mining assets or exploration and evaluation assets.

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, processing plant, mineral rights and mining and exploration licenses and the present value of future decommissioning costs.

Mining assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of mines of 7 to 21 years per mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Olimpiada	13 years
Blagodatnoe	10-21 years
Kuranakh	16 years

	2011	2010
Russian Rouble/US Dollar		
Year end rate	32.20	30.47
Average for the year	29.39	30.36
Kazakh Tenge/US Dollar		
Year end rate	148.40	147.40
Average for the year	146.62	147.35

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Property, plant and equipment (continued)

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:

Building, structures, plant and equipment	5-50 years
Transport	3-11 years
Other assets	3-10 years

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when they are in the condition necessary for them to be capable of operating in the manner intended by management.

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 or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

— acquisition of rights to explore potentially mineralised areas;
— topographical, geological, geochemical and geophysical studies;
— exploratory drilling;
— trenching;
— sampling; and
— activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditures are capitalised when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold resources. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine, capitalised exploration and evaluation assets are reclassified to mining assets.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Exploration and evaluation assets (continued)

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

- the term of exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

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

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 tonne of ore mined based on a mine operating plan which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The average life-of-mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life-of-mine ratio are accounted for prospectively as changes in accounting estimates.

The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Certain of the Group's surface (alluvial) mining operations are located in regions with extreme weather conditions, and gold at these locations can only be mined during certain months of the year. Costs incurred in preparation for future seasons, usually during winter months, are deferred until the following year when the specific mine is in operation when it is expensed. Such expenditures mainly include excavation costs and mine specific administration costs, and are recognised in the consolidated statement of financial position within deferred expenditures.

Inventories

Refined gold and gold-in-process

Inventories including refined metals, metals in concentrate and in process, ore stockpiles and doré are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average cost of production per saleable unit of metal. Work-in-process, metal concentrate and doré are valued at the average production costs at the relevant stage of production. Ore stockpiles are valued at the average cost per tonne of mining ore. Net realisable value represents the estimated selling price for product based on prevailing spot metal prices, less estimated costs to complete production and costs necessary to make the sale.

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost and net realisable value. Costs of stores and materials are determined on a weighted average cost basis.

Net realisable value represents the estimated selling price for stores and materials less all costs necessary to make the sale.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Financial assets

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

The Group's financial assets are classified into the following categories:
- financial assets at fair value through profit or loss ("FVTPL");
- held-to-maturity investments;
- available-for-sale ("AFS") financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the (Loss)/income from investments line item in the consolidated income statement. Fair value is determined in the manner described in note 34.

Held-to-maturity investments

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

AFS financial assets

AFS financial assets mainly include investments in listed and unlisted shares.

Listed shares held by the Group that are traded in an active market are stated at fair value. Fair value of AFS is determined as follows:
- the fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

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

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

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Financial assets at FVTPL (continued)

AFS financial assets (continued)

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

Loans and receivables

Loans and receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

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

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Derecognition of financial liabilities

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

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Financial liabilities (continued)

Finance costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other finance costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Site restoration and environmental obligations

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

Ongoing restoration costs are expensed when incurred.

Employee benefit obligations

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

Defined contribution plan

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

Defined benefit plans

In 2009, the Group introduced defined benefits plans, which are unfunded. The cost of providing benefits under these defined benefit plans is determined separately for each plan using the projected unit credit method. The past service costs are recognised as an expense on straight-line basis over the average period until the benefits become vested. The past service costs at the introduction of the plans are being deferred and amortised on a straight-line basis over the expected average remaining working lives of the employees participating in the plans.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Income tax (continued)

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items that are recognised outside the consolidated income statement, in which case the tax is also recognised outside consolidated income statement, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue from gold doré sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale to the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other. Revenue from the sales of electricity is recognised when a contract exists, delivery has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Revenue from service contracts are recognised when the services are rendered.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

4 Significant accounting policies (continued)

Operating leases

The lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Dividends

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

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

5 Critical accounting judgments and key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Critical judgments in applying accounting policies

Management considers the determination if exploration and evaluation assets will be recouped by future exploitation or sale, identification and valuation of tangible and intangible assets and liabilities, assessment of the outcome of contingencies and the interpretation of tax legislation as critical judgments made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements. All of these critical judgments require estimation of amounts recorded in the consolidated financial statements as described below.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:
- exploration and evaluation assets;
- contingencies;
- economic useful lives of property, plant and equipment;
- deferred stripping costs;
- impairment of tangible assets;
- site restoration and environmental obligations; and
- income taxes.

Exploration and evaluation assets

Management's judgment is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. 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 resources under the definition of internationally recognised mineral resource reporting methodologies. A number of licensed properties have no mineral resource delineation. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

Economic useful lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over the life-of-mine based on a mine operating plan, which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. When determining life-of-mine, assumptions that were valid at the time of estimation may change when new information becomes available.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

5 Critical accounting judgments and key sources of estimation uncertainty (continued)

Economic useful lives of property, plant and equipment (continued)

The factors that could affect estimation of life-of-mine include the following:

- change of estimates of proven and probable ore reserves;
- the grade of ore 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, 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 economic useful lives. Management periodically reviews the appropriateness of the assets' economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Deferred stripping costs

The Group defers stripping costs incurred during the production stage of its open-pit operations, on the basis of the average life-of-mine stripping ratio.

The factors that could affect capitalisation and expensing of stripping costs include the following:

- change of estimates of proven and probable ore reserves;
- changes in mining plans in the light of additional knowledge and change in mine's pit design, technical or economic parameters; and
- changes in estimated ratio of the number of cubic meters of waste material removed per tonne of ore mined.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Site restoration and environmental obligations

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

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the Group's provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

6 Segment information

For management purposes, the Group is organised in separate business segments defined by a combination of operating activities and geographical area. Separate financial information is available for each segment and reported regularly to the chief operating decision maker ("CODM") and the Executive Committee. The Group's seven identified reportable segments are located and described as follows:

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

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

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

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

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

6 Segment information (continued)

	Gold sales	Segment profit/(loss)	Capital expenditures	Depreciation and amortisation
31 December 2011				
Krasnoyarsk business unit	1,641,380	918,078	236,780	104,821
Irkutsk alluvial business unit	350,213	102,795	22,808	6,550
Yakutsk Kuranakh business unit	184,735	13,797	12,569	8,298
Irkutsk ore business unit	3,497	(13,042)	111,751	7,307
Exploration business unit	–	(14,107)	11,213	973
Kazakhstan business unit	160,825	5,773	38,583	14,939
Magadan business unit	–	(16,313)	22,026	3,784
Segment result	**2,340,650**	**996,981**	**455,730**	**146,672**
31 December 2010				
Krasnoyarsk business unit	1,176,392	398,359	194,708	61,651
Irkutsk alluvial business unit	248,254	90,283	17,222	6,246
Yakutsk Kuranakh business unit	149,597	38,923	15,801	5,561
Irkutsk ore business unit	22,607	(4,191)	33,577	6,815
Exploration business unit	–	(11,855)	21,591	937
Kazakhstan business unit	114,448	(55,943)	36,014	9,437
Magadan business unit	–	(8,760)	16,420	3,127
Segment result	**1,711,298**	**446,816**	**335,333**	**93,774**

Gold sales reported above represent revenue generated from external customers.
There were no inter-segment gold sales during the years ended 31 December 2011 and 2010.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

6 Segment information (continued)

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

	Year ended 31 December 2011	2010
Segment result	**996,981**	**446,816**
Differences between IFRS and management accounts:		
Capitalised exploration works	(206)	26,801
Provisions and accruals	(49,109)	(26,196)
Additional depreciation charge and amortisation of mineral rights	(41,277)	(33,081)
Calculation of gold-in-process at net production cost	(31,918)	4,511
Difference in stripping costs capitalisation	20,711	(10,909)
Other	(3,219)	7,667
Adjusted segment result	891,963	415,609
Unallocated central costs, results of financing and investing activities and differences in accounting treatment under IFRS	(126,896)	65,728
Profit before income tax	**765,067**	**481,337**
Segment capital expenditures	**455,730**	**335,333**
Differences between IFRS and management accounts:		
Differences at the moment of recognition of capital expenditures	(85,268)	4,574
Reclassification of advances paid for property, plant and equipment and construction works	20,148	15,879
Reclassification of materials related to construction works	(9,322)	3,564
Differences in capitalised exploration and evaluation costs	(12,635)	30,802
Other	(1,821)	(8,739)
Adjusted segment capital expenditure	366,832	381,413
Unallocated central capital expenditures	1,307	–
Capital expenditures	**368,139**	**381,413**
Segment depreciation and amortisation	**146,672**	**93,774**
Additional depreciation charge	27,878	20,115
Amortisation of mineral rights	13,399	12,966
Depreciation and amortisation	**187,949**	**126,855**

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

6 Segment information (continued)

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

	31 December 2011	31 December 2010
Russian Federation	2,371,841	2,417,329
Republic of Kazakhstan	308,358	294,864
Kyrgyzstan	31,084	35,881
Romania	17,170	16,682
United Kingdom	94	109
Total	2,728,547	2,764,865

The impairment losses under IFRS in relation to Exploration and evaluation assets attributable to each reportable segment are presented as follows:

	31 December 2011	31 December 2010
Exploration business unit	43,596	–
Kazakhstan business unit	1,707	–
Krasnoyarsk business unit	5,054	10,369
Irkutsk ore business unit	4,351	–
Irkutsk alluvial business unit	–	3,215
	54,708	13,584

The impairment losses under IFRS in relation to Property, plant and equipment attributable to each reportable segment are presented as follows:

	31 December 2011	31 December 2010
Kazakhstan business unit	11,417	26,544
Krasnoyarsk business unit	4,891	–
Irkutsk ore business unit	7,193	–
Irkutsk alluvial business unit	–	635
	23,501	27,179

7 Gold sales

	Year ended 31 December 2011	Year ended 31 December 2010
Refined gold	2,179,825	1,596,850
Other gold-bearing products	160,825	114,448
Total	2,340,650	1,711,298

(in thousands of US Dollars)

8 Cost of gold sales

	Year ended 31 December 2011	2010
Fuel, consumables and spares	410,243	365,504
Labour	288,866	237,602
Tax on mining	179,116	130,230
Utilities	55,140	46,043
Outsourced mining services	22,147	8,897
Refining costs	5,067	2,059
Other	75,696	56,866
Total	*1,036,275*	*847,201*
Amortisation and depreciation of operating assets (note 16)	181,935	118,559
(Capitalisation)/amortisation of deferred stripping costs, net	(7,335)	44,412
Increase in gold-in-process and refined gold inventories	(48,856)	(114,617)
Total	**1,162,019**	**895,555**

9 Selling, general and administrative expenses

	Year ended 31 December 2011	2010
Salaries	116,295	103,811
Professional services	36,350	28,274
Taxes other than mining and income taxes	42,630	27,528
Amortisation and depreciation (note 16)	4,830	4,217
Other	25,513	30,719
Total	**225,618**	**194,549**

10 Other expenses, net

	Year ended 31 December 2011	2010
Penalties on tax on mining	8,040	–
Change in allowance for reimbursable value added tax	6,602	(294)
Loss on disposal of property, plant and equipment	5,933	2,037
Donations	5,468	3,367
Non-recoverable VAT	190	8,600
Other	(2,156)	7,039
Tax provision	–	14,352
Total	**24,077**	**35,101**

(in thousands of US Dollars)

11 Finance costs

	Year ended 31 December 2011	2010
Interest on borrowings	31,241	32,308
Debt modification expense (note 27 (i))	26,928	–
Unwinding of discounts	11,999	8,808
Other	1,235	1,601
Total	71,403	42,717

12 Income/(loss) from investments, net

	Year ended 31 December 2011	2010
(Loss)/income from financial assets at fair value through profit and loss		
Loss on derivatives classified as held for trading	(8,661)	(63,775)
(Loss)/income from investments in listed companies held for trading	(20,984)	11,446
Income from AFS investments		
Gain on disposal of AFS investments	17,023	20,289
Interest income on bank deposits	16,252	8,329
Total	3,630	(23,711)

13 Income tax

	Year ended 31 December 2011	2010
Current tax expense	200,297	123,492
Deferred tax expense	6,755	1,348
Total	207,052	124,840

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

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

13 Income tax (continued)

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

	Year ended 31 December 2011	2010
Profit before income tax	765,067	481,337
Income tax at statutory rate applicable to principal operating entities (20%)	153,013	96,267
Tax effect of non-deductible expenses and other permanent differences	25,463	9,868
Effect of different tax rates of subsidiaries operating in other jurisdictions	14,483	8,870
Tax effect of utilisation of tax losses not previously recognised	(4,990)	(8,446)
Unrecognised tax losses	11,109	10,994
Other	7,974	7,287
Income tax expense at effective rate of 27% (2010: 26%)	207,052	124,840

14 Dividends

	Year ended 31 December 2011	2010
Dividend declared during the year	72,327	104,343

Dividend per share (US cents per share after giving effect to Reorganisation)

	31 December 2011	2010
Dividend declared during the year	0.02	0.04

On 20 May 2011, Polyus Gold declared a dividend of RUB 11.25 or US$0.40 (at 20 May 2011 exchange rate) per Polyus Gold share relating to the second half of the 2010 year. This represents a dividend of RUB 0.71 or US$0.02 per PGIL share, after giving effect to the Reorganisation.

15 Earnings per share

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

	Units	Year ended 31 December 2011	2010
Earnings for the purpose of basic and diluted earnings per share being the net profit attributable to equity holders of the parent	$'000s	468,998	332,169
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	'000s	2,960,311	3,082,656
Earnings per ordinary share basic and diluted	$ cents	16	11

There were no financial instruments or any other instances which could cause antidilutive effect on earnings per share calculation.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

16 Property, plant and equipment

	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost				
Balance at 31 December 2009	1,877,457	61,258	457,286	2,396,001
Additions	225,997	7,776	95,496	329,269
Transfers from capital construction-in-progress	233,648	2,308	(235,956)	–
Transfers from exploration and evaluation assets (note 17)	4,372	–	–	4,372
Change in decommissioning liabilities (note 26)	37,885	–	–	37,885
Disposals	(7,821)	(466)	(500)	(8,787)
Effect of translation to presentation currency	(15,165)	(563)	(4,068)	(19,796)
Balance at 31 December 2010	2,356,373	70,313	312,258	2,738,944
Additions	160,674	14,386	161,385	336,445
Transfers from capital construction-in-progress	90,693	(26,523)	(64,170)	–
Transfers from exploration and evaluation assets (note 17)	264	–	–	264
Change in decommissioning liabilities (note 26)	7,833	–	–	7,833
Disposals	(25,698)	(468)	(460)	(26,626)
Effect of translation to presentation currency	(130,593)	(2,519)	(21,249)	(154,361)
Balance at 31 December 2011	2,459,546	55,189	387,764	2,902,499
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2009	(481,636)	(24,442)	(9,407)	(515,485)
Charge for the year	(142,729)	(5,600)	–	(148,329)
Disposals	5,760	289	–	6,049
Impairment	(19,835)	–	(7,344)	(27,179)
Effect of translation to presentation currency	4,399	162	75	4,636
Balance at 31 December 2010	(634,041)	(29,591)	(16,676)	(680,308)
Charge for the year	(201,023)	(4,716)	–	(205,739)
Transfers	(10,335)	10,335	–	–
Disposals	18,172	610	–	18,782
Impairment	(23,497)	(4)	–	(23,501)
Effect of translation to presentation currency	43,107	997	580	44,684
Balance at 31 December 2011	(807,617)	(22,369)	(16,096)	(846,082)
Net book value				
31 December 2010	1,722,332	40,722	295,582	2,058,636
31 December 2011	1,651,929	32,820	371,668	2,056,417

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

16 Property, plant and equipment (continued)

During the year ended 31 December 2011 impairment of mining assets in the amount of US$12,080 thousand was recognised at Sukhoy Log and Kvartsevaya Gora. The impairment relates to the decision to abandon activities related to the deposits.

In 2011 the Kazakhstan business unit of the Group has reassessed property, plant and equipment requirements and plans for their future use. As the result, certain assets's net book value and expected economic useful life exceeded the anticipated recoverable value and accordingly an impairment was recorded in the amount of US$11,417 thousand.

The carrying values of mineral rights included in mining assets at 31 December 2011 were as follows:

	Year ended 31 December 2011	2010
Mineral rights	335,470	368,303

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December 2011	2010
Cost of gold sales (note 8)	181,935	118,559
Selling, general and administrative expenses (note 9) and cost of other sales	6,014	8,296
Capitalised within property, plant and equipment	17,790	21,474
Total	205,739	148,329

The carrying values of property, plant and equipment pledged to a bank guarantee liability were as follows:

	Year ended 31 December 2011	2010
Pledged property, plant and equipment	4,613	3,620

17 Exploration and evaluation assets

	Year ended 31 December 2011	2010
Balance at beginning of the year	442,316	410,032
Additions	31,694	52,144
Transfers to mining assets (note 16)	(264)	(4,372)
Impairment	(54,708)	(13,584)
Effect of translation to presentation currency	(19,192)	(1,904)
Balance at end of the year	399,846	442,316

During the year ended 31 December 2011 the Group impaired US$54,708 thousand of exploration and evaluation assets, because those assets (Kuchyus, Kuzeevskaya, Chai-Yurinskaya, Doroninskoye, Tokichan, Zapadnoe, Mukodek, Kaskabulak, Illigirskaya fields) did not demonstrate any future commercial viability.

(in thousands of US Dollars)

18 Deferred stripping costs

	Year ended 31 December 2011	2010
Balance at beginning of the year	61,023	106,088
Deferred stripping costs capitalised	18,270	9,740
Expensed stripping cost	(10,935)	(54,152)
Effect of translation to presentation currency	(3,898)	(653)
Balance at end of the year	64,460	61,023

19 Deferred expenditures

	Year ended 31 December 2011	2010
Deferred expenditures	18,512	18,282

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

20 Investments in securities and other financial assets

	Year ended 31 December 2011	2010
Non-current		
Derivative financial assets	–	46,136
Loans receivable	3,643	3,825
Other	–	312
Total	3,643	50,273
Current		
AFS equity investments	34,744	99,721
Bank deposits	12,175	39,351
Equity investments in listed companies held for trading	14,857	36,730
Other	1,692	1,530
Total	63,468	177,332

(in thousands of US Dollars)

20 Investments in securities and other financial assets (continued)

Financial assets at FVTPL

Equity investments in listed companies held for trading are treated as financial assets at FVTPL. In connection with the acquisition of KazakhGold in 2009, the Group obtained call options (derivative financial assets) to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (note 27 (ii)). The fair value of call options and changes to it are presented as follows:

	Year ended 31 December 2011	2010
Balance at beginning of the year	**46,136**	**109,911**
Loss from change in fair value of call options	(8,661)	(63,775)
Reclassified call options to treasury shares, at fair value (note 2)	(37,475)	–
Balance at end of the year	**–**	**46,136**

As the result of Reorganisation described in note 2, the call options were recognised as treasury shares at an amount equal to the fair value of those call options at 30 June 2011.

AFS investments, carried at fair value

At 31 December 2011 and 2010, AFS investments primarily comprised of shares owned in Rosfund, SPC (Cayman Islands) acquired in July 2006.

Rosfund, SPC invests in securities and other financial assets. At 31 December 2011 and 2010 Rosfund, SPC included equity investments in listed companies, bonds and depositary receipts.

The changes in fair value of AFS investments recognised in equity within investment revaluation reserve were as follows:

	Year ended 31 December 2011	2010
(Loss)/gain from change in fair value of available-for-sale investments	(8,976)	33,340

During the year ended 31 December 2011, the Group sold 56 % of the shares owned on 1 January 2011 in Rosfund, SPC for US$56,000 thousand. As a result of this transaction, the Group recognised a gain in the amount of US$17,023 thousand in the consolidated income statement which was reclassified from the cumulative gain previously accumulated in the investment revaluation reserve.

In 2010, the Group sold 63% of the shares owned on 1 January 2010 in Rosfund, SPC for US$137,000 thousand. As a result of this transaction, the Group recognised a gain in the amount of US$20,289 thousand in the consolidated income statement which was reclassified from the cumulative gain previously accumulated in the investment revaluation reserve.

Loans receivable carried at amortised cost

Bank deposits at 2.14 – 8.05% (2010: 3.45-6.5%) per annum are denominated in RUB and mature until June 2012.

(in thousands of US Dollars)

21 Inventories

	31 December 2011	2010
Inventories expected to be recovered after twelve months		
Stockpiles	207,789	201,030
Total	**207,789**	**201,030**
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	163,758	145,332
Refined gold at net production cost	24,757	19,523
Total metal inventories	**188,515**	**164,855**
Stores and materials at cost	354,508	290,289
Total	**543,023**	**455,144**

During the year ended 31 December 2011, the Group impaired stockpiles located at Zapadnoe in the amount of US$25,209 thousand. The impairment relates to the decision to abandon activities related to the deposit.

The Group has 5.6 million tonnes of stockpiles (2010: 6.8 million tonnes) which are carried at zero value, as previously these stockpiles were considered as waste materials.

22 Trade and other receivables

	31 December 2011	2010
Other receivables	24,984	23,478
Less: Allowance for doubtful debts	(5,141)	(5,948)
	19,843	17,530
Trade receivables for gold sales	4,869	3,714
Total	**24,712**	**21,244**

Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services. For the year to 31 December 2011 the average credit period for other receivables was 57 days (2010: 62 days). No interest is charged on other receivables.

(in thousands of US Dollars)

22 Trade and other receivables (continued)

The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licenses and certifications. At 31 December 2011, the Group's largest customers individually exceeding 5% of the total balance represented 15% (31 December 2010: 40%) of the outstanding balance of accounts receivable.

Movement in the allowance for doubtful debts:

	Year ended 31 December 2011	2010
Balance at beginning of the year	**5,948**	**3,772**
Recognised in the consolidated statement of income	2,006	3,240
Amounts recovered during the year	(2,552)	(744)
Effect of translation to presentation currency	(261)	(320)
Balance at end of the year	**5,141**	**5,948**

The Group generally fully provides for all receivables over 365 days because experience has shown that receivables past due beyond 365 days are not recoverable. The Group does not hold any collateral over these amounts. The average age of past due but not impaired receivables was 124 days (31 December 2010: 232 days).

Ageing of past due but not impaired other receivables:

	31 December 2011	2010
Less than 90 days	1,170	2,955
91-180 days	2,816	466
181-365 days	395	2,472
More than 365 days	–	3,772
Total	**4,381**	**9,665**

Substantially all gold sales are made to banks with immediate payment terms. The average credit period on gold-bearing product sales to customers, other than banks, was 7 days for the year ended 31 December 2011, (2010: 3 to 8 days). No interest is charged on trade receivables.

23 Taxes receivable

	31 December 2011	2010
Reimbursable value added tax	129,493	154,422
Income tax prepaid	17,821	9,347
Other prepaid taxes	2,708	3,392
Total	**150,022**	**167,161**

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

24 Cash and cash equivalents

		31 December 2011	2010
Bank deposits	– RUB	487,467	69,847
Current bank accounts	– RUB	146,761	182,532
	– foreign currencies	21,992	67,204
Other cash and cash equivalents		1,228	7,322
Total		**657,448**	**326,905**

Bank deposits are denominated in RUB and bear interest of 4.65-8.05% per annum with original maturity within three months.

25 Share capital

Issued and fully paid up ordinary shares

	Number of ordinary shares '000	Share capital
Issued and fully paid 190,627,747 ordinary shares of Polyus Gold presented as being converted into PGIL shares at a ratio of 17.14	3,267,360	519
Effect of Reorganisation	(235,210)	(37)
Issued and fully paid up ordinary shares of PGIL at 31 December 2011	**3,032,150**	**482**

The share capital of Polyus Gold is presented in these consolidated financial statements as having been converted into PGIL share capital at a 17.14 conversion rate at 31 December 2010.

The effect of Reorganisation on the issued and fully paid ordinary shares of PGIL is presented as follows:

	Number of ordinary shares '000
Issued and fully paid up ordinary shares of PGIL before the Reorganisation	119,608
Decrease in the issued and fully paid up ordinary shares of Polyus Gold as a result of security holders that declined the PEO	(354,818)
Effect of Reorganisation	**(235,210)**

At 31 December 2011 the authorised share capital of the Company comprised 3,600,000,000 ordinary shares with a par value of GBP 0.0001 per share.

Treasury shares

As a result of the Reorganisation, shares in KazakhGold held by Jenington, a subsidiary of the Group, became treasury shares of the reorganised Group. In addition, call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder, became treasury shares of the reorganised Group. The cost of these shares equals the fair value of the options at 30 June 2011.

All treasury shares are held by a subsidiary of the Group, and have been recorded at cost and presented as a separate component in equity.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

26 Site restoration and environmental obligations

	31 December 2011	31 December 2010
Balance at beginning of the year	136,410	90,518
Change in estimate (note 16)	7,833	37,885
Unwinding of discount on decommissioning obligations (note 11)	11,999	8,808
Effect of translation to presentation currency	(6,366)	(661)
Payment of decommissioning obligations	–	(140)
Balance at end of the year	149,876	136,410

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

	31 December 2011	31 December 2010
Discount rates	6.83-9.28%	6.97-10.0%
Inflation rates	3.3%-7.4%	3.3-8.8%
Expected mine closure dates	2011-2050	2012-2050

The present value of cost to be incurred for settlement of the site restoration and environmental obligations is as follows:

	31 December 2011	31 December 2010
Due from second to fifth year	7,322	3,699
Due from sixth to tenth year	49,012	65,427
Due from eleventh to fifteenth year	27,534	14,432
Due from sixteenth to twentieth year	7,719	26,646
Due thereafter	58,289	26,206
Total	149,876	136,410

(in thousands of US Dollars)

27 Borrowings

		31 December 2011 Rate %	31 December 2011 Outstanding balance	31 December 2010 Rate %	31 December 2010 Outstanding balance
Guaranteed senior notes	(i)	9.875%	204,520	9.37%	173,762
Loans payable to Gold Lion Holding Limited	(ii)	10.00%	34,160	10.00%	29,686
Societe Generale credit facility	(iii)	1 months US$LIBOR + 1.95%	230,000	–	–
VTB credit facility	(iv)	3 months US$LIBOR + 2.25%	230,000	–	–
Societe Generale credit facility (OJSC "Pervenets")	(v)	3 months US$LIBOR + 2.4%	100,000	–	–
Total			798,680		203,448
Less: current portion due within twelve months			675,632		173,762
Long-term borrowings			123,048		29,686

Summary of borrowing agreements

(i) Guaranteed senior notes

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

In November 2011 nominal interest rate was increased by 0.5% to 9.875%.

According to the guaranteed senior notes initial terms, redemption was possible at the choice of the issuer on or after 6 November 2011 at a price of 102.344% of the nominal value. In December 2011 the Board of Directors of the Company decided that the guaranteed senior notes should be redeemed when refinancing facilities were available. Prior to 31 December 2011, the Group arranged a US$100 million credit facility with Unicredit Bank (see (vi) below) and on 10 February 2012 a further US$100 million credit facility was arranged with HSBC (note 35). Management considered that early redemption of the guaranteed senior notes was probable at 31 December 2011. An expense of US$26,928 thousand (note 11) was recognised in the consolidated income statement as the underlying future cash flows had significantly changed.

The effective interest rate is 9.875% as of 31 December 2011 (16% as of 31 December 2010).

(ii) Loans payable

On 11 June 2009, PGIL (formerly KazakhGold) signed two loan agreements with Gold Lion Holdings Limited, an entity that was, at that time, a related party. The loan agreements have a 10% interest rate per annum. Principal amounts of US$21,650 thousand and US$9,375 thousand together with accrued interest are payable on 6 November 2014 and wholly or in part are convertible into PGIL's (formerly KazakhGold) ordinary shares at a rate of US$1.50 per one share. Conversion is subject to several restrictions, including Republic of Kazakhstan regulatory approval and approval from the Company. In September 2009, Gold Lion Holdings Limited granted a call option to Jenington, or any other direct or indirect subsidiary of Polyus Gold, to acquire all the rights and interests under these loan agreements, including the conversion right.

The effective interest rate on these loans was 16%.

(iii) Societe Generale credit facility

On 6 September 2011, PGIL entered into a US$500,000 thousand bridge facility agreement with Societe Generale as a lender for a dollar term loan facility to fund consideration payable under the MTO. Under the original terms of the facility agreement the repayment of the facility was to be made on 28 March 2012, refer to Note 35.

As of 31 December 2011 US$230,000 thousand had been drawn down. The remainder of the bank's commitment under the facility was voluntary cancelled by the Company.

(in thousands of US Dollars)

27 Borrowings (continued)

(iv) VTB credit facility

On 2 September 2011, PGIL entered into a US$300 million bridge facility agreement with VTB Bank as a lender for a dollar term loan facility to fund consideration payable under the MTO. Under the original terms of the facility agreement the repayment of the facility was to be made on 15 March 2012, refer to Note 35.

As of 31 December 2011 US$230,000 thousand had been drawn down.

(v) Societe Generale credit facility to OJSC "Pervenets"

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a US$100 million term loan facility agreement with Societe Generale as a lender for a dollar term loan facility to fund general corporate purposes.

As of 31 December 2011 US$100,000 thousand had been drawn down. The facility is to be repaid in nine equal installments in intervals of three months starting from 4 October 2012.

(vi) Unused credit facilities

On 21 October 2011, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, entered into a US$67,502 thousand export financing credit facility agreement with Societe Generale as a lender for making available the extension of financing to be used for the purchase of goods and services and related exposure fees. The establishment of the facility is for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. As of 31 December 2011 the facility was not used.

On 29 December 2011, PGIL entered into a US$100 million facility agreement arranged by ZAO Unicredit Bank. Interest rate was set at LIBOR + 2.95% to fund general corporate purposes and/or repayment of outstanding indebtedness under guaranteed senior notes. As of 31 December 2011 the facility was not used.

VTB and Societe Generale credit facilities contain certain financial covenants. The Group believes that it was in compliance with these covenants as of 31 December 2011.

28 Deferred tax

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

	Year ended 31 December 2011	2010
Net liability at beginning of the year	182,948	182,660
Recognised in the consolidated income statement	6,755	1,348
Effect of translation to presentation currency	(8,962)	(1,060)
Net liability at end of the year	180,741	182,948

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

28 Deferred tax (continued)

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 temporary differences that give rise to deferred taxation are presented below:

	31 December	
	2011	2010
Property, plant and equipment	162,704	160,851
Inventory	54,383	51,482
Deferred stripping costs	11,897	11,153
Investments	1,370	1,642
Receivables	(1,596)	(871)
Accrued operating expenses	(48,017)	(41,309)
Total	180,741	182,948

The unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit of certain subsidiaries within the Group is presented as follows:

	31 December	
	2011	2010
Unrecognised deferred tax asset	40,019	28,910

Such tax losses expire in periods up to ten years, and are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries is presented as follows:

	31 December	
	2011	2010
Unrecognised deferred tax liability	61,839	31,207

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

29 Trade, other payables and accrued expenses

	31 December 2011	31 December 2010
Trade payables to third parties	30,980	38,715
Other payables, including:		
Dividends payable	39,004	2,925
Wages and salaries payable	61,977	51,317
Mining tax provision	–	14,302
Bank guarantee liability - current	37	5,996
Interest payable	3,718	2,877
Other accounts payable and accrued expenses	24,973	21,079
Total other payables	**129,709**	**98,496**
Accrued annual leave	31,388	31,826
Total	**192,077**	**169,037**

The average credit period for payables at 31 December 2011 was 14 days, (2010: 11 days). No interest was 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.

30 Taxes payable

	31 December 2011	31 December 2010
Income tax payable	2,721	22,698
Value added tax	6,262	4,188
Social taxes	12,958	7,839
Tax on mining	13,260	10,665
Property tax	4,703	4,778
Other taxes	3,052	1,966
Total	**42,956**	**52,134**

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

31 Notes to the consolidated statement of cash flows

	Note	Year ended 31 December 2011	2010
Profit before income tax		765,067	481,337
Adjustments for:			
Amortisation and depreciation	16	187,949	126,855
Finance costs	11	71,403	42,717
Expensed stripping cost	18	10,935	54,152
Impairment of inventories	21	25,209	–
Impairment of exploration and evaluation assets	17	54,708	13,584
Impairment of property, plant and equipment	16	23,501	27,179
Loss on disposal of property, plant and equipment	10	5,933	2,037
Change in allowance for reimbursable value added and tax provision	10	6,602	14,058
Income/(loss) from investments	12	(3,630)	23,711
Change in allowance for doubtful debts	22	(546)	2,496
Foreign exchange gain, net		5,814	(765)
Other		3,971	4,385
		1,156,916	791,746
Movements in working capital			
Inventories	21	(168,688)	(206,079)
Trade and other receivables	22	(5,811)	(7,595)
Advances paid to suppliers and prepaid expenses		(354)	(718)
Taxes receivable		8,029	(46,315)
Deferred expenditures		(230)	(1,364)
Trade and other payables and accrued expenses		29,813	24,412
Other non-current liabilities		4,026	15,208
Other taxes payable		(4,130)	(12,437)
Cash flows from operations		1,019,571	556,858
Interest paid		(23,423)	(23,213)
Income tax paid		(230,743)	(88,338)
Net cash generated from operating activities		765,405	445,307

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

32 Related parties

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

The Group had no transactions with its shareholders in 2011 or 2010, other than the Reorganisation (note 2).

Entities under common ownership

The Group had the following outstanding balances with entities under common control:

	31 December	
	2011	2010
Cash and cash equivalents at Bank "Mezhdunarodniy finansoviy club"	76,799	23,304
Investments in securities and other financial assets at "Mezhdunarodniy finansoviy club"	74,077	–
Advances and prepaid expenses paid to suppliers	216	227

The amounts outstanding at 31 December 2011 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 entered into the following transactions with entities under common control:

	Year ended 31 December	
	2011	2010
Purchase of goods and services	2,224	1,763
Interest income	5,136	300

Key management personnel

	Year ended 31 December	
	2011	2010
Short-term compensation of key management personnel amounted to	24,495	21,858

(in thousands of US Dollars)

33 Commitments and contingencies

Commitments

Capital commitments

The Group's contracted capital expenditure commitments are as follows:

	31 December 2011	2010
Contracted capital expenditure commitments	107,019	24,304

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2060.

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

	31 December 2011	2010
Due within one year	4,275	3,256
From one to five years	7,629	8,308
Thereafter	17,199	18,880
Total	**29,103**	**30,444**

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these consolidated financial statements the Group was party to a number of claims and litigation, most of which are not material, except:

— A lawsuit against Kazakhaltyn MMC JSC with a potential exposure of US$15,000 thousand. The lawsuit is at the initial stage of investigation. Management believes that this claim will not have a material adverse impact on the Group;

— A dispute between the former and current principal shareholders of PGIL is described in paragraph "KazakhGold dispute" below.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

33 Commitments and contingencies (continued)

Contingencies (continued)

KazakhGold dispute

A dispute between the former and current principal shareholders of PGIL, whereby the current shareholders were asserting that the former shareholders were negligent in their fiduciary responsibilities related to KazakhGold, herewith the sequence of events, to date:

- on 10 April 2011, the Group entered into a Restated and Amended Principal Agreement (the "RAPA"), and a Settlement Deed in respect of the claims which provides for a conditional settlement and release of the orders, judgments and claims, whether in litigation, arbitration or otherwise, initiated, inter alia in the UK, Jersey, the BVI, or Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates, relating to the matters referred to in those proceedings or otherwise arising in respect of the original acquisition of 65 percent of KazakhGold by Jenington, without any admission of liability on either part (the "Settlement Deed"). Pursuant to the RAPA, AltynGroup agreed to acquire the Company's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan in tranches. The aggregate transaction price for all the shares is US$509 million, as well as the provision of funds required to repay the loan provided to KazakhGold by Jenington. The sale of the operating subsidiaries is subject of numerous conditions, most of which are outstanding, and uncertain as to resolution at the date of these consolidated financial statements;
- in May 2011, the Ministry of Industry and New Technologies of Kazakhstan (the "MINT") granted its approval to the proposed Reorganisation of KazakhGold and Polyus Gold and to the sale of 100% of the shares in Kazakhaltyn MMC JSC to AltynGroup. MINT has also revoked its previous letters, which annulled the waiver obtained for the partial offer by Jenington International Inc. for 50.1% of shares in KazakhGold, which was completed in August 2009, and the waivers obtained in September 2010 for the proposed Reorganisation between Polyus Gold and KazakhGold and the US$100 million equity placing completed by KazakhGold on 1 July 2010;
- in May 2011, criminal investigations by the Agency on Economic and Corruption Crimes of the Republic of Kazakhstan ("AECC") against three members of KazakhGold's Board of Directors were terminated.
- On 12 September 2011, the Company entered into a deed of amendment (the "RAPA Amendment") to the RAPA dated 10 April 2011 for the sale of its operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan with AltynGroup, under which the parties have agreed to extend the date of the First Tranche Completion until 12 October 2011 and made a number of consequential changes to reflect a corresponding extension of other deadlines set forth in the RAPA and the documentary stand-by letter of credit for US$100,000,000 obtained by the Company pursuant to the terms of the RAPA.
- On 13 October 2011, the Group announced that it entered into a second deed of amendment to the RAPA dated 10 April 2011 for the sale of its operating subsidiaries and related matters, as amended by the deed of amendment dated 12 September 2011, with AltynGroup, under which the parties agreed to further extend the date of the First Tranche Completion until 12 December 2011 and made a number of consequential changes to reflect a corresponding extension of other deadlines set forth in the RAPA and the documentary stand-by letter of credit for US$100,000,000 obtained by the Company pursuant to the terms of the RAPA.
- The First Tranche Completion under the RAPA did not occur by the extended First Tranche Cut-Off Date of 12 December 2011. The RAPA continues to be in effect, but is now terminable by either party.

Insurance

The insurance industry is not yet well developed in the Russian Federation and Republic of Kazakhstan and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities may become subject to liability for risks that cannot 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.

33 Commitments and contingencies (continued)

Taxation contingencies in the Russian Federation

Commercial legislation of the Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

In terms of Russian tax legislation, the 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 2011 to be approximately US$2,607 thousand (31 December 2010: US$3,040 thousand). This amount had not been accrued at 31 December 2011 as management does not believe the payment to be probable.

Environmental matters

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

The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration and 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 site restoration and environmental obligations.

Bank guarantee

On 12 August 2011, VTB Bank provided the Company with a bank guarantee to pay for the Polyus Gold securities to be acquired under the MTO for the amount not exceeding RUB 39,338,000 thousand or US$1,337,254 thousand (at 12 August exchange rate). CJSC Polyus Gold guaranteed certain liabilities of the Company under bank guarantee. The guarantee commenced on 24 November 2011 and remains valid until 18 June 2012.

34 Risk management activities

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings as described in note 27) less cash and cash equivalents (disclosed in note 24) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interests).

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, other non-current liabilities and trade and other payables. The main purpose of these financial instruments is to finance the Group's operations. The Group has various financial assets such as accounts receivable and loans advanced, cash and cash equivalents, and promissory notes and other investments.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

34 Risk management activities (continued)

Major categories of financial instruments (continued)

	31 December 2011	2010
Financial assets		
Financial assets at FVTPL		
Derivative financial asset	–	46,136
Equity investments in listed companies held for trading	14,857	36,730
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	657,448	326,905
Bank deposits	12,175	39,351
Trade and other receivables	24,712	21,244
Loans receivable	3,643	3,825
AFS financial assets, carried at fair value		
AFS investments	34,744	99,721
Total financial assets	**747,579**	**573,912**
Financial liabilities		
Borrowings	798,680	203,448
Trade payables	30,980	38,715
Other payables	154,443	116,020
Other non-current liabilities	4,772	4,458
Total financial liabilities	**988,875**	**362,641**

The main risks arising from the Group's financial instruments are equity investments price, foreign currency, credit and liquidity risks. Due to the fact that the Group has sufficient positive net position in respect of the outstanding balance of borrowings and cash and cash equivalents available to settle these obligations within a short period if conditions would become unfavourable, management believes the Group is not significantly exposed to interest rate risk. If the interest rate was 1% higher/lower during the year ended 31 December 2011 interest expense for the year 2011 would increase/decrease by US$611 thousand.

Despite vulnerability of the Group to the changes in the spot gold price 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, the profit before tax as a result of changes in fair value of financial assets at FVTPL and the investment revaluation reserve as a result of changes in fair value of AFS securities would increase/decrease as follows:

(in thousands of US Dollars)

34 Risk management activities (continued)

Equity investments price risk (continued)

	31 December 2011	2010
Profit before tax	1,486	8,287
Investment revaluation reserve	3,474	9,972

The Group normally places its excess cash into deposits in top rated Russian banks or into investments under asset management agreements with asset management companies who, in turn, utilise a variety of risk management activities in relation to the investments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	–	34,744	34,744
Equity investments in listed companies held for trading	14,857	–	14,857
Total	14,857	34,744	49,601

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	–	99,721	99,721
Equity investments in listed companies held for trading	36,730	–	36,730
Derivative financial asset	–	46,136	46,136
Total	36,730	145,857	182,587

During the reporting periods, there were no transfers between Level 1 and Level 2.

(in thousands of US Dollars)

34 Risk management activities (continued)

Equity investments price risk (continued)

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 and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature, except for the fair value of the Gold Lion loan payable, which had a fair value at the reporting date of US$39,133 thousand.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in US$based on international quoted prices, and paid in local currencies, RUB or Tenge. The majority of the Group's expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of RUB against US$. In assessing this risk management takes into consideration changes in gold price.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities were as follows:

Assets	31 December 2011	31 December 2010
US$	62,809	162,021
EURO	222	2,551
Total	63,031	164,572

Liabilities	31 December 2011	31 December 2010
US$	888,405	291,577
EURO	680	555
Total	889,085	292,132

(in thousands of US Dollars)

34 Risk management activities (continued)

Foreign currency risk (continued)

Currency risk is monitored on a monthly basis by performing sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes of exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	31 December	
	2011	2010
	US$'000	US$'000
Profit or loss (RUB to US$)	61,910	12,956
Profit or loss (RUB to EURO)	64	(200)
Profit or loss (KZT to US$)	20,650	28,386

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, loans granted, advances paid, promissory notes and trade and other receivables, and other investments in securities.

In order to mitigate the credit risk, the Group conducts its business with creditworthy and reliable counterparties, minimises the advance payments to suppliers, and actively uses letters of credit and other trade finance instruments.

During 2010, the Group introduced a methodology for in-house financial analysis of banks and non-banking counterparties, which enables the management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

The Group's credit risk profile is regularly observed by management in order to avoid undesirable increase in risk, limit concentration of credit and to ensure compliance with above mentioned policies and procedures.

Although the Group sells more than 88% of the gold produced to three major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal. The outstanding receivables for gold sales are presented as follows:

	31 December	
	2011	2010
	US$'000	US$'000
Trade receivables for gold sales	4,869	3,714

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

34 Risk management activities (continued)

Credit risk (continued)

Gold sales to the Group's three major customers, individually exceeding 10% of the Group's gold sales are presented as follows:

	31 December 2011	31 December 2010
Gold sales to three major customers exceeding 10% of the Group's gold sales	2,060,107	1,403,365

Other receivables include amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. The procedures of accepting a new customer include check by a security department and responsible on-site management for a business reputation, licenses and certification, credit worthiness and liquidity.

Management of the Group believes that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

Historically the Group has not relied extensively on external financing. Management is currently in discussions with major Russian and International banks to establish additional lending facilities to finance new exploration and production projects.

The Group strives to establish business relations with export credit agencies in order to benefit from their financial support when purchasing foreign goods and particularly equipment. Please refer to Note 35 for details of credit facilities and financing that were arranged post year-end.

Management believes that, in case of need, the Group would be able to raise sufficient funding within a reasonable timeframe, and on favourable terms, due to its strong historical operations and positive operating cash flow.

The Group's cash management procedures include medium-term forecasting (budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2011 based on undiscounted contractual payments, including interest payments:

	Borrowings Principal	Borrowings Interest	Other non-current liabilities Principal	Trade and other payables Principal	Total
Due within three months	664,688	11,084	–	181,705	857,477
Due within three to nine months	–	1,504	–	–	1,504
Due within nine to twelve months	11,112	711	895	–	12,718
Due in the second year	44,444	1,983	895	–	47,322
Due in the third year	75,469	21,595	895	–	97,959
Due in the fourth year	–	–	895	–	895
Due in the fifth year	–	–	895	–	895
Due in thereafter	–	–	3,588	–	3,588
Total	**795,713**	**36,877**	**8,063**	**181,705**	**1,022,358**

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

34 Risk management activities (continued)

Liquidity risk (continued)

The contractual maturity of guaranteed senior notes is 6 November 2013. As described in note 27, the Group has taken an option to redeem the notes in March 2012 at 102.344% of nominal value.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2010 based on undiscounted contractual payments, including interest payments:

	Borrowings		Other non-current liabilities	Trade and other payables	
	Principal	Interest	Principal	Principal	Total
Due within three months	200,000	–	–	101,149	301,149
Due within three to nine months	–	2,865	–	–	2,865
Due within nine to twelve months	–	–	–	6,891	6,891
Due in the second year	–	–	1,199	–	1,199
Due in the third year	–	–	899	–	899
Due in the fourth year	31,025	20,980	899	–	52,904
Due in the fifth year	–	–	899	–	899
Due in thereafter	–	–	4,496	–	4,496
Total	231,025	23,845	8,392	108,040	371,302

35 Subsequent events

On 7 February 2012, the US$300 million VTB credit facility was extended by three months, until 15 May 2012, with an extension fee paid in the amount of US$460 thousand.

On 20 February 2012, the US$500 million Societe Generale credit facility was extended by 3 month, until 28 May 2012, with an interest rate increase to 1 months US$LIBOR+2.25% and an extension fee paid in the amount of US$840 thousand.

On 10 February 2012, the Group entered into a three year US$100 million credit facility with HSBC. The interest rate is set at 3 months US$LIBOR+3%. The facility was utilised as described below.

On 15 March 2012, 200 million US$guaranteed senior notes were redeemed at 102.344% of nominal value funded by two 100 million US$ loans from HSBC and Unicredit banks.

On 15 March 2012, CJSC "Gold Mining Company Polyus", a subsidiary of the Company, entered into a three year RUR 10 billion (US$311 million) VTB credit line to fund its general corporate purposes.

The interest rate is subject for a separate agreement under each of the credit line drawdowns but could not exceed 20% or MosPrime Rate + 6.5% for RUR denominated drawdown and 14% or LIBOR/EURIBOR + 13.5% - for US$/EURO denominated drawdown. The line was not utilized.

On 30 March 2012, Board of Directors approved dividends in the amount of US$0.041 per ordinary share at a total cost of US$115,013 thousand.

17

Notes to the consolidated financial statements for the year ended 31 December 2011

(in thousands of US Dollars)

continued

36 Investments in significant subsidiaries

Subsidiaries	Incorporation	Nature of business	Effective % held[1] 31 December 2011	2010
OJSC "Polyus Gold"	Russian Federation	Management company	95.3	–[2]
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	95.3	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	95.3	100.0
OJSC "Lenzoloto"	Russian Federation	Market agent	61.1	64.1
LLC "Lenskaya Zolotorudnaya Company"[3]	Russian Federation	Market agent	n/a	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	63.0	66.2
CJSC "Lensib"[4]	Russian Federation	Mining	38.4	40.4
CJSC "Svetliy"	Russian Federation	Mining	52.9	55.6
CJSC "Marakan"	Russian Federation	Mining	52.9	55.6
CJSC "Dalnaya Taiga"	Russian Federation	Mining	51.7	54.3
CJSC "Sevzoto"[4]	Russian Federation	Mining	40.9	43.0
CJSC "GRK Sukhoy Log"[3]	Russian Federation	Mining	n/a	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	95.3	100.0
CJSC "Tonoda"	Russian Federation	Mining (exploration stage)	95.3	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	95.3	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	95.3	100.0
Polyus Exploration Limited	British Virgin Islands	Geological research	95.3	100.0
JSC "MMC Kazakhaltyn"	Republic of Kazakhstan	Mining	100.0	65.0
Jenington International Inc.	British Virgin Islands	Market agent	95.3	100.0
Polyus Investments Limited	Cyprus	Market agent	95.3	100.0

[1] Effective % held by the Company, including holdings by other subsidiaries of the Group.
[2] The parent of the Group before 25 July 2011, refer to Note 2.
[3] The entities were merged into OJSC "Pervenets" during the year 2011.
[4] The Company maintains control of these entities as it continues to govern their financial and operating policies through its ability to appoint the Board of Directors. A majority of the Board members for these entities are representatives of the Company and are therefore consolidated even though the effective interest is less than 50% as at 31 December 2011 and 2010.

18

Terms and abbreviations

18

Terms and abbreviations

Balance mineral reserve, or Balance reserve
The volume of material that indicates the presence of metal at a sufficient probability level, the economic value of which is confirmed by the State Reserves Committee.

Bio-oxidation (BIOX)
Oxidation of sulphide minerals exposed to bacteria with metal extraction through desalination.

Carbon-in-leach (CIL)
A gold recovery process in which gold-bearing ore, activated carbon and cyanide are mixed as slurry. The cyanide dissolves the gold, which is subsequently absorbed by and separated from the carbon.

Carbon-in-pulp (CIP)
A method of recovering gold and silver from pregnant cyanide solutions by adsorbing the precious metals to granules of activated carbon.

Cut-off grade
The minimally acceptable sample value that can be used to determine the economic value of a mineral; unit cut-off grade – unit value that optimizes net value generated by developing property.

Cyanidation (cyanide desalination)
A method of extracting gold or silver from crushed or milled ore by dissolving it in a weak cyanide solution; May be performed on crushed ore stored in containers or in piles in the open air.

Cyanide Code (International Cyanide Management Code For The Manufacture, Transport and Use of Cyanide In The Production of Gold)
A voluntary industry programme for the gold mining industry to promote responsible management of cyanide used in gold mining, enhance the protection of human health, and reduce the potential for environmental impacts.

Doré, Doré alloy
Unrefined gold; a commercial end product of a gold mill, which is produced by alloying the products of the previous ore concentration processes.

Equator Principles
A voluntary set of standards for determining, assessing and managing social and environmental risk in project financing.

Flotation
Process of physical segregation, during which minerals attach to bubbles and resurface as other minerals sink.

Heap leaching (HL)
A process whereby valuable metals, usually gold and silver, are leached from a heap, or pad, of crushed ore by leaching solutions percolating down through the heap and collected from a sloping, impermeable liner below the pad.

ISO 14001
International Standard for the establishment of an Environmental Management System.

JORC Code
Australasian reporting code for mineral resources and ore reserves, developed by the Joint committee on ore reserves of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geological Sciences and the Mineral Council of Australia; the currently valid code dates to 2004.

Mineral reserve (Russian classification)
The Russian equivalent of the Western notion of mineral resources and ore reserves. Mineral reserves are subdivided into the categories A, B, C1 and C2, depending on the extent of their certainty and degree of technological exploration.

Off-balance mineral reserves
Material volume which manifests metal availability to a sufficient extent of certainty, but whose economic extraction profitability has not been proved.

OHSAS 18001
International standard for health and safety management.

Open pit
Open surface excavation; among these are open-cast mines and open pits.

Ore body
Mineralised body which is either profitably exploited, or which manifests reasonable certainty of profitable exploitation.

18

Terms and abbreviations

continued

Ore field
The total number of mines used to exploit a common mineral deposit or a group of closely interconnected ore bodies (diggings).

Ore reserve (JORC Code)
The part of measured and/or indicated mineral resources that may be mined on an economically profitable basis.

Oxidized ore
Ore exposed to the process of natural oxidation.

Refractory ore
Ore that resists the action of chemical reagents in the normal treatment processes and which may require pressure leaching or other means to effect the full recovery of the valuable minerals.

Resin-in-pulp (RIP)
As carbon-in-pulp but using resin to absorb the leached gold.

State Reserves Commission (State Reserves Commission of the Federal Agency for Subsoil Use)
State commission for mineral reserves; set up in 1927, the SRC controls the usage of mineral resources on behalf of the RF Ministry of Ecology and Natural Resources.

Sulphide ore
Ore in its primarily mineralised state, which has not been exposed to natural oxidation.

ADR	American Depository Receipt
BU	Business unit
CIL	Carbon-in-leach
CIP	Carbon-in-pulp
ESIA report	Environmental and social impact assessment report
GDR	Global Depositary Receipt
GRI	Global Reporting Initiative
g/t	gram per tonne
HL	Heap leaching
HSECC	Health, Safety, Environment and Community Board Committee
ICMM	International Council on Mining and Metals
ILR	Inline leach reactor
IUCN	International Union for Conservation of Nature
KPI	Key Performance Indicators
kV	kilovolt
LTI	Lost time injury
MI&I	measured, indicated and inferred resources
mtpa	million tonnes per annum
mW	megawatt
NGO	Non-Government Organisation
P&P	proved and probable reserves
R&D	Research and Development
RIL	Resin-in-leach
RIP	Resin-in-pulp
SAG	Semi-autogenous grinding
SPNAs	Specially Protected Natural Areas
t	Tonne

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