Annual Report 2012

Delivering growth

POLYUS GOLD INTERNATIONAL

Delivering growth

Polyus Gold International Limited ("PGIL") was created following the reorganisation of Open Joint Stock Company ("Polyus Gold") 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% indirectly 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 and Jenington International Inc.

Global leader

Polyus Gold is one of the top 10 gold miners globally by production and the largest gold producer in Russia.

Record performance

The Group's financial and operational highlights for the year.

Regional champion

Operating principally in Russia's most prolific gold mining provinces and the Far East, Polyus Gold is committed to delivering growth.

Proven track record

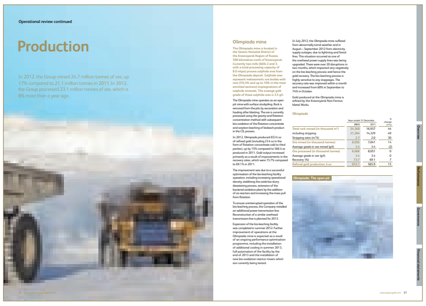
A five year summary of the Group's successful growth projects.

Our focused approach

The Group's positive history of delivering increased production through a focused approach.

Highlights

page 14 for Chief Executive's review



page 19 for Operational review

page 68 for Risk management

About this report

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").

In this report percentage movements are based on the audited numbers disclosed in the consolidated financial statements for the year ended 31 December 2012, as well as on unrounded operational numbers, and not on the high-level rounded numbers (i.e. billions or millions of USD or oz) and therefore there may appear to be some inconsistencies due to the rounding of numbers.

Reference

SD More detailed information on the sustainability performance results can be found in the Sustainability Report for the year 2012.

The Group's reports, as well as additional information on sustainability performance, are available on the Company's website www.polyusgold.com

Overview

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Global leader

Who we are

Polyus Gold International is the largest gold producer in Russia and one of the top 10 gold miners globally by ounces produced (1.7 m oz of gold production in 2012).

The Group holds the world's third-largest gold reserves, with almost 88 m oz of proven and probable gold reserves underpinning Polyus Gold's sector-leading production growth profile (a 12% increase in gold production from 2011 to 2012).

Our principal operations are located in Russia's most prolific gold mining provinces in Eastern Siberia and the Far East and include five operating mines, alluvial operations and several advanced development projects.

The flagship mine of the Group is Olimpiada, the largest gold mine and one of the largest gold deposits in Russia. The Olimpiada mine contributed 39% of the Group's total gold output in 2012, and represents a 37% stake in the Group's JORC proved and probable reserves and 31% in the Group's measured, indicated and inferred resources.

Shareholder structure

(as at 31 December 2012, %)

Nafta Moskva	40.2
ONEXIM Group	37.8[1]
Free float	22.0

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

Polyus Gold International has a premium listing on the London Stock Exchange (ticker: PGIL) and is the largest London-listed gold producer by gold output and reserves. The Company is a constituent of the STOXX Europe 600 Index, the FTSE Global Equity Index Series and the FTSE All World Equity Index Series. Additionally, Polyus Gold International's Global Depository Receipts "GDRs" are traded over-the-counter in the US (ticker: PLZLY). As at 31 December 2012, the Group's market capitalisation was approximately USD 10.1 billion.

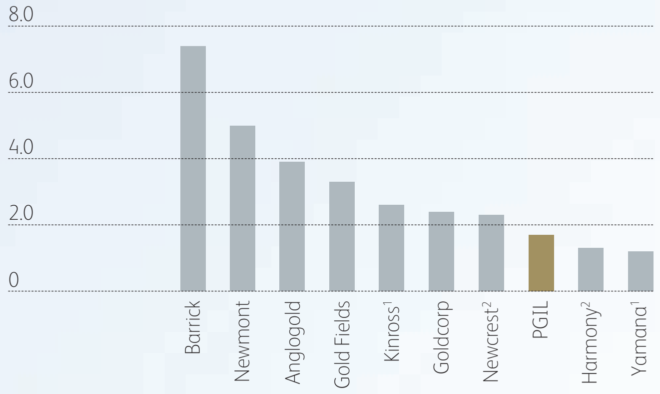
Number of shares in issue	3,032,149,962
Highest share price during 2012, GBP/share	2.24
Lowest share price during 2012, GBP/share	1.88
Volume of shares traded during 2012 (LSE), USD million	1,557
Share price at 31 December 2012, GBP/share	2.05
Market capitalisation at 31 December 2012, USD billion	10.1
SEDOL	B5WLXH3
ISIN number	JE00B5WLXH36

Note:
[1] On 22 February 2013, ONEXIM Group's interest in the Company was purchased by Lizarazu Limited (a company associated with Mr. Mutsoev) and Receza Limited and Wamika Trading Limited companies (associated with Mr. Yushvaev) who now hold 18.5% and 19.3% of the issued share capital of the Company respectively. For more information see Directors' report on page 64.

Top 10 global gold producers

(2012 production, m oz)

No.8 in the world

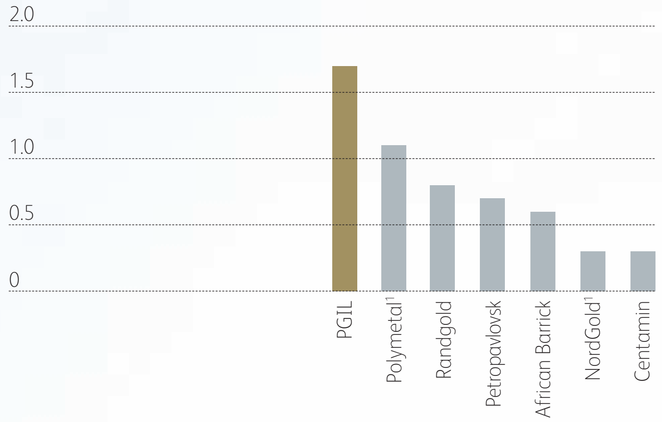


Source: Companies' official websites

LSE-listed gold producers

(2012 production, m oz)

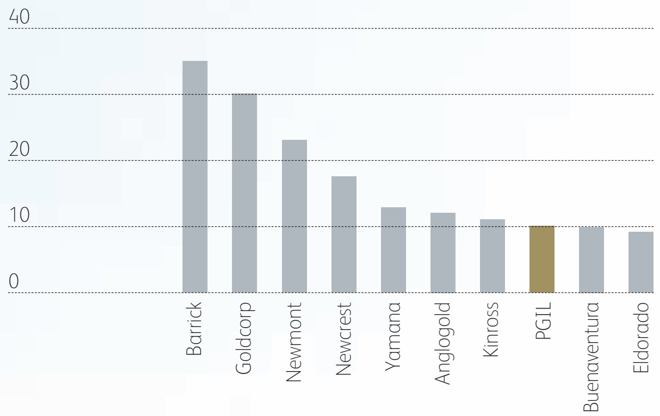
No.1 in London



Source: Companies' official websites

Largest global gold mining companies by market capitalisation (as at 31 December 2012, USD billion)

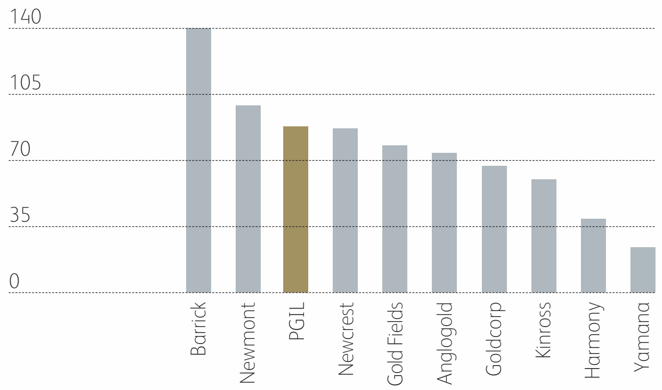
No.8 in the world



Source: Bloomberg

Largest gold mining companies by gold reserves (m oz)

No.3 in the world



Latest available disclosure as at 27 March 2013. Source: Companies' official websites

Note:
[1] Gold equivalent production.
[2] Gold production for the year ended 30 June 2012.

Record performance

Financial highlights

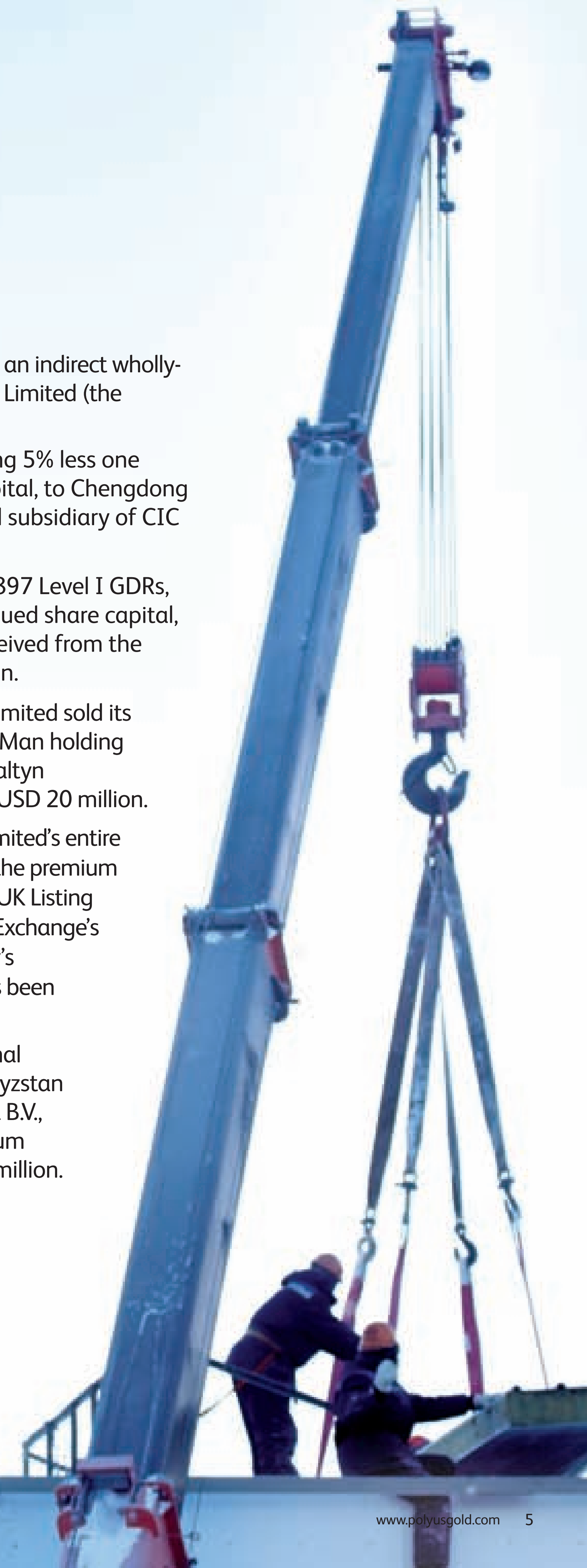
- Gold sales of USD 2.8 billion, up 19% on 2011;
- Record Adjusted EBITDA[1] of USD 1.4 billion, up 22% on 2011;
- TCC per oz[2] sold rose by 8% to USD 694 (USD 645 in 2011);
- Record cash margins of USD 964 per oz, an increase of 3% on 2011;
- Net income of USD 981 million;
- Operational cash flow of USD 992 million, an increase of 28% on 2011;
- Net cash position of USD 680 million as at 31 December 2012; and
- EPS grew to 32 US cents (FY 2011: 16 US cents).

Operational and capital construction highlights

- Refined gold sales for the year of 1,685 k oz, a 14% increase on 2011;
- Refined gold production of 1,678 k oz, a 12% increase over 2011 production;
- All production mines in Russia increased production. The total increase was 191 k oz, comprising 87 k oz from the Olimpiada mine, 38 k oz from the Blagodatnoye mine, 33 k oz from the Verninskoye mine and 22 k oz from the Kuranakh mine;
- A 15% increase in gold output at Olimpiada due to improvement in recovery rates;
- A significant increase in gold production at Blagodatnoye (+11%) and Kuranakh (+19%) on the back of sustained strong recovery rates and higher processing volumes; and
- Capital expenditure increased 131% to USD 851 million, with major investments into:
  - construction of the Natalka mine;
  - completion of the full flowsheet at Verninskoye; and
  - processing optimisation at Olimpiada.

Corporate update

- On 11 May 2012, Jenington International Inc, an indirect wholly-owned subsidiary of Polyus Gold International Limited (the "Company") completed the sale of:
  - 151,607,496 treasury shares, representing 5% less one share of the Company's issued share capital, to Chengdong Investment Corporation, a wholly-owned subsidiary of CIC International Co. Limited; and
  - 50,198,271 treasury shares and 25,153,897 Level I GDRs, representing 2.50% of the Company's issued share capital, to JSC VTB Bank. The gross proceeds received from the two transactions totalled USD 636 million.
- On 18 May 2012, Polyus Gold International Limited sold its 100% interest in Romaltyn Limited, an Isle of Man holding company of Romaltyn Mining S.R.L. and Romaltyn Exploration S.R.L., for a total consideration of USD 20 million.
- On 19 June 2012, Polyus Gold International Limited's entire issued ordinary share capital was admitted to the premium segment of the Official List maintained by the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities. The Company's TIDM code on the London Stock Exchange has been changed to PGIL.
- On 28 February 2013, Polyus Gold International Limited sold its assets in Kazakhstan and Kyrgyzstan to a consortium consisting of Institute Project B.V., Financial Services B.V. and Folkstand Consortium Limited for a total consideration of USD 297 million.



Note:
[1] For the definition and calculation refer to page 43 of this report.
[2] For the definition and calculation refer to page 45 of this report.

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Regional champion

Where we operate

Our principal operations are located in Russia's most prolific gold mining provinces in Eastern Siberia and the Far East and include five operating mines, alluvial operations and several advanced development projects.

Production	Krasnoyarsk region			Magadan region	Irkutsk region		Yakutia region		Kazakhstan
	Olimpiada	Titimukhta	Blagodatnoye	Natalka[1]	Alluvials	Verninskoye	Kuranakh	Nezhdaninskoye[3]	Kazakhaltyn
JORC Proven and Probable reserves, m oz, 31 December 2012	32.1	2.2	9.9	31.6	1.7	5.8	1.6	–	–
Ore processing capacity, mtpa	8.0	2.4	6.0	10 (Ex)	N/A	2.2	3.6		1.0
2012 Production, k oz	653	117	401	–	214	46	138	–	109
2012 average grade in ore mined, g/t	3.4	2.1	2.1	–	0.7 (g/m³)	1.8	1.3	–	3.4
Number of employees, 31 December 2012	2,980	794	1,722	867[2]	2,991	1,426	1,829	85	4,402
For more information	Page 21	Page 22	Page 22	Page 26	Page 24	Page 28	Page 24	Page 28	Page 24

Note:
[1] Under development, not yet in production.
[2] Excluding construction staff.
[3] Under evaluation, no decision to develop yet.

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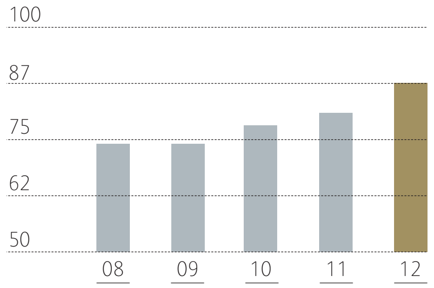
Proven track record

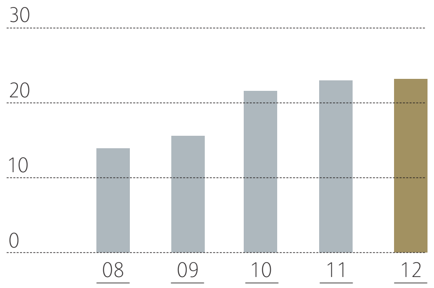
Five year proven and probable reserves (m oz)

87.6



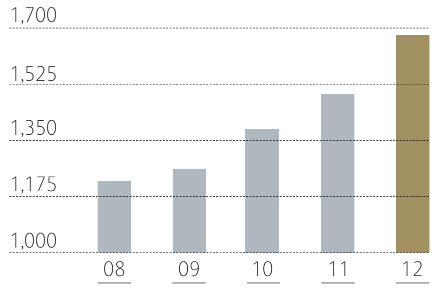
Five year ore processing capacity (mtpa)

23.2



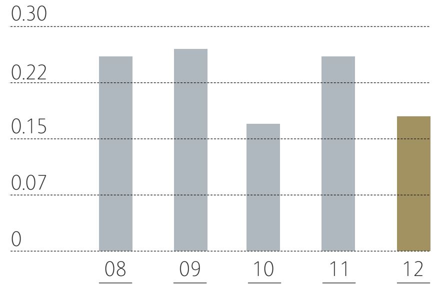
Five year gold production
(k oz)

1,678



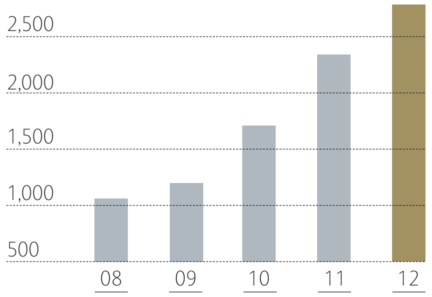
Five year LTIFR[4]
(Per 200,000 hours worked)

0.18



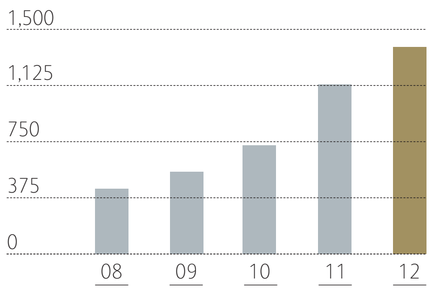
Five year gold sales revenue
(USD million)

2,784



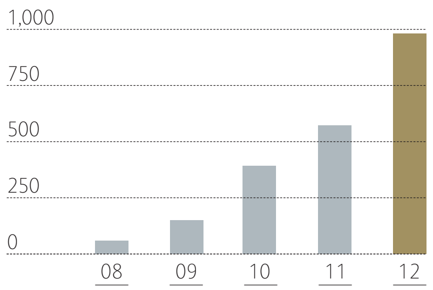
Five year Adjusted EBITDA[1]
(USD million)

1,383



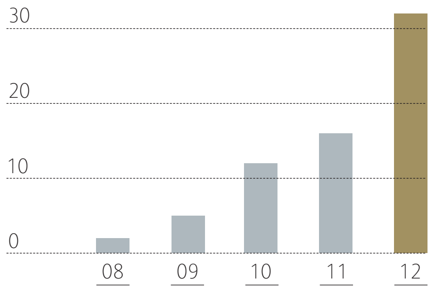
Five year net profit
(USD million)

981



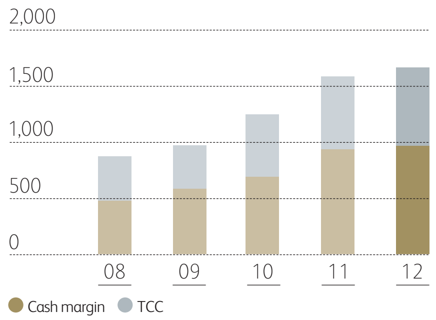
Five year EPS
(US cents/share)

32



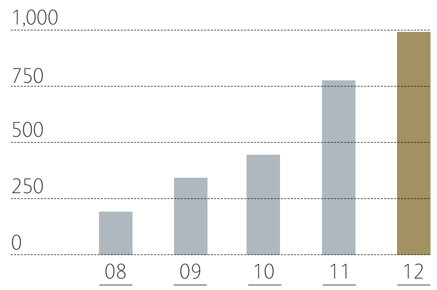
Five year TCC[2] and cash margin[3]
(USD per oz)

Cash margin 964 TCC 694



Five year net cash generated from operating activities
(USD million)

992



Note:
[1] For the definition and calculation refer to page 43 of this report.
[2] For the definition and calculation refer to page 45 of this report.
[3] Cash margin is calculated as the difference between weighted-average gold selling price and TCC.
[4] For the definition refer to page 113 of this report.

Our focused approach

In 2013, the Board will be deliberating the Company's broad strategy for the period 2013-2017 and beyond. In the meantime, the Company develops its business on the basis of the following premises:

2006-2012

Established gold producer

The Group's proven and probable reserves increased in the last seven years (from 50.8 m oz as at 1 January 2006 to 87.5 m oz as at 1 January 2013), along with a significant improvement in the quality of the reserves (average grade increased from 1.7 g/t as at 1 January 2006 to 2.1 g/t as at 1 January 2013). We are now #3 globally by gold reserves.

2012

High-quality resource base

With such a sizeable resource base underpinning our ambitious growth plans, the Company is now well positioned to deliver growth.

2013-2014

Strong operations

Our operating mines account for nearly 61% of the Company's total reserves as of 1 January 2013 (with almost one third of them at recently launched Blagodatnoye and Verninskoye).

A further 36% are at Natalka which is under development.

2014-2017

Effective implementation

Going forward, these three new mines (Natalka, expanded Blagodatnoye and Verninskoye) as well as our flagship mine Olimpiada (36% of the total reserves) will be the main drivers of production growth for the Company. It is expected that all three new mines will have cash costs significantly below the Group's average. Further development of these mines is our top priority, both in the short and mid-term.

A focused approach

Whilst the Company does have alluvial operations, our main mines are developed through large-scale open pit mining followed by mill processing. This method remains our core area of operational focus.

Beyond 2017

Exploring for production growth

It is our intention to ensure uninterrupted production growth beyond 2017, whilst continuing to explore for gold in brownfield and greenfield areas in regions where we have existing infrastructure and operations.

High standards of corporate governance

Robert Buchan,
Chairman of the Board

"In June 2012, the Company's ordinary shares were admitted to the premium segment of the London Stock Exchange."

USD 680 mln
Net cash position as of 31 December 2012

4.1 US cent
per share dividend paid in 2012

Dear shareholders,
I am happy to present Polyus Gold International Limited's Annual Report and I am pleased to talk about our robust operational and financial performance. At the beginning of the reporting year, we had committed to produce 1.6 m oz, and our actual 2012 production was 1.7 m oz, which helped us to achieve record revenues of approximately USD 2.8 billion. We paid a cumulative dividend of 4.1 US cents per share. We closed the year end with USD 680 million of net cash. Over 2012 we invested USD 851 million in capital construction.

Industry overview
We observed a strong demand for gold during the year. The average gold price was 6% higher than in 2011 and 36% higher than in 2010, reaching a record high of USD 1,792 per ounce on 4 October 2012.

Global market trends and recent macroeconomic developments make us believe in the stability of the price of gold in the mid-term future. This stability leads us to concentrate on organic growth, which will strengthen our leading position among London-listed gold producers.

Organic growth
We believe it is the right time to grow organically. The current price of gold provide us with an opportunity to mine deposits which had been considered remote and unpromising just five years ago. In addition, a strong demand for gold has enabled us to put in place an extensive expansion programme.

In December 2011, we launched the Verninskoye mine (2.2 mtpa), bringing the total processing capacity of the Group to 23.2 mtpa. During 2012 Verninskoye was ramping up and is close to reaching its full processing capacity.

The next step will be the start of operations at the giant Natalka mine (10 mtpa), which will become the largest gold mine in Russia. We invested over USD 320 million in this mine in 2012. Total capital expenditure for the first stage of the Natalka mine construction is expected to amount to around USD 1.7-1.8 billion.

Safety and sustainable development
The large-scale operation and development of new mines require intensive investments in people and their safety, as well as environmental protection. An improvement in industrial safety and environmental control over our operations remains one of our primary focus areas. During the year we continued operating as a socially responsible Group, focusing on safety at our production facilities and assisting local communities through various sponsorship and charitable programmes.

In 2011, we established a Health, Safety, Environment and Community (HSEC) Committee. I hope that the work of this Committee will help us to introduce efficient control over our safety systems and improve the management of sustainable development.

Please refer to the 2012 Sustainability Report; accident and injury statistics presented there indicate the improvements achieved. However, our safety performance still leaves much room for improvement and we aim to achieve a zero accident and injury rate.

A detailed Sustainability Report has been prepared together with this Annual Report. The 2012 Sustainability Report has been prepared in compliance with the GRI requirements. On 7 March 2013 GRI concluded that the report fulfils the requirements of application level A+.

Future outlook
We remain positive on gold and the gold industry in 2013. The end-February 2013 consensus forecast from leading investment banks supports our position and provides reassuring optimism. At consensus gold price forecast we expect to remain cash positive at the end of 2013, having a capital expenditure programme of over USD 1,500 million planned. We will continue the construction of the Natalka mine in order to complete the full flowsheet in summer 2014.

Corporate governance
In March 2012, Mr. German Pikhoya, the current CEO of the Company, was elected to the Board. Mr. Evgueny Ivanov resigned and left the Company and the Board at the same time. I would like to thank Evgueny for many years of successfully serving the Company in his position as CEO and member of the Board. German has 18 years' experience in gold mining, of which 10 years has been with Polyus.

In June 2012, the Company's ordinary shares were admitted to the premium segment of the London Stock Exchange. The UK Corporate Governance Code applicable to us as a premium-listed Company requires higher standards of corporate governance than the jurisdiction where we operate – Russia. Compliance with these requirements is taken seriously by the Board. Throughout the year we enhanced our control over all aspects of our business, through improved reporting, safety procedures, and the risk management system.

The Board believes that the disclosures set out on pages 2 to 47 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

Independent Directors here play an important role, protecting the interests of minority shareholders. All five Committees of the Board did a good job in 2012 in meeting investors' expectations.

I would like to thank my colleagues on the Board for the time and hard work they devoted to the Company. I would also thank German Pikhoya and his team for their commitment and for the good results achieved in this reporting year.

Robert Buchan
Chairman of the Board
London, 27 March 2013

Continued success

"The Verninskoye mine was our key area of focus in 2012. Launched late-December 2011, it was ramping up through 2012. By the end of the year, Verninskoye was reaching its projected parameters. In 2012, it produced 46 k oz of gold."

German Pikhoya,
Chief Executive Officer

1.7 m oz
Gold production

USD 2.8 bln
revenue in 2012

Dear shareholders,

This year was a year of hard work. We have increased our production by 12%. This has been achieved through the cooperation of the Group's employees over the last few years, their hard work and a focus on achieving results.

Operating performance

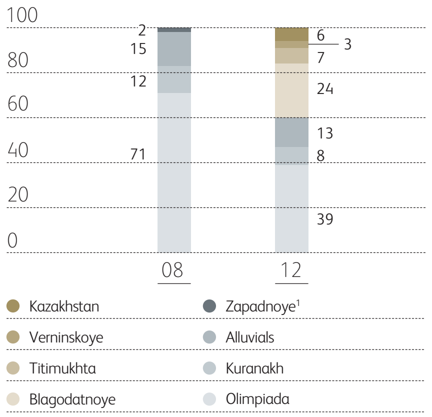
In the reporting year, the Group produced 1,678 k oz of gold. The Olimpiada mine continues to be the leading producing mine in our portfolio with a contribution to the Group's total production of 39%.

Along with the progress at our newly commissioned mines, we can see a trend towards geographical diversification of production. Blagodatnoye mine, having just three years' history of operations, produced an impressive result. At the end of 2011, it reached its designed processing capacity and recovery rate, and sustained it during 2012. In 2012, Blagodatnoye produced 401 k oz, which is 24% of total output. In 2010, Blagodatnoye's input into the total production portfolio was 18%, a 26% CAGR in two years.

During August – September 2012, our operations in the Krasnoyarsk region of Russia (Olimpiada, Titimukhta and Blagodatnoye mines) were disrupted by electricity supply shutdowns. These arose as a result of a combination of factors outside our control, but what is important is that, having faced these difficulties, our Krasnoyarsk mines have been able to overcome them. In spite of several supply disruptions over two months, the recovery rate was rapidly re-established. After dropping in July – September, and then recovered by October. For more details please see the "Operational review" in this report.

Alluvial operations in the Irkutsk region were the third largest contributor to the total production – 13% or 214 k oz.

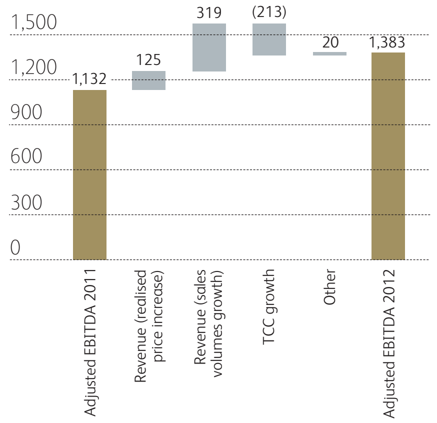
Share in total production by mine (2008 and 2012, %)



Adjusted EBITDA[2] growth

(USD million)

1,383



It is important to mention our new production facility – the Verninskoye mine. It was our key area of focus in 2012. Being launched late-December 2011, it has been ramping up throughout 2012. In 1H 2012 we were running only the gravity concentration circuit and were stockpiling the gravity tailings. In the third quarter we started running the full circuit, including gravity, flotation, leaching and smelting. By the end of the year, Verninskoye was reaching its projected parameters. In 2012 it produced 46 k oz of gold and we aim to more than double its production in 2013.

From being almost a single-mine producer just five years ago, we now have five hard-rock mines and a group of alluvial operations in Russia.

Our production has grown 8% per year since 2008, which we consider to be a very impressive performance.

Financial results

In 2012, the gold price showed a stable rate of increase from USD 1,598 per oz at the beginning of the year to USD 1,658 per oz at 31 December, reaching levels of over USD 1,780 per oz in February and October with a rollback during the spring and summer periods. Gold sales were also at a good level, amounting to 1,685 k oz on the back of higher production. As a result of these two factors, revenue grew to a record USD 2.8 billion. At the Adjusted EBITDA[2] level, this gold price effect has been offset by Total Cash Costs (TCC) growth. TCC per oz sold amounted to USD 694 per oz, as compared to USD 645 per oz in 2011.

The Group's 2012 Adjusted EBITDA was USD 1,383 million – an impressive 22% growth despite the negative impact from cost inflation.

Other financial indicators were as follows:

- Gross profit from gold sales amounted to USD 1,423 million, compared to USD 1,198 million in 2011;
- Profit for the year amounted to USD 981 million, compared to USD 573 million in 2011; and
- EPS grew to 32 US cents (2011: 16 US cents).

Dividends

In May 2012, the Board approved the Company's Dividend Policy. Under this Policy, the Company aims to pay dividends to an aggregate amount of a minimum of 20% of its annual net profit.

In the reporting year, and based on the 2011 results, the Board recommended and the shareholders approved a dividend payment of 4.1 US cents per share. This means a total payment of USD 124.3 million, which is approximately 21.7% of the profit for 2011 (USD 573 million).

It should be noted that, from 2008, the Company has systematically increased dividend payments.

During April 2013, the Board expects to decide on the dividend for the financial year 2012, taking into account the Company's dividend policy, and will propose this to shareholders.

Note:
[1] Decommissioned in April 2011.
[2] For the definition and calculation refer to page 43 of this report.

The management team

German Pikhoya
Chief Executive Officer

Artem Borisanov
Deputy CEO for Strategy and Corporate Development

Elena Bulavskaya
Deputy CEO for Corporate Affairs

Alexey Golubenko
Head of Yakutia business unit, General Director of OJSC Aldanzoloto GRK

Oleg Ignatov
Chief Financial Officer

Evgueni Ivanov
(resigned on 30 March 2012)
President

Fyodor Kirsanov
(appointed on 11 March 2013)
Deputy CEO for Procurement

Valeriy Konstantinov
Head of Irkutsk alluvial business unit, General Director of OJSC Lenzoloto and CJSC ZDK Lenzoloto

Kyrill Martynov
(resigned after sale of Kazakh assets)
Head of Kazakhstan business unit, General Director of JSC MMC KazakhAltyn

Nikolay Morozov
Deputy CEO for Internal Control

James Nieuwenhuys
COO

Yuri Ryndin
(resigned on 07 March 2013)
Deputy CEO for Procurement

Vyacheslav Sokolov
Head of Magadan business unit, General Director of OJSC Matrosov Mine

Alexey Teksler
Head of Krasnoyarsk business unit

Igor Tsukurov
Head of Irkutsk ore business unit, General Director of OJSC Pervenets

Boris Zakharov
Deputy General Director for Engineering and Innovations of CJSC Polyus

Construction of new production facilities – platform for future growth

We have proved our ability to construct large mines by launching Olimpiada's Mill-3, Blagodatnoye and Verninskoye. We are continuing this track record with Natalka, which should become the largest mine in Russia. All units and equipment have been procured. The construction of the infrastructure, including buildings, dams, roads and foundations, is underway, including the foundation for the future mill.

We placed an order for assembling a massive semi-autogenous grinding mill (SAG mill) and a ball mill. The mills have been assembled and are now on their way to the mine.

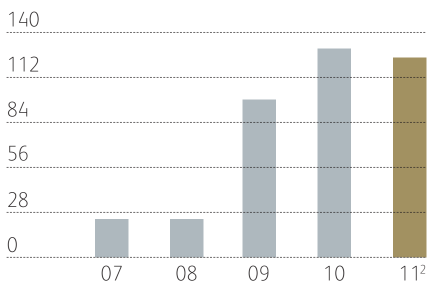
As of 31 December 2012, around 1,000 construction staff are on site. This Annual Report provides an overview of the construction work and progress at Natalka.

The project is progressing well, and we expect Natalka to become a key source of production growth for Polyus Gold from 2014 onwards.

German Pikhoya
Chief Executive Officer
London, 27 March 2013

Total dividends payable for the year (USD million)[1]

124.3



Note:
1 Dividends payable at the level of OJSC Polyus Gold for 2007-2010 and at the level of Polyus Gold International for 2011.
2 In addition the Group paid about USD 18 million to the minority shareholders of OJSC Polyus Gold, the group of shareholders which did not participate in the reorganisation of OJSC Polyus Gold into Polyus Gold International which closed on 25 July 2011.

Continuing to grow

In addition to its use in jewellery, electronics and dentistry, gold also provides a convenient means of storing wealth for a variety of investors, from individuals to state central banks. In 2012, gold supply to the global market declined slightly due to a lower level of gold recycling, while mine production remained strong. Gold demand from jewellery manufacturers and other industries decreased by 4%, mainly on the back of weakening demand from the Indian market.

4,453 tonnes
Global gold supply in 2012

2,848 tonnes
Global gold production in 2012

7 %
Russia's growth in production in 2012

Russia
Was 4th largest gold producer in 2012

This trend was offset by a significant increase in official sector purchases due to central banks actively replenishing their gold reserves. Investment demand was also high and accounted for over a third of total global demand for gold, having slipped by 10% below the 2011 level. Largely supported by investment and official sector demand, the price of gold continued to grow in 2012, with the annual average gold price hitting a record USD 1,669 per oz, up by 6% compared to 2011.

Supply

In 2012, global gold supply amounted to 4,453 tonnes, 1% less than in 2011. The slight decrease came mainly from the lower gold recycling volumes.

According to the World Gold Council, global gold production in 2012 was in line with 2011 levels and amounted to 2,848 tonnes. Several of the largest gold-producing countries suffered material losses in gold output, offsetting production increases in other regions. The most substantial drop was recorded in Indonesia which was mainly attributable to drops in output at the large Grasberg mine, as well as at Batu Hijau. South Africa posted a significant decrease in production for the 10th year in a row, as a result of numerous labour strikes across the country and high production costs. Gold output also notably declined in the US, Australia and Brazil.

On the positive side, China demonstrated a 12% year-on-year output growth to 403 tonnes. The growth was largely attributable to toll smelters, who process ore on behalf of other producers, and by-product output by non-ferrous metal producers. Russia, Canada, Ghana, Mexico and Peru also increased gold output in 2012.

Based on 2012 results, Russia maintained its position in the global Top 10 and ranked fourth among the global gold mining industry leaders. According to data from the Russian Union of Gold Miners, mine production in Russia amounted to 218 tonnes, an increase of 7% over 2011 levels, primarily reflecting the ramp-up of operations at the newly commissioned Albyn and Albazino projects, improved performance of the Olimpiada and the Blagodatnoye mines, and the Kubaka and Vysochaishy processing plants.

Another source of gold supply to the global market is recycled gold (gold scrap). In 2012, supply of scrap metal slightly decreased to 1,626 tonnes, but still remained at high levels supported by the favourable price environment. In most regions of the world recycling of gold declined due to consumers having adjusted to high prices, depletion of available scrap metal stocks and anticipation of further price growth. In contrast to this trend, recycling of gold nearly doubled in 2012 in India and grew moderately in Egypt, which partly offset losses in the rest of the world.

The official sector represented by the central banks and the International Monetary Fund has traditionally been another source of gold supply on the global market. However, purchases of gold by the official sector have recently surpassed sales. In 2012, official sector sales fell to 17 tonnes, compared to 59 tonnes in 2011 and 236 tonnes in 2010. The principal sellers of the metal in 2012 were Germany, Russia and Mexico.

Largest gold-producing countries
(2012, %)

China	14
Australia	9
USA	8
Russia	8
Peru	6
South Africa	6
Canada	4
Ghana	3
Indonesia	3
Mexico	3
Other	37

Source: USGS

Global gold consumption
(2012, %)

Jewellery	43
Bars and coins	29
Technology	10
Official sector purchases	12
ETFs and similar instruments	6

Source: World Gold Council

Demand
The jewellery industry is the largest consumer of gold on the global market. The highest demand comes from jewellery manufacturers in India and China. In 2012, jewellery demand fell by 3% to 1,908 tonnes in response to gold price growth, which was mostly attributable to the Indian market. Unclear price trends and slowdown in economic growth also had a negative impact on jewellery demand both in India and China. However, Switzerland, Egypt and Russia demonstrated strong growth in jewellery fabrication.

Demand for gold from other industry sectors, such as electronics, dentistry and decorative industries, declined by 5% to 428 tonnes in 2012. Constantly rising prices weaken industrial demand for gold and encourage manufacturers to look for less costly substitutes.

2012 was notable for the escalating interest in gold from the official sector. Such a tendency can be explained by the desire of some countries to diversify state reserves in view of the weakness of the major global currencies, escalation of the sovereign debt crisis and, in some cases, concerns over geopolitical risks. According to data provided by the World Gold Council, net purchases of gold reached 535 tonnes in 2012, up by 17% compared to the previous year. Russia is estimated to have been the principal buyer. Considerable purchases were also made by the central banks of the Philippines, Brazil, South Korea, Kazakhstan, Iraq, Venezuela, Mexico, Paraguay, Ukraine and Belarus.

Investment demand
Investment demand for gold includes the demand for gold bars and coins, medals and financial instruments linked to the gold price (exchange traded funds – ETFs – and similar instruments). Since 2008, demand for gold as an investment tool has been at a remarkably high level. In 2012, investment demand accounted for over a third of the total global demand for gold and amounted to 1,535 tonnes, although this was somewhat lower than in the previous year. Investment in physical bars and coins, being the largest component of investment demand, slightly decreased to 1,256 tonnes as a result of high price volatility.

Unstable fiscal situations in the EU and US, growing inflationary pressures, negative short-term interest rates and relatively poorly performing markets provided strong motivation to invest in gold. India and China remained the most active investors in physical gold. Among western countries, the largest consumers have traditionally been the US, Germany and Switzerland. Holdings of ETFs and other physically backed funds increased by 279 tonnes in 2012 or 10%, bringing the aggregate gold reserves of these funds to 2,690 tonnes at year end.

Gold price
In 2012, the gold price experienced high volatility, trading in a range of USD 1,540 to USD 1,792 per oz. The average London afternoon gold price fixing increased for the 11th consecutive year to a record USD 1,669 per oz, up 6% compared to 2011. 2012 opened at USD 1,598 and closed at USD 1,658 per oz, resulting in an intra-year gain of 4%. The key driver of the gold price growth in 2012 remained high investment demand, supported also by the increased interest in gold from the central banks.

The year started with a gold price rally provoked by Standard & Poor's downgrade of the nine Eurozone countries' credit ratings. From late-February gold fell sharply to its lowest level in May on the back of a strengthening of the US dollar, accompanied by net disinvestment in gold in that period. The second rally started in mid-August and peaked in October, driven mainly by sovereign debt concerns, further ratings downgrades and monetary policy easing by the Federal Reserve System and European Central Bank, which resulted in gold performing its traditional role as a store of value. Towards the end of the year the gold market saw a correction largely driven by low market activity, lack of macroeconomic developments and investors' profit taking.

Delivering growth

In 2012, the Company produced 1,678 k oz of refined gold, compared to 1,495 k oz in 2011. The growth was achieved as a result of increases in gold output at all the mines located in Russia, including significant increases at the Olimpiada mine (+15%), the Blagodatnoye mine (+11%) and the Kuranakh mine (+19%), and additionally as a result of the launch of the Verninskoye mine.

In 2012, the Group moved 67.9 million cubic metres of rock, which is 25% more than in 2011. This was due to increased stripping at the Olimpiada deposit (+49% year-on-year), the Blagodatnoye deposit (+17% year-on-year) and Kuranakh's deposits (+45% year-on-year).

In 2012, the Group mined 24.7 million tonnes of ore, up 17% compared to 21.1 million tonnes in 2011. The increase was primarily due to a 14% increase at the Olimpiada mine, a 12% increase at the Kuranakh mine, significantly higher volumes mined at the Kazakhstan open pit operations and the launch and ramp-up of the Verninskoye mine.

The average stripping ratio for the Company in 2012 increased by 7% over 2011 due to increases in stripping ratios at Olimpiada (+30%), Blagodatnoye (+17%) and Kuranakh (+30%).

In 2012, the Group processed 23.1 million tonnes of ore, which is 8% more than a year ago (2011: 21.4 million tonnes). The increase was mainly due to the launch of the Verninskoye mine and increased volumes processed at the Titimukhta mine.

Refined gold production by mine

(in k oz)	Years ended 31 December 2012	2011[1]	% change y-o-y
Olimpiada[2]	653.1	565.9	15
Blagodatnoye	401.4	363.2	11
Titimukhta	116.8	109.2	7
Verninskoye	45.6	12.8	256
Alluvials	214.0	210.0	2
Kuranakh	138.3	116.6	19
Kazakhstan[3]	109.0	117.0	(7)
Total gold production	1,678.1	1,494.7	12

Group mining works and ore processing

(as indicated)	Years ended 31 December 2012	2011[1]	% change y-o-y
Total rock moved (thousand m^3)	67,869	54,417	25
Total ore mined (thousand tonnes)	24,727	21,057	17
Total ore processed (thousand tonnes)	23,123	21,403	8
Sands washed (million m^3)	9,962	9,863	1

Note:
[1] Hereinafter 2011 totals and Irkutsk ore business unit figures include the results of the Zapadnoye mine decommissioned in April 2011 due to depletion of the deposit and processing of ores from Verninskoye and Pervenets deposits at the Pervenets process plant.
[2] Total gold production by the Olimpiada mine includes 23 k oz of gold in flotation concentrate sold to a third party.
[3] Gold production by Kazakhstan operations in the form of sludge, flotation and gravitation concentrates and other semi-products.


James Nieuwenhuys,
Chief Operating Officer

Production

In 2012, the Group mined 24.7 million tonnes of ore, up 17% compared to 21.1 million tonnes in 2011. In 2012, the Group processed 23.1 million tonnes of ore, which is 8% more than a year ago.

Olimpiada mine

The Olimpiada mine is located in the Severo-Yeniseisk district of the Krasnoyarsk region of Russia, 500 kilometres north of Krasnoyarsk. Currently two mills (Mills 2 and 3, with a total processing capacity of 8.0 mtpa) process sulphide ores from the Olimpiada deposit. 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 these sulphide ores is 3.5 g/t.

The Olimpiada mine operates as an open pit mine with surface stockpiling. Rock is removed from the pits by excavation and hauling after blasting. The ore is currently processed using the gravity and flotation concentration method with subsequent bio-oxidation of the flotation concentrate and sorption leaching of bioleach product in the CIL process.

In 2012, Olimpiada produced 653 k oz of refined gold (including 23 k oz in the form of flotation concentrate sold to third parties), up by 15% compared to 566 k oz produced in 2011. Gold output increased primarily as a result of improvements in the recovery rates, which were 73.7% compared to 69.1% in 2011.

The improvement was due to a successful optimisation of the bio-leaching facility operation, including increasing operational density, stabilising the oxide bio-slurry dewatering process, extension of the bacterial oxidation plant by the addition of six reactors and increasing the mass pull from flotation.

To ensure uninterrupted operation of the bio-leaching process, the Company installed an additional power transmission line. Reconstruction of a similar overhead transmission line is planned for 2013.

Expansion of the bio-leaching facility was completed in summer 2012. Further improvement of operations at the Olimpiada mine is expected as a result of an ongoing performance optimisation programme, including the installation of additional cooling in summer 2013, full automation of the facility by the end of 2013 and the installation of new bio-oxidation reactor mixers which are currently being tested.

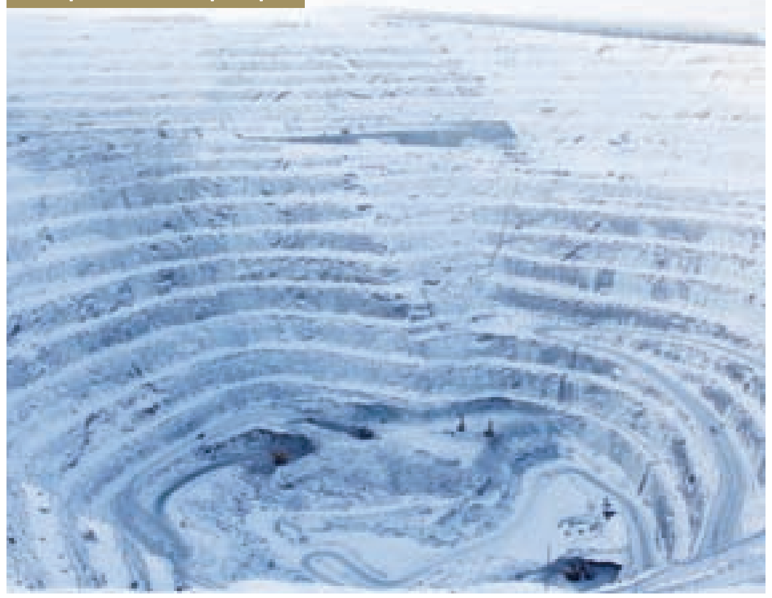
In July 2012, the Olimpiada mine suffered from abnormally torrid weather and in August – September 2012 from electricity supply outages, due to lightning and forest fires. This situation occurred as one of the overhead power supply lines was being upgraded. There were over 20 disruptions in two months, which impacted very negatively on the bio-leaching process and hence the gold recovery. The bio-leaching process is highly sensitive to any stoppages. The recovery rate was improved within a month and increased from 68% in September to 74% in October.

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

Olimpiada mine

	Years ended 31 December		% change y-o-y
	2012	2011	
Total rock moved (in thousand m^3)	24,368	16,937	44
including stripping	*21,384*	*14,329*	*49*
Stripping ratio (m^3/t)	2.7	2.0	30
Ore mined (in thousand tonnes)	8,056	7,041	14
Average grade in ore mined (g/t)	3.4	3.4	(2)
Ore processed (in thousand tonnes)	8,068	8,051	0
Average grade in ore (g/t)	3.4	3.4	0
Recovery (%)	73.7	69.1	7
Refined gold production, k oz	653.1	565.9	15

Olimpiada: The open pit



Blagodatnoye mine

The Blagodatnoye mine is located in the Severo-Yeniseisk district of the Krasnoyarsk region, 25 km from the Olimpiada mine. The ores of the Blagodatnoye deposit are represented by quartz – micaceous schists with impregnated and vein impregnated sulphide mineralisation.

The Blagodatnoye mine operates as an open pit mine with surface stockpiling. The processing plant at the Blagodatnoye mine was commissioned in 2010; it is based on gravity concentration, flotation and CIL and has a processing capacity of 6.0 mtpa.

In 2012 Blagodatnoye produced 401 k oz of gold compared to 363 k oz in 2011. The 11% increase in production was primarily a result of the continued improvement in recovery rates (86.4% in 2012 compared to 84.5% in 2011) due to the completion of the automation of the processing plant.

Titimukhta mine

The Titimukhta deposit is located 9 km northwest of the Olimpiada deposit. The deposit contains quartz vein and veinlet stockwork. Due to the close proximity of the deposit to the Olimpiada mine, the ores from Titimukhta are processed through the old Olimpiada plant (Mill 1 of the Olimpiada mine).

In May 2012, the Company completed the upgrade of the grinding circuit of the plant (Mill 1) by adding a new ball mill. A revised process flow sheet was also implemented at Mill 1, including gravity separation and production of primary concentrate followed by intense cyanidation of gravity tailings. This resulted in an increase in plant processing capacity from 2.2 mtpa to 2.4 mtpa, with higher volumes of ore being processed (11% increase).

In 2012, Titimukhta produced 117 k oz of gold, 7% more than in 2011.

Blagodatnoye mine

	Years ended 31 December 2012	2011	% change y-o-y
Total rock moved (in thousand m³)	15,355	13,522	14
including stripping	*13,040*	*11,187*	*17*
Stripping ratio (m³/t)	2.0	1.7	17
Ore mined (in thousand tonnes)	6,463	6,480	0
Average grade in ore mined (g/t)	2.1	2.1	2
Ore processed (in thousand tonnes)	6,499	6,505	0
Average grade in ore (g/t)	2.1	2.1	2
Recovery (%)	86.4	84.5	2
Refined gold production, k oz	401.4	363.2	11

Blagodatnoye: Works

Titimukhta mine

	Years ended 31 December 2012	2011	% change y-o-y
Total rock moved (in thousand m³)	10,211	10,374	(2)
including stripping	*9,328*	*9,511*	*(2)*
Stripping ratio (m³/t)	3.9	4.1	(6)
Ore mined (in thousand tonnes)	2,422	2,327	4
Average grade in ore mined (g/t)	2.1	2.1	(1)
Ore processed (in thousand tonnes)	2,131	1,920	11
Average grade in ore (g/t)	2.1	2.1	(2)
Recovery (%)	82.2	83.8	(2)
Refined gold production, k oz	116.8	109.2	7

Verninskoye: Mining

Verninskoye mine

In December 2011, the Group successfully launched the Verninskoye mine, located in the Bodaibo district of the Irkutsk region of Russia.

In 2012, Verninskoye produced 46 k oz of gold as the ramp-up of the mine continued during the reporting year. In the first half of the year, the plant was operating on a gravity concentration circuit and the gravity concentrate was processed to end product at the existing plant at the Zapadnoye mine. The full circuit (gravity, flotation and leach) was commissioned in the 3Q 2012, and was in a ramp-up mode until the end of the year. In addition, plant automation started in the 4Q 2012 and is expected to be completed in the spring of 2013.

As a result of the grade-control drilling, the Verninskoye reserves increased as additional low-grade ore was discovered in the pit contours. This ore was mined during the reporting period and stockpiled for processing in the future. This resulted in a decrease in the overall grade of the ore mined, compensated by a lower stripping ratio (decreasing from 2.5 m³/t in 2011 to 0.6 m³/t in the reporting year).

2012 highlights

5.6m oz
Reserves

2.2g/t
Gold grade

46k oz
Gold production

USD 151mln
CapEx

Verniskoye mine

	Years ended 31 December 2012	2011	% change y-o-y
Total rock moved (in thousand m³)	2,408	2,274	6
including stripping	*1,439*	*1,978*	*(27)*
Stripping ratio (m³/t)	0.6	2.5	(78)
Ore mined (in thousand tonnes)	2,616	801	227
Average grade in ore mined (g/t)	1.8	2.5	(27)
Ore processed (in thousand tonnes)	1,324	309	328
Average grade in ore (g/t)	2.2	1.8	22
Recovery (%)	64.2	69.3	(7)
Refined gold production, k oz	45.6	12.8	256

Alluvials (Irkutsk region)

A group of alluvial deposits is located in the Bodaibo district of the Irkutsk region of Russia. The Group mines gold using quarrying and dredging techniques. Stripping is performed by walking excavators and bulldozers.

In the reporting period, the Company's alluvial operations produced 214 k oz of gold, which is comparable with 2011 (210 k oz).

Kuranakh mine

The Kuranakh mine is located in the Aldan district of the Republic of Sakha (Yakutia) of Russia. Gold ore is mined from numerous deposits in the Kuranakh ore field. Due to a long history of mining, the deposits of the Kuranakh ore field have been significantly depleted and the central parts of the deposits with the most uniform ore bodies and the highest gold grade have been mined out.

Mining at the Kuranakh ore deposits uses open cut, drilling and blasting operations.

In 2012, Kuranakh produced 138 k oz of gold compared to 117 k oz in 2011. The 19% increase in gold output came on the back of a significant improvement in planning and overall organisational efficiency resulting in higher mining and processing volumes combined with improved recovery rates. We have decreased processing plant downtime, increased annual throughput capacity of the processing plant and reduced the amount of gold in the tailings.

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

Investments in 2012 were intended to maintain production and to develop infrastructure facilities.

Kazakhstan operations (sold on 28 February 2013)

The Kazakhstan business unit includes operating facilities located in the Akmola region of the Republic of Kazakhstan (Aksu, Bestobe, Zholymbet) and the Akzhal deposit in the Eastern Kazakhstan region.

In 2012, the Company's mines in Kazakhstan produced 109 k oz of gold in semi-products, compared to 117 k oz in 2011.

Sand washing (Alluvials)

	Years ended 31 December 2012	2011	% change y-o-y
Sands washed (million m³)	9,962	9,863	1
Average grade (g/m³)	0.7	0.7	0
Refined gold production, k oz	214.0	210.0	2

Kuranakh mine

	Years ended 31 December 2012	2011	% change y-o-y
Total rock moved (in thousand m³)	14,361	10,357	39
including stripping	*12,064*	*8,310*	*45*
Stripping ratio (m³/t)	3.0	2.3	30
Ore mined (in thousand tonnes)	3,984	3,558	12
Average grade in ore mined (g/t)	1.3	1.3	3
Ore processed (in thousand tonnes)	3,735	3,376	11
Average grade in ore (g/t)	1.3	1.3	3
Recovery (%)	86.6	85.1	2
Refined gold production, k oz	138.3	116.6	19

Kazakhstan operations

	Years ended 31 December 2012	2011	% change y-o-y
Total rock moved (in thousand m³), including	1,165	952	22
Underground operations	272	254	7
Open pit operations	893	698	28
including stripping	*668*	*590*	*13*
Stripping ratio (m³/t)	1.2	2.4	(50)
Ore mined (in thousand tonnes), including	1,187	851	39
Underground operations	646	600	8
Open pit operations	541	251	115
Average grade in ore mined (g/t)	3.4	4.7	(26)
Ore processed (in thousand tonnes), including	1,365	1,243	10
Ore processed at plant	881	894	(1)
Average grade in ore (g/t)	3.6	3.9	(9)
Recovery (%)	82.9	83.8	(1)
Ore processed at heap leaching	484	349	39
Average grade in ore (g/t)	1.0	0.8	25
Refined gold production, k oz	109.0	117.0	(7)

Development

The Company has several projects under development. The largest is the Natalka project. The Company plans to construct a processing plant with the capacity of 10 million tonnes of ore per annum at Natalka.

Blagodatnoye mine expansion

The feasibility study for the expansion of the plant processing capacity to 8 mtpa (currently 6 mtpa) was completed and is currently being reviewed by regulators. The expansion project parameters suggest that its launch needs to be synchronised with the start of the construction of the Razdolinskaya-Novaya Eruda power line by the state-owned grid company, which is expected in the first half of 2013.

2012 highlights

Automation of technological chain at the Blagodatnoye mine resulted in:

3%
growth in volume of ore processed

1.4%
growth in recovery rate

11%
decrease in grinding balls consumption

7%
decrease in energy consumption

6%
decrease in average number of personnel

Natalka: New mills

Natalka project

Several milestones have to be achieved throughout 2013, to complete the full flowsheet in summer 2014, which include the delivery and installation of processing equipment, construction of the tailing dam and recruitment of the operational team.

A significant part of the earthworks have been completed. We moved 4.7 million cubic metres of rock, as well as continued the earthworks related to the construction of the mill, camp, fuel storage facility, logistics base, car depot and power substation.

In the fourth quarter of 2012, the construction of the ditch for the processing plant building was completed. Concrete works have been completed for the grinding, gravity and flotation sections of the plant. Construction of the foundations and installation of metal structures continues. Installation of bored piles continues at the sites of the desorption section and the gold cash room.

In 2012, we delivered 23 drilling rigs, nine bulldozers, 16 trucks, three front loaders, three vibratory soil compactors and two excavators on site. The total cost of the equipment is approximately USD 80 million.

We also delivered construction equipment (including 45 excavators, 90 bulldozers, 74 trucks, 35 cranes of various types, six drilling rigs, 13 tractors, 12 front loaders and 814 items of ancillary equipment) at a total cost of approximately USD 130 million.

We placed an order for the assembling of a massive 10.4 X 6.1 semi-autogenous grinding mill (SAG mill) and 8.2 X 14 ball mill, which are respectively the largest- and second-largest in the gold-mining sector. Both mills have an ore throughput rate of over 1.3 thousand tonnes per hour. By the end of January 2013, the mills were assembled. In mid-February 2013, they were freighted to the ship and are now on the way to the mine.

Nearly 1,000 construction workers have arrived on site. Two camps were commissioned, with four more expected to be completed in June 2013. Foundations for three more buildings were built.

In 2012, Natalka capital expenditure amounted to over USD 320 million.

The total capital expenditure for the first stage of the Natalka mine construction are expected to amount to around USD 1.7-1.8 billion, which is somewhat above the initially planned level. The increase is related to labour and materials inflation combined with higher costs in the winter and an increase in equipment purchase expenditure.

Additional investment in the project is expected to be USD 400-425 million, including construction equipment purchase, a temporary construction camp and the installation of the concrete-mixing plant.

Natalka: Construction

2012 highlights

31.6m oz
Reserves

10mtpa
Mill capacity

0.5m oz
Annual gold production

2.1g/t
Gold grade

Verninskoye mine expansion

In the fourth quarter of 2012, the Company signed a contract for the design of the power grid from Peleduy to Mamakan, which is important for the development of the Verninskoye mine. The first stage of the grid is expected to be installed in the second half of 2014. The cost of the electricity should be cheaper and in addition, the grid is connected to the federal network which means stability of the power supply. It should provide an option for expansion of the Verninskoye mine. Following the completion of the grid design, which is expected in the summer of 2013, the Group will review the projects for the grid construction and the subsequent expansion of the processing plant from 2.2 mtpa to 3.6 mtpa.

Chertovo Koryto deposit[1]

In 2012, the Company started pre-project preparation works, received initial permits, selected contractors for survey works and updated process regulations for the mill construction.

Note:

[1] Advanced stage exploration project, which is classified as exploration and evaluation asset in the consolidated financial statements.

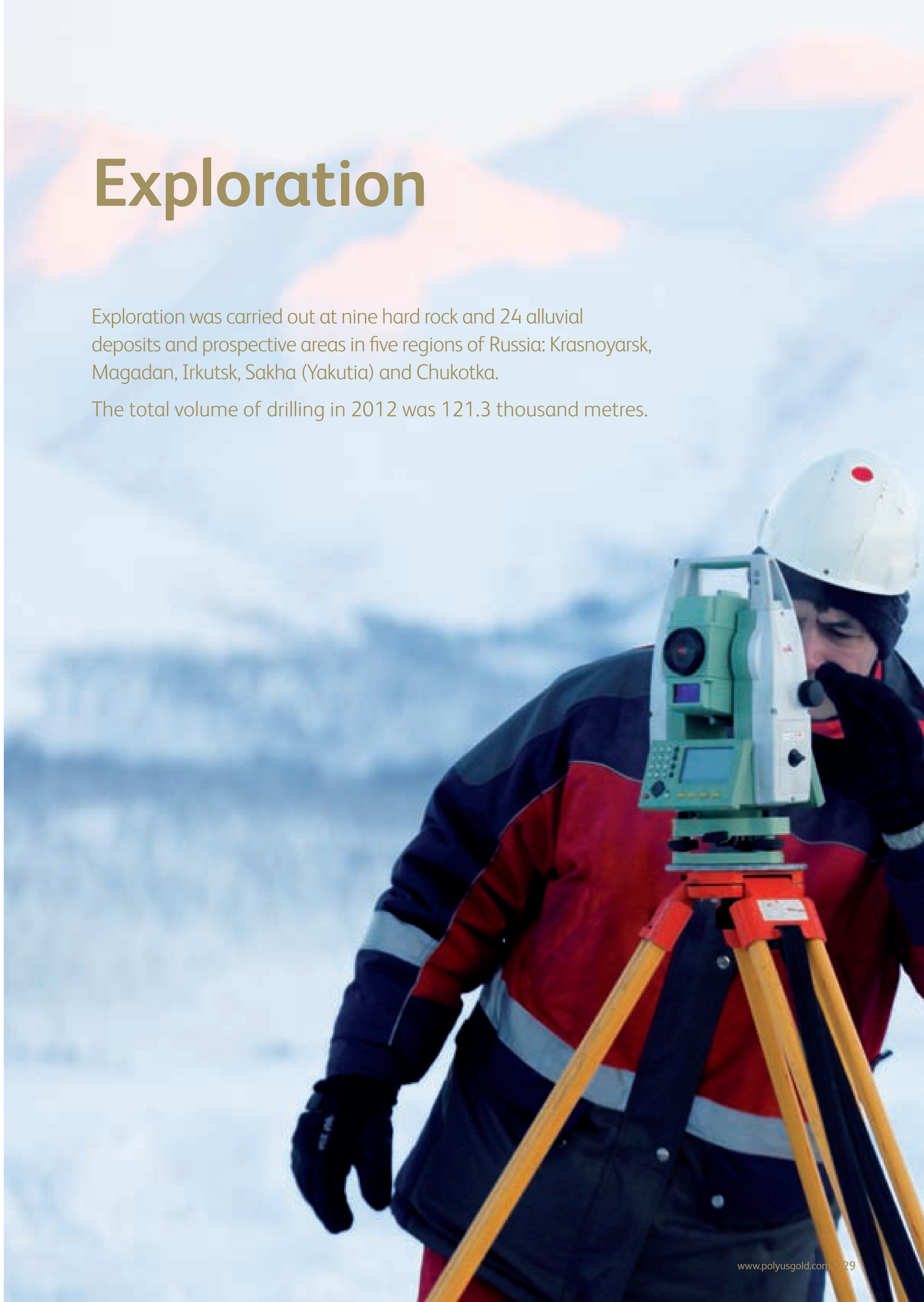
A pre-feasibility study is expected to be completed by mid 2013. Any decision to proceed with development is anticipated to be linked to the approval of the construction of the first stage of the Peleduy-Mamakan grid.

Nezhdaninskoye deposit[1]

In line with the licence agreement, the project's technological application was submitted for regulatory review in December 2012. A revised feasibility study is expected to be completed in the spring of 2013 and to be reviewed after the receipt of all necessary regulatory approvals.

Kuranakh mine expansion

A feasibility study for the expansion of the mine to 6 mtpa is currently under review.



Exploration

Exploration was carried out at nine hard rock and 24 alluvial deposits and prospective areas in five regions of Russia: Krasnoyarsk, Magadan, Irkutsk, Sakha (Yakutia) and Chukotka.

The total volume of drilling in 2012 was 121.3 thousand metres.

Krasnoyarsk region

In 2012 the Company performed exploration activities at six projects in the Krasnoyarsk region.

Olimpiada (Deep horizons)

In 2012, preparation of data for a pre-feasibility study continued. A research study aimed at modelling the geological-genetic concept of the Olimpiada deposit has been launched, and field operations have been completed.

Poputninskoe deposit & Razdolinskaya area

Exploration has been completed at the Poputninskoe deposit. A pre-feasibility study and reserve estimation report have been submitted to the State Expertise Committee, with a planned audit completion in Q1 2013.

Panimba area

Exploration was completed in 2010. In 2012, the pre-feasibility study was updated according to the recommendations of the State Expertise Committee. Submission of the pre-feasibility study and reserve estimation report to the State Expertise Committee is planned for Q1 2013.

Verkhne-Kadrinskaya area

Prospecting, target delineation and drill testing work has continued, consisting of trenching, prospecting and test drilling at three prospective sites.

Vangashskaya area

Prospecting, target delineation and drill testing works have been continued, consisting of detailed soil sampling of outlined anomalies, prospecting and test drilling and trenching at five prospective target sites.

Irkutsk region

Exploration activity in the region has been focused on three hard rock projects.

Smezhny area

Advanced exploration and infill drilling has been completed at the Verninskoye eastern and western extensions to expand the Verninskoye mineable reserves. A few targets were tested by shallow trenching and drilling. Total volume of drilling amounted to 18.7 thousand metres.

Chertovo Koryto deposit

Exploration has been completed at the eluvial-deluvial placer covering the main ore body of the deposit.

Medvezhy Zapadny deposit

The first stage of exploration was completed in 2011. The scoping study and resource estimation report were finalised and submitted to the State Expertise Committee for further audit. The project is located close to the Verninskoye mine and ore has the potential to be treated at the Verninskoye processing plant.

Alluvial deposits

In addition to hard rock, the Company has continued exploration into the alluvial deposits of the Irkutsk region. Target delineation and drill testing work have been carried out at 23 licensed sites, and grade control drilling at 11 deposits. The scope of drilling amounted to 38.1 thousand metres for exploration and 8.8 thousand metres for the grade control drilling. As of 1 January 2013, the Company held 103 licences for alluvial gold deposits.

Olimpiada: Deep horizons

Kuranakh: Exploration

2012 highlights

121km
Drilled in 2012

USD 47mln
exploration expenses in 2012

Sakha (Yakutia) Republic

Kuranakh ore field

Following the recommendations of the local Ministry of Subsoil Use, the Company continued its pre-feasibility study update and reserves estimation of all deposits in the Kuranakh ore field. Work is planned to be completed in 2013. Estimation of the resources of the low-grade stockpiles is planned to be complete by the end of 2013.

Chukotka region

Exploration activity has been concentrated at the Burgakhchan area, a greenfield project consisting of three adjacent licences – Western, Central and Eastern Burgakhchan.

Burgakhchan area

Early stage exploration was launched in 2012, consisting of traversing, soil sampling, ground geophysics (magnetic and IP) and dozer trenching for testing earlier identified anomalies and mineralisation. As a result, two drill targets have been delineated at the Verny and Temny areas, representing coincident geophysical and geochem anomalies, and warranting further exploration.

Kazakhstan

In 2012, the Company continued exploration work targeted on resources and reserves estimation for open pit and underground mining in the following, mostly brownfield, projects in Central (Aksu, Bestobe, Zholymbet, Yuzhny Karaultobe) and Eastern Kazakhstan (Akzhal).

In total, 51.4 thousand metres have been drilled, including 37.4 thousand metres of diamond and 13.9 thousand metres of KGK drilling.

Aksu deposit

Exploration at the Aksu deposit was targeted on identification and delineation of oxide ore amenable for open pit mining. Work included trenching and 11.3 thousand metres of diamond drilling. As a result, two ore zones have been identified in the Zapadny and Staratelsky areas, warranting continuation of the work.

Bestobe deposit

Exploration was targeted on the evaluation of the primary ore potential in the western portion of the Centralny area to a depth of 100-250m, and on identification of oxide ore resources within the same area.

The pre-feasibility study for oxide reserves and scoping study for primary ore resources have been completed, agreed with Kazakhstan Subsoil Use Ministry and submitted to the Kazakhstan State Expertise Committee.

Zholymbet deposit

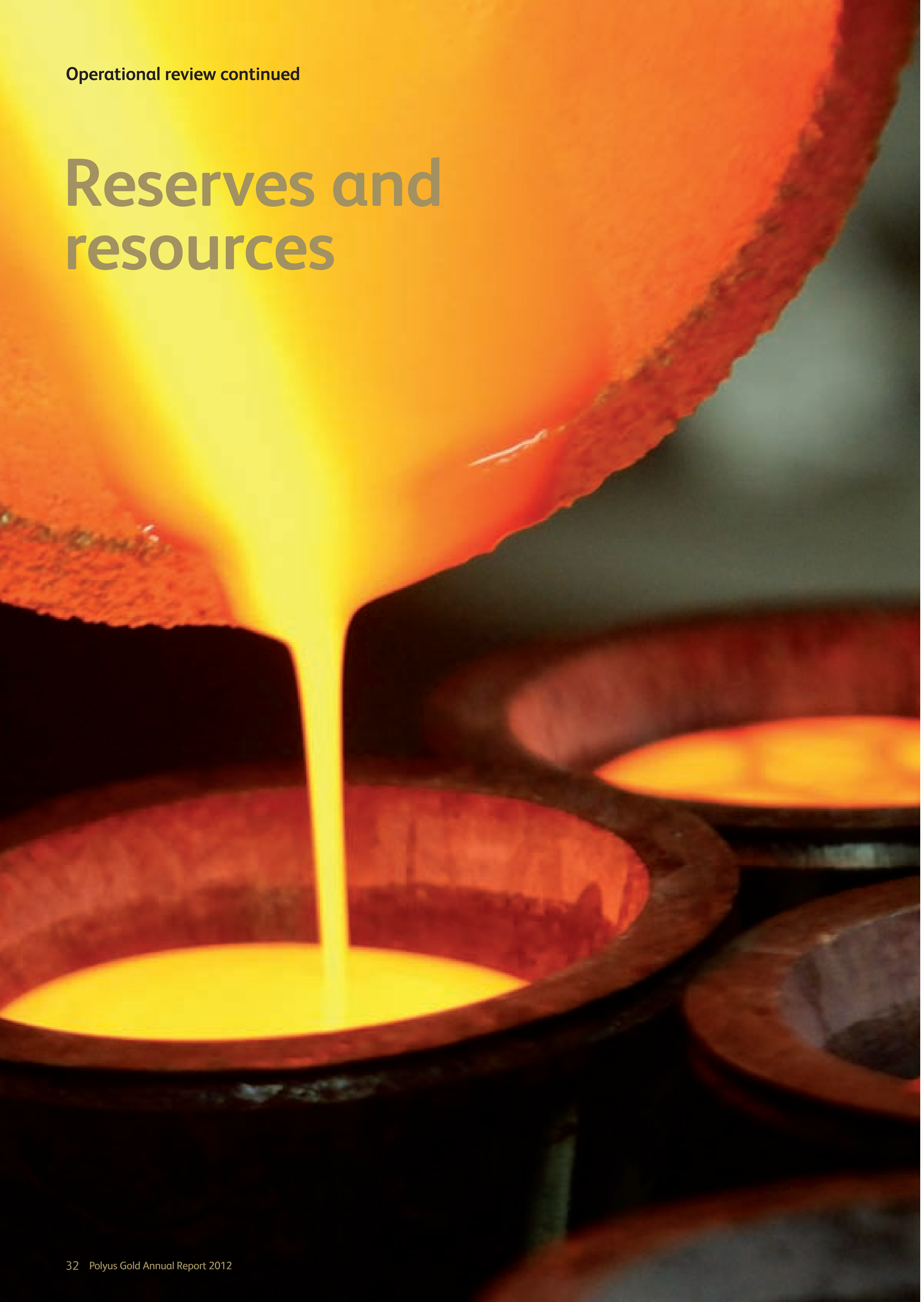
Exploration in 2012 was targeted on expanding the resource base for the active Zholymbet mine and was concentrated in five areas.

Yuzhny Karaultobe deposit

Exploration was concentrated in three areas and was targeted on drill testing of early outlined mineralisation and IP anomalies.

Akzhal deposit

Exploration work has been completed in three areas, Central (primary ore), and Sergey I and II (oxide), to expand a reserve base for the mine.



Reserves and resources

In 2011-2012, a JORC-compliant reserves audit was undertaken at Olimpiada, Natalka, Panimba and Razdolinskaya in Russia. According to the audit results, the Group's total proved and probable reserves are 87.5 million ounces of gold. Measured, indicated and inferred resources are 151.9 million ounces.

Measured, indicated and inferred resources

Resources are inclusive of reserves

	Measured			Indicated			Total measured and indicated
Deposit	Ore (million tonnes)	Grade (g/t)	Gold (000' ounces)	Ore (million tonnes)	Grade (g/t)	Gold (000' ounces)	Gold (000' ounces)
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	**547.7**	**1.8**	**30,905**	**1,210.6**	**2.0**	**79,561**	**110,466**

	Inferred		
Deposit	Ore (million tonnes)	Grade (g/t)	Gold (000' ounces)
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	**634.0**	**2.0**	**41,463**

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 website. 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 website: 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 website: 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 website: 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 metres (m^3), gold grade in grams per cubic metre (g/m^3). Conversion of sands was based on a ratio of two metric tonnes per one cubic metre. Competent person: Stanley C Bartlett, PGeo. The MER is available at the Group's website: 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 website: 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 website: 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 website: http://www.polyusgold.com/documents/11029/Chertovo%20Koryto%20reserves%20audit,%20January%202008.pdf

Proved and probable reserves

Deposit	Proved Ore (million tonnes)	Proved Grade (g/t)	Proved Gold (000' ounces)	Probable Ore (million tonnes)	Probable Grade (g/t)	Probable Gold (000' ounces)	Total proved and probable Gold (000' ounces)
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	**509.1**	**1.7**	**27,545**	**806.6**	**2.3**	**59,990**	**87,535**

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 website: http://www.polyusgold.com/documents/11319/Olimpiada%20Mineral%20Expert%20Report,%20October%202011.pdf

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

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6 Audited in October 2006 by SRK Consulting. Competent person: Mike Armitage. The MER is available at the Group's website: 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 website: 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 website: 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 website. http://www.polyusgold.com/documents/11031/Reserves%20audit%20of%20deposits%20in%20Kazakhstan%20and%20Romania,%20June%202011.pdf

CSR summary

The Company's Sustainability Report received GRI application level A+.

The Group is committed to complying with the principles of sustainable development and eliminating environmental, health and safety, and community risks. These risks may adversely affect the Group's interaction with stakeholders and the Group's overall efficiency. In 2012, the Company implemented a number of measures in such sustainability areas as: health and safety, employee development, environmental stewardship, stakeholder engagement, sponsorship and charity.

The Group has been consistent in its health and safety approach over the last two years by focusing its initiatives on developing and implementing a health and safety management system; and introducing hazard identification, risk assessment and control procedures. In 2012, the Company conducted the following: an audit to assess the Group's compliance with Occupational Health and Safety and Environmental protection; a Leadership Safety training programme; the Golden Safety Rules; a Zero Fatality initiative; a first-aid training programme for employees; and an incident reporting procedure.

In view of the Group's growth and efforts to develop new investment projects in 2012, the Company focused on attracting, retaining and motivating talented and qualified employees, with special attention being paid to young specialists. The top priorities for 2012 were improving the recruitment system, enhancing the quality of social infrastructure and developing a remuneration and benefits system.

The Company recognises that its operational activities have an impact on the natural and social environment. Therefore the Group is sharpening its focus on environmental management in its projects and operations. The Group is focusing on key areas such as energy consumption, water use and discharge, land resources and biodiversity, emissions, waste and environmental protection expenditures. Among the key initiatives are: the Water Balance Model for the Natalka project; an Environmental and Social Impact Assessment report for the Natalka project; the Closure and Rehabilitation plans; positions in Corporate HSEC Departments.

With a view to improving stakeholder dialogue, in 2012 the Group engaged a number of consulting companies to carry out an assessment of stakeholder engagement practices at the four Group mines. Following the results of these social audits, specific recommendations on stakeholder engagement and community development for each site were developed.

A core component of the Group's commitment to corporate social responsibility is making a substantial contribution to the social-economic development of regions where the Group operates and to developing local communities. Each year the Group introduces a number of sponsorship and charity initiatives aimed at improving living conditions in surrounding communities. Such initiatives cover a number of areas and have a special focus on children, education and sport.

SD More detailed information on the sustainability performance results can be found in the 2012 Sustainability Report.

Record financial results

"Record revenue, record EBITDA, record profit for the year – USD 2.8 billion, USD 1.4 billion and USD 1.0 billion respectively."

Oleg Ignatov,
Chief Financial Officer

We are happy to announce record revenues of USD 2.8 billion in 2012. This growth reflects production of the Verninskoye mine (new facility launched in December 2011), operational improvements at our existing mines (the Olimpiada mine and the Blagodatnoye mine) as well as the strong market environment for gold.

In general, the reporting year was much more profitable than we were expecting in December 2011. We had been conservative with respect to macroeconomic inputs while drafting the Group's budget for 2012. In the year, both the gold price and the Russian rouble ("RUB")/US Dollar ("USD") exchange rate proved more favourable.

Cash costs were under control during the year. A number of measures aimed at restraining costs resulted in lower than expected Total Cash Cost ("TCC") per oz[3] sold growth.

The factors mentioned above drove a record Adjusted EBITDA[4] of USD 1.4 billion, and profit for the year of USD 981 million.

Due to strong operating cash inflow and a successful placement of the block of treasury shares, our cash and cash equivalents reached USD 960 million. This also allowed us to borrow three times less than was planned, and pay dividends in line with projections.

Financial highlights

- Gold sales up by 19% to USD 2.8 billion, reflecting increased sales volumes and higher gold price (FY 2011: USD 2.3 billion);
- TCC per oz[3] sold rose by 8% to USD 694 per oz[3];
- Adjusted EBITDA[4] reached USD 1.4 billion, a 22% increase, while Adjusted EBITDA[4] margin improved from 47% in the FY 2011 to 49%;
- Profit for the year increased 71% to USD 981 million (FY 2011: USD 573 million);
- EPS doubled from 16 US cents to 32 US cents; and
- Net cash position of USD 680 million compared to net debt position of USD 129 million at the end of 2011.

Financial results for the years ended 31 December 2012 and 2011

USD'000, unless specified otherwise	Years ended 31 December 2012	2011	% change y-o-y[1]
Total revenue	2,848,105	2,402,710	19
Operating profit	1,231,992	857,640	44
Operating profit margin	43%	36%	–
Profit for the year	980,526	573,203	71
Earnings per share – basic and diluted (US cents)	32	16	93
Weighted average number of ordinary shares ('000s)[2]	2,950,916	2,960,311	–
Net cash flow from operations	991,769	775,588	28
Capital expenditure	(850,719)	(368,139)	131
Gold production (k oz)	1,678	1,495	12
Gold sold (k oz)	1,685	1,483	14
Average realised gold price (USD per oz)	1,653	1,578	5
Adjusted EBITDA[4]	1,382,967	1,131,863	22
Adjusted EBITDA margin	49%	47%	–
Total cash cost per oz sold (USD per oz)	694	645	8

Note:
[1] y-o-y – year-on-year.
[2] The weighted average number of shares changed following the sale of treasury shares on 10 May 2012, which resulted in the increase in the number of shares outstanding and therefore the average number for the year. At 31 December 2011 the number of shares outstanding was 2,805,190 thousand having decreased from 3,082,656 thousand a year ago as a result of the completion of the RTO procedures. Following the sale of treasury shares on 10 May 2012, the number of shares outstanding increased to 3,032,150 thousand.
[3] For the definition and calculation refer to page 45 of this report.
[4] For the definition and calculation refer to page 43 of this report.

CAUTIONARY STATEMENT

This Financial review has been prepared solely to provide additional information to shareholders. The review should not be relied on by any other party or for any other purpose. The review contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including risk factors, underlying any such forward-looking statement. The review represents management's opinion in relation to the Group's operating and financial results.

In this Financial review percentage movements are based on the audited numbers disclosed in the consolidated financial statements for the year ended 31 December 2012, as well as on unrounded operational numbers, and not on the high level rounded numbers (i.e. billions or millions of USD or oz) and therefore there may appear to be some inconsistencies due to the rounding of numbers.

In 2012 the Group has implemented an early adoption of IFRIC 20 "Stripping costs in the Production Phase of a Surface mine" to account for costs directly related to its surface mining stripping activity. The adoption of IFRIC 20 resulted in the following material adjustments to:

- the financial position of the Group as at 31 December 2011 (increase in property, plant and equipment, retained earnings and deferred tax liabilities, write down of deferred stripping costs for 2011 and decrease in inventory);
- the consolidated income statement for the year ended 31 December 2011 (increase in costs of gold sales and decrease in income tax charge);
- the consolidated statement of cash flows for the year ended 31 December 2011 (increase in operating activities and decrease in investing activities).

For more information please refer to Note 2 to the consolidated financial statements for the year ended 31 December 2012.

The Group's operating results

EXTERNAL MARKET FACTORS AFFECTING THE GROUP'S FINANCIAL RESULTS

The Group's results are affected significantly by movements in currency exchange rates (principally the US dollar/rouble rate), and the price of gold.

Average rates for these main external market factors for the years ended 31 December 2012 and 2011 were:

Average price/ rate	Years ended 31 December 2012	2011	% change y-o-y
Average afternoon gold price fixing (USD per oz)[1]	1,669	1,572	6
Average RUB/USD rate[2]	31.09	29.39	6
Year end RUB/USD rate	30.37	32.20	(6)
Average KZT/USD rate[3]	149.11	146.62	2
Year end KZT/USD rate	150.74	148.40	2

Note:
[1] Source: London Bullion Market Association.
[2] Source: The Central Bank of Russia.
[3] Source: The National Bank of Kazakhstan.

Gold price

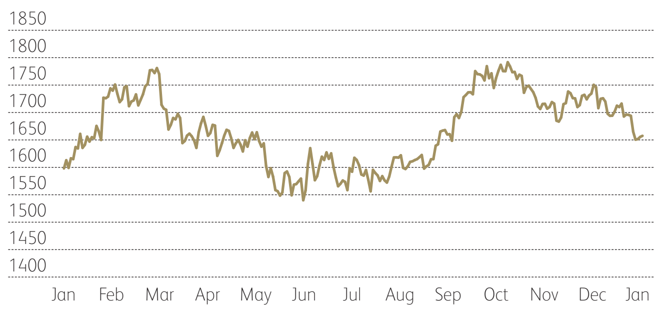
The market price of gold is the most significant factor influencing the profitability and operating cash flow generation of the Group. The global gold price is subject to volatile movements over short periods of time. In 2012, the average afternoon gold price fixing in London was USD 1,669 per oz, with gold reaching its lowest level of USD 1,540 per oz on 30 May 2012 and its highest level of USD 1,792 on 4 October 2012.

Exchange rates

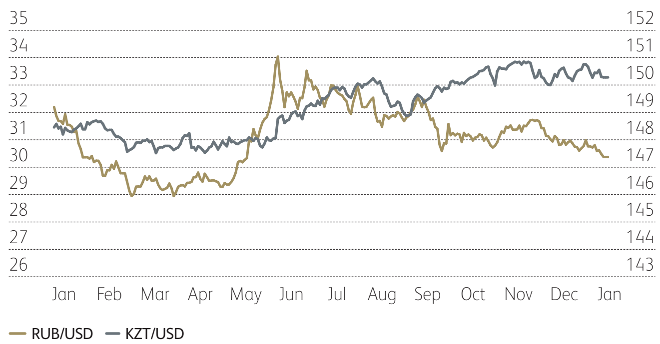
The Group's revenue from gold sales is denominated in US dollars, whereas most of the Group's operating expenses are denominated in Russian roubles. Accordingly, an appreciation of the Russian rouble against the USD may negatively affect the Group's margins by increasing the USD value of its RUB-denominated costs. Conversely, an appreciation of the USD against the Russian rouble may positively affect the Group's margins by decreasing the USD value of its rouble-denominated costs. In 2012, the average RUB/USD exchange rate increased to RUB 31.09 per USD from 29.39 in 2011. This contributed to a decrease in USD terms for salaries and other expenses denominated in Russian roubles during 2012 in comparison with 2011. The decrease in the closing rate to RUB 30.37 per USD (31 December 2011: RUB 32.20 per USD) led to an increase in the statement of financial position items in USD terms.

The Group was also exposed to Kazakhstan tenge ("KZT")/USD exchange rate movements since the operating expenses of PGIL's mining operations in Kazakhstan are incurred primarily in Kazakh tenge.

Average afternoon gold price fixing (2012, USD per oz)



RUB/USD and KZT/USD exchange rates (in 2012)



GOLD SALES

The following table shows the results and breakdown of the Group's gold sales for the years ended 31 December 2012 and 2011:

	Years ended 31 December		% change
	2012	2011	y-o-y
Gold sales (USD thousands)	2,784,499	2,340,650	19
Gold sales (k oz)	1,685	1,483	14
Gold sales in the domestic market (USD thousand)[1]	2,643,340	2,188,271	21
Gold sales in the domestic market (%)	95	93	2
Export gold sales (USD thousand)[2]	141,159	152,379	(7)
Average realised gold price (USD per oz)	1,653	1,578	5
Average afternoon gold price fixing (USD per oz)[3]	1,669	1,572	6
(Deficit)/excess of average realised price compared to average afternoon gold price fixing (USD per oz)	(16)	7	(346)

Note:
[1] Sales on the domestic market comprise sales by the Group's Russian subsidiaries on the Russian market and by the Kazakhstan business unit on the Kazakhstan market.
[2] Export sales comprise sales by the Kazakhstan business unit to foreign customers.
[3] Source: London Bullion Market Association.

In 2012, the Group's gold sales amounted to USD 2,784,499 thousand, showing an increase of 19% compared to 2011. The increase in gold sales resulted from a combination of higher realised gold prices and increased sales volumes.

The sales volume in 2012 was 1,685 k oz, including 1,571 k oz sold by the Group's mines in Russia in the form of refined gold and flotation concentrate, as well as 114 k oz of gold sold by the Kazakhstan business unit in the form of sludge, flotation and gravitation concentrates and other semi-products. The 2011 sales volume was 1,483 k oz, including 1,369 k oz of refined gold sold by the Group's mines in Russia and 113 k oz of gold sold by the Kazakhstan operations in the form of sludge, flotation and gravitation concentrates and other semi-products.

In 2012, the weighted-average realised gold price was USD 1,653 per oz, a 5% increase compared to 2011. This was USD 16 per oz lower than the average afternoon gold price fixing on the London market, because of seasonal factors (alluvial deposits) and sales of semi-products produced by the Krasnoyarsk and Kazakhstan business-units. The Group sells semi-products with a discount to the market. This negatively affected the weighted-average realised gold price in both the years ended 31 December 2011 and 2012.

In the first quarter 2012, where the gold spot price was higher than average for the year, volumes of gold sold were low as alluvials were not in operation. Higher volumes of sales were achieved between June and August 2012, when the alluvials production reached its highest level. At that time, the average afternoon gold price fixing was relatively low (see graph below). In August and September 2012 the gold spot price increased, but the sales volumes were interrupted by lower production of the Olimpiada mine, which in turn was a result of electricity outages (please see section Operational results by mine of the Annual Report). In October 2012, the average afternoon gold price fixing was still high, but the weighted-average realised gold price was undermined by one-off sales of flotation concentrate produced by the Krasnoyarsk business unit.

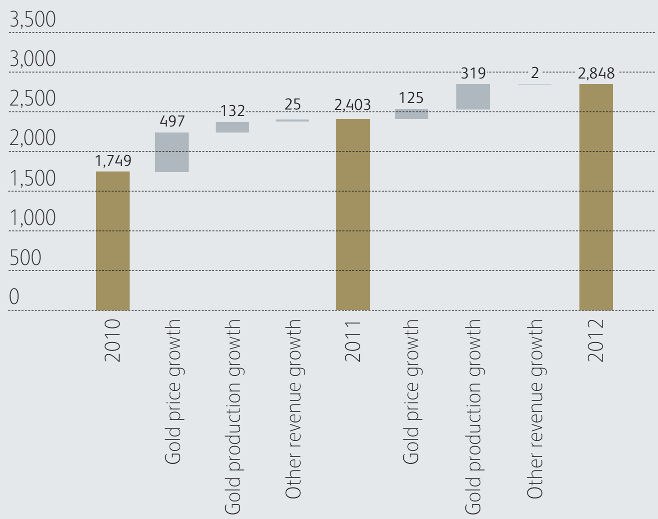
In 2011, the weighted-average realised gold price was USD 6 per oz higher than the average afternoon gold price fixing, since over 32% of the Group's total sales of gold by volume were done in the third quarter of the year, when the gold price was higher than the average for the year as a whole.

In 2012, 39% of the Group's gold sales came from the Olimpiada mine:

- In 2012 the Krasnoyarsk business unit sold 17 k oz produced in 2011 and 1,156 k oz produced in the reporting year, totalling 1,173 k oz. Metal balance at the refinery plant in Krasnoyarsk at the end of 2012 amounted to 15 k oz, which were sold in 2013;
  - The Olimpiada mine: 653 k oz of gold produced and 654 k oz of gold sold. Successful implementation of the Group's production optimisation programme resulted in higher recovery rate (74% vs. 69% in 2011), and therefore in higher production (566 k oz in 2011);
  - The Titimukhta mine: Increase in plant processing capacity (from 2.2 mtpa to 2.4 mtpa) resulted in production and sales growth;
  - The Blagodatnoye mine: Continuing ramp-up and increase in recovery rate;
- The Verninskoye mine: 33 k oz growth in sales y-o-y (3 k oz in 2011). New mine launched in December 2011;
- The Kuranakh mine: 21 k oz sales growth y-o-y. Growth in processing and mining volumes due to enhanced planning and growth in recovery rate; and
- Kazakhstan business unit: Slight growth in sales, 3 k oz decrease in production was offset by sale of gold produced in 2011.

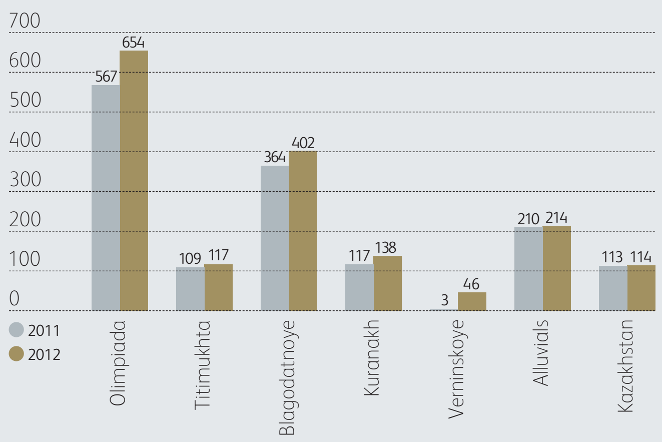
Revenue bridge in the years ended 31 December 2012 and 2011 (USD million)

2,848

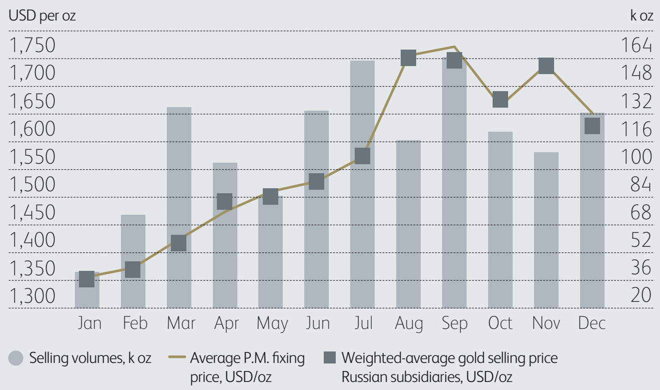


Gold sales volumes by mine for the years ended 31 December 2012 and 2011 (k oz)

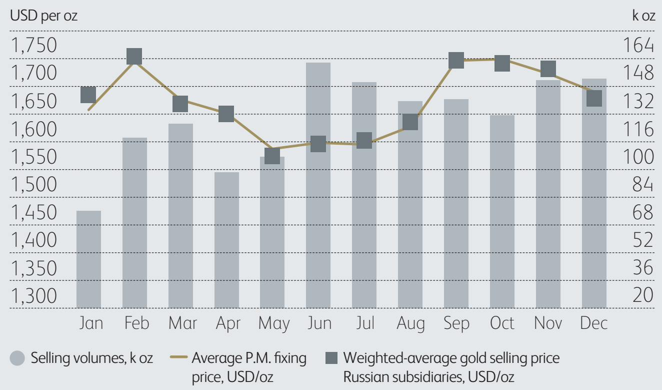
1,685



Gold sales and selling price for the year ended 31 December 2011



Gold sales and selling price for the year ended 31 December 2012



The following table shows sales breakdown by type and by mine in 2012:

	Krasnoyarsk BU			Yakutia BU	Irkutsk ore BU	Irkutsk alluvial BU	Kazakhstan BU	Others
	Olimpiada[1]	Titimukhta	Blagodatnoye	Kuranakh	Verninskoye	Alluvials	Kazakhaltyn	
Gold produced (k oz)	653	117	401	138	46	214	109	
Gold sold (k oz)[2]	654	117	402	138	46	214	114	
Gold sales (USD mln)	1,087	195	667	230	76	364	166	
Other sales (USD mln)	–	–	–	4	2	8	2	48
Total sales (USD mln)	1,087	195	667	234	78	372	168	48

Note:
[1] Includes sales of flotation concentrate.
[2] Mines of Krasnoyarsk business unit have a single metal collecting office, therefore gold sales volumes are broken down proportionally to refined gold production.

COST OF GOLD SALES

The cost of gold sales increased from USD 1,143,033 thousand in 2011 to USD 1,361,827 thousand in 2012, mainly as a result of growth in cash operating costs.

The following table shows the results of the Group's cost of gold sales for the years ended 31 December 2012 and 2011:

USD'000	Years ended 31 December 2012	2011	% change y-o-y
Cash operating costs	1,208,668	1,002,816	21
Amortisation and depreciation of operating assets	190,387	184,067	3
Total cost of production	**1,399,055**	1,186,883	18
Increase in gold-in-process and refined gold	(37,228)	(43,850)	(15)
Cost of gold sales	**1,361,827**	1,143,033	19

Cash operating costs
Cash operating costs increased from USD 1,002,816 thousand in 2011 to USD 1,208,668 thousand in 2012. This 21% increase resulted mainly from:

- a 12% increase in the volume of gold produced;
- increases in the purchase price and consumption of consumables and spares. All the Group's business units incurred increased expenses for the purchase of grinding balls, spare parts, tyres and chemical products. The increase in costs for consumables and spares was driven largely by the increase in purchase price (for example, the average price for cyanides increased 12% y-o-y) and, in some cases, by the growth in consumption. For example, consumption of explosives increased at the Krasnoyarsk business unit due to the overall growth in drilling and blasting operations at Blagodatnoye and Olimpiada. Consumption of consumables and tires for the mining fleet increased at the Irkutsk alluvial business unit, resulting from the early commencement of the mining season;
- increases in the purchase price and consumption of fuel is explained by increased prices for oil products, as well as by additional consumption, mainly as a result of diesel consumption by the Irkutsk ore business unit (for the first four months of 2012 the Verninskoye mine had diesel power generation feed only, however in May 2012 the mine was connected to the federal power grid). Higher consumption of fuel in 1H 2012 was experienced at the alluvial mines (due to early commissioning of operations), as well as at the Yakutia Kuranakh business unit (freight turnover increased). The Krasnoyarsk business unit decreased consumption of fuel by approximately six thousand tonnes y-o-y primarily as a result of a decrease in in-house generation and changeover to the acquisition of less expensive electricity from federal grids;
- higher labour costs: these costs increased by 33% to USD 373,431 thousand, with the Krasnoyarsk and Irkutsk ore business units being the major contributors to the payroll cost growth. At the beginning of 2012, the Group initiated the indexation of salaries for operating employees. The average indexation level (payroll increase) was 6%, varying from 3% in the Magadan business unit to 13% in the Krasnoyarsk business unit. Moreover, the growth in labour expenses was driven by changes in the estimation of annual bonuses for the performance results for the 12 months of 2012, the launch of the Verninskoye mine in December 2011, as well as an increase in personnel in the Magadan business unit;
- increase in the tax on mining charges is in line with the gold price dynamics as well as growth in sales;
- increase in utilities expenses. The Krasnoyarsk business unit increased power consumption (11% y-o-y) following increased mining and processing volumes and following a decrease in in-house generation. The Irkutsk ore business unit doubled its power consumption twice as a result of the connection to the federal grid. The Yakutia Kuranakh business unit also increased power consumption by 6% y-o-y following an 11% increase in the amount of ore processed; and
- other costs, which include transport expenses, repair and maintenance, security, rent expense and other expenses increased by 11% mainly as a result of an increase in the volume of communication services. The Group improved communication within its business units and between business units and headquarters by installation of internet connection, mobile and visual communication.

Amortisation and depreciation of operating assets
Amortisation and depreciation of operating assets increased 3% and amounted to USD 190,387 thousand in 2012, which is explained by the launch of the new Verninskoye mine.

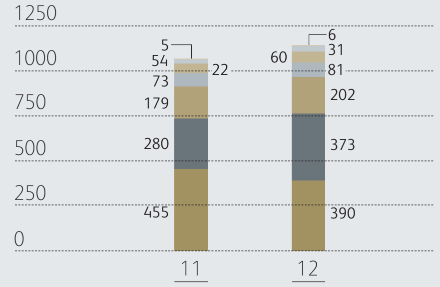
Share of expense components in total cash operating costs for the years ended 31 December 2012 and 2011

(%)

2011	%	2012	%
Fuel, consumables and spares	39	Fuel, consumables and spares	38
Labour	28	Labour	31
Tax on mining	18	Tax on mining	17
Other costs	7	Other costs	6
Utilities	5	Utilities	5
Outsourced mining services	2	Outsourced mining services	2
Refining costs	1	Refining costs	1

Cash operating costs breakdown for the years ended 31 December 2012 and 2011

1,209



- Fuel, consumables and spares
- Labour
- Tax on mining
- Other costs
- Utilities
- Outsourced mining services
- Refining costs

Increase in metal inventories
In 2012 total metal inventories increased from 1,130 k oz at the beginning of the reporting year to 1,364 k oz as at the end of 2012. This was mainly related to the increase in ore stockpiles, at the Krasnoyarsk business unit, which contained 1,130 k oz of gold, as compared to 867 k oz at the beginning of the reporting year. Total increase in metal inventories equalled 234 k oz. The various types of metal inventories are valued using different approaches. Refined gold is 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. The money equivalent value of this increase equalled USD 37,228 million.

The table below shows metal inventories (in oz of gold) for the Group's Russian subsidiaries for the years ended 31 December 2012 and 2011:

K oz	Years ended 31 December 2012	2011	% change y-o-y
Krasnoyarsk business unit	**1,152**	1,097	5
Stockpiles	965	852	13
Gold-in-process	172	228	(25)
Refined gold	15	17	(11)
Yakutia business unit	**17**	23	(29)
Stockpiles	3	15	(80)
Gold-in-process	14	8	65
Refined gold	–	–	–
Irkutsk ore business unit	**194**	8	2,349
Stockpiles	162	–	100
Gold-in-process	32	8	292
Refined gold	–	–	–
Irkutsk alluvial business unit	**1**	1	(32)
Stockpiles	–	–	–
Gold-in-process	–	–	–
Refined gold	1	1	(32)
Total	**1,364**	1,130	21

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2012, the Group's selling, general and administrative expenses increased from USD 225,618 thousand to USD 267,903 thousand. This increase resulted mainly from:

Salaries

In 2012, the Group's administrative labour costs increased by 23% to USD 142,569 thousand.

The increase is related to the increase in bonus payments for the FY2011 results (calculated proportionately to the actual bonus paid for FY2011), including bonus payments to the senior management team which were higher than in 2011, as well as to the launch of the Verninskoye mine. In addition, there was an increase in the average number of administrative personnel at the Yakutia (Kuranakh) and Krasnoyarsk business units, as well as indexation of salaries from the beginning of 2012.

Taxes other than mining and income taxes

The following table shows the components of taxes, other than mining and income taxes for the years ended 31 December 2012 and 2011:

USD'000	Years ended 31 December 2012	2011	% change y-o-y
Property tax	19,353	20,661	(6)
VAT	1,405	2,167	(35)
Tax on dividends	38,090	16,388	132
Other taxes	3,378	3,414	(1)
Total	**62,226**	42,630	46

In 2012, the Group accrued USD 62,226 thousand in federal and regional taxes other than tax on mining and income tax, compared to USD 42,630 thousand in 2011. Property tax charges were broadly at the level of the previous year. Tax on dividends increased 132% to USD 38,090 thousand mainly due to the increase in dividends accrued by OJSC Polyus Gold in a favour of PGIL and Jenington International (accrued USD 376,564 thousand in 2012 and USD 159,809 thousand in 2011).

Professional services

The Group incurred USD 30,279 thousand of costs related to professional services, reflecting payments for advisory services provided to the Group with regard to the obtaining of the premium listing on the London Stock Exchange and negotiations related to the sale of PGIL's operating subsidiaries in Kazakhstan and Romania, as well as an increase in software and maintenance costs. Audit and audit related service payments decreased by 47%.

FINANCE COSTS

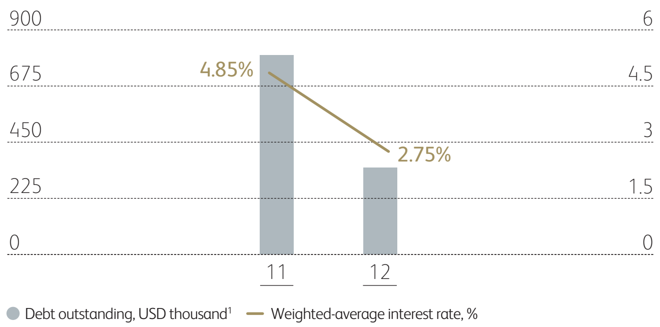
The level of borrowings decreased 56% from 31 December 2011 to 31 December 2012. This fall results from the repayment of the Senior Notes with a consideration of USD 200,000 thousand and the Gold Lion loan settlement with a consideration of USD 34,160 thousand. Both loans had high interest rates – 9.875% and 10%. During the reporting year, the Group obtained several new loans with significantly lower effective interest rates. This resulted in a decrease in interest expenses of 28%, from USD 31,241 thousand to USD 22,648 thousand. In addition, there was a one-off debt modification expense recognised in 2011 of USD 26,928, which was a result of the early redemption of the Senior Notes. These two factors (adjusted for unwinding of discounts and other items) were the main drivers for the 51% decrease in finance costs.

In 2012, the Group also repaid the VTB credit facility with a total consideration of USD 230,000 thousand and Société Générale credit facility with a total consideration of USD 230,000 thousand.

Debt outstanding and weighted-average interest rate as at 31 December 2012 and 2011

(USD thousand , %)

348,347



Note:

[1] Debt outstanding recognised at fair value and carried at amortised cost (as shown in the Group's statement of its financial position). Actual debt outstanding was USD 349,477 thousand as at 31 December 2012 and USD 794,160 thousand as at 31 December 2011.

INCOME FOR THE YEAR AND COMPREHENSIVE INCOME FOR THE YEAR

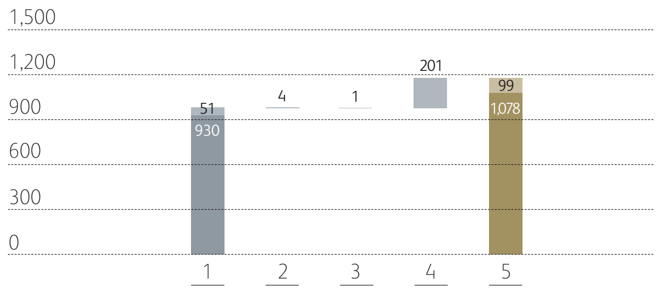
The Group has a recorded income for the year of USD 980,526 thousand, with approximately 94.8% (or USD 929,679 thousand) attributable to the shareholders of the parent company and the rest to the non-controlling shareholders of the subsidiaries of the Company.

Income for the year has been adjusted for the items that have not been realised during the reporting year and therefore bypass the income statement – losses from available-for-sale investments and currency translation effect. The total adjustment recorded equals USD 196,011 thousand, which gives a total comprehensive income for 2012 of USD 1,176,537 thousand, with USD 1,108,189 attributable to the shareholders of the Company. The main adjustment relates to the positive currency effect due to RUB depreciation against the USD.

Profit for the year 2012 adjustment to the total comprehensive income for the year 2012

(USD million)

1,177



1 Profit for the year, where USD 50,847 thousand is attributable to non-controlling interest and USD 929,679 thousand to the shareholders of the Company.

2 Loss from change in fair value of available-for-sale investments.

3 Losses recycled to profit or loss on disposal or impairment of available-for-sale investments.

4 Effect of translation to presentation currency.

5 Total comprehensive income for the year, where USD 98,666 thousand is attributable to non-controlling interests and USD 1,077,871 thousand to the shareholders of the Company.

Non-GAAP financial measures

In its own analysis of the Group's results, the Group uses key performance indicators that are not measures defined by IFRS.

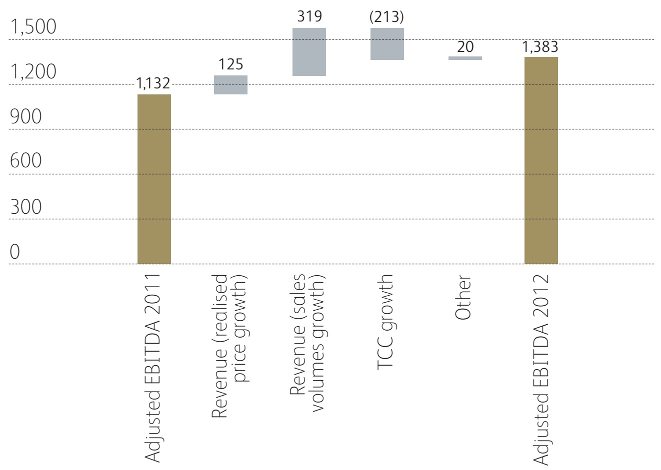
ADJUSTED EBITDA

"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 for certain items included in the table below. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. 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.

Adjusted EBITDA growth structure in 2012

(USD million)

1,383



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The following table sets forth the Group's Adjusted EBITDA for the years ended 31 December 2012 and 2011:

USD'000	Years ended 31 December 2012	2011	% change y-o-y
Profit for the year	**980,526**	573,203	71
+ Income tax	257,249	210,850	22
+ Depreciation and amortisation of property, plant and equipment for the year	195,858	190,081	3
+ Finance costs	34,791	71,403	(51)
– Interest income on bank deposits	(35,757)	(16,252)	120
– Gain on disposal of investments	(581)	(17,023)	(97)
+ Loss from investments in listed companies held for trading	378	20,984	(98)
– Foreign exchange (gain)/loss	(4,614)	5,814	(179)
+ Loss from disposal of property, plant and equipment and capital construction in progress	3,684	5,933	(38)
+ Impairment of property, plant and equipment and exploration and evaluation assets	36,785	78,209	(53)
+ Change in fair value of derivative	–	8,661	(100)
– Gain on loan cancellation and share purchase agreement termination	(79,084)	–	–
– Gain on disposal of subsidiaries	(6,268)	–	–
Adjusted EBITDA	**1,382,967**	1,131,863	22

The Group's Adjusted EBITDA increased 22% compared to 2011, mainly due to higher realised gold prices combined with increased sales volumes.

The following table shows the breakdown of Adjusted EBITDA for the years ended 31 December 2012 by business unit:

	Business unit				
USD'000	Krasnoyarsk	Yakutia	Irkutsk ore	Irkutsk alluvial	Kazakhstan
Profit for the year	**483,418**	**46,969**	**30,998**	**73,118**	**411**
+ Income tax	193,646	14,362	1,996	30,553	10,836
+ Depreciation and amortisation of property, plant and equipment for the year	118,463	16,077	13,233	13,383	21,036
+ Finance costs	4,469	2,656	3,181	418	33,972
– Interest income on bank deposits	322,474	10,720	(211)	31,729	(23)
– Gain on disposal of investments	–	–	–	–	–
+ Loss from investments in listed companies held for trading	(35)	–	–	–	–
– Foreign exchange (gain)/loss	10,242	75	(5,553)	(13)	7,412
+ Loss from disposal of property, plant and equipment and capital construction in progress	3,161	262	(1)	(25)	525
+ Impairment of property, plant and equipment and exploration and evaluation assets	99	–	1,189	212	21,529
– Gain on disposal of subsidiaries	–	(65)	(295)	–	(15,742)
Adjusted EBITDA	**1,135,937**	**91,055**	**44,538**	**149,375**	**79,956**

The Group's operating business units consolidated Adjusted EBITDA was USD 1,500,861 thousand, which adjusted for consolidation and for the results of the other companies of the Group gives USD 1,382,967 thousand.

The following table shows the Group's TCC for the years ended 31 December 2012 and 2011:

USD'000, unless otherwise indicated	Years ended 31 December 2012	2011	% change y-o-y
Cost of gold sales	1,361,827	1,143,033	19
– Property, plant and equipment amortisation and depreciation	(190,387)	(184,067)	3
– Provision for annual vacation payment	(5,705)	(1,620)	252
– Employee benefit obligations cost	(2,369)	(3,774)	(37)
– Change in allowance for obsolescence of inventory	1,815	(2,819)	(164)
+ Non-monetary changes in inventories[1]	4,426	5,956	(26)
Total cash costs	**1,169,607**	956,709	22
Gold sales (K oz)	1,685	1,483	14
TCC (USD per oz)	**694**	645	8
TCC (RUB per oz)	**21,579**	18,964	14

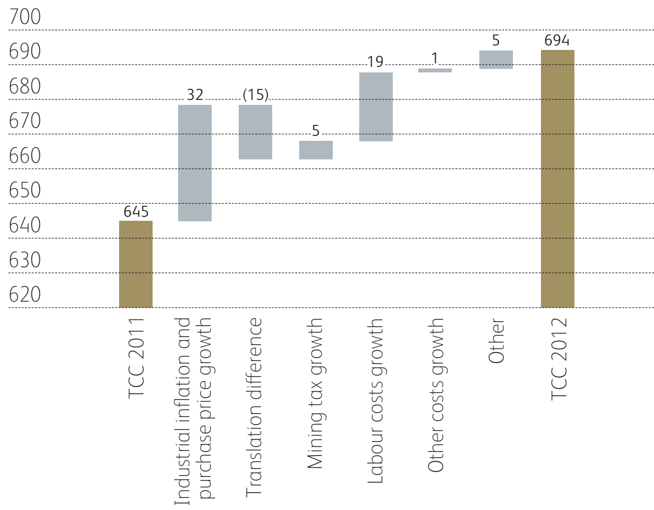
Note:

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.

TCC per oz sold growth structure in 2012

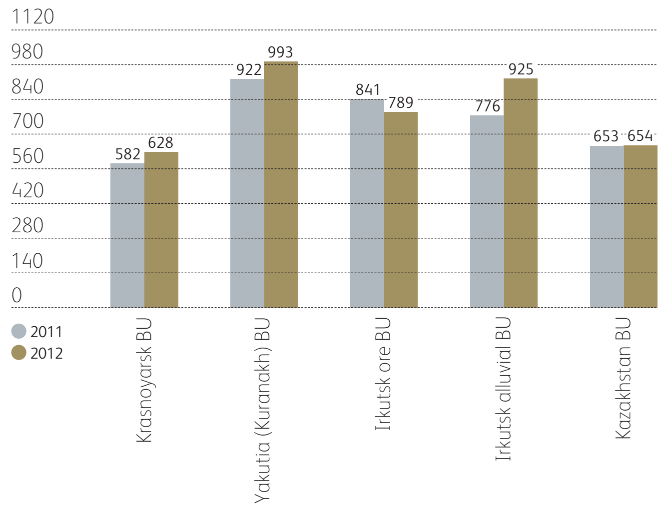
(USD per oz)

694



TCC per oz by business units in 2012 and 2011

(USD per oz)



TOTAL CASH COSTS

The Group presents the financial items "total cash costs" ("TCC") and "total cash cost per oz sold" which have been calculated and presented by management as the TCC presentation 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 the 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 oz sold are the total attributable cash costs divided by the attributable oz of gold sold during the period.

In 2012, the TCC per oz sold increased by 14% on a rouble basis. The increase of 8% on a USD basis was lower due to the strengthening of the US dollar relative to the Russian rouble.

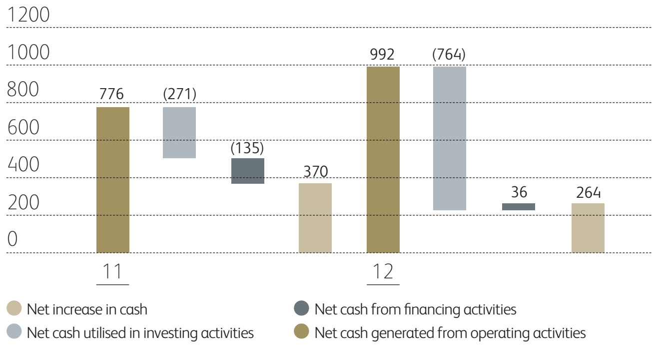
During 2012, total cash costs were affected mainly by a material increase in costs resulting primarily from salaries indexation, an increase in the average number of personnel, increased prices for some materials and components and an increase in mining tax charges due to the higher gold price (refer to "Cost of gold sales"). Despite improvements in the Group's mine processing efficiency, the increase in gold production and sales volumes was not sufficient to offset the inflation of costs, which led to an increase in the Group's TCC indicator.

- Krasnoyarsk business unit: The increase in TCC per oz sold is attributable to labour costs (a 13% increase due to salary indexation starting from the beginning of 2012, the highest indexation increase in the Group) and increases in the prices for consumables and spares;
- Yakutia (Kuranakh) business unit: The increase in TCC per oz sold was attributable to the increase in capital mining operations (39% increase in total rock moved), increased costs for metal-roll (mainly due to increased purchase prices), and costs for tyres (as a result of price increases, as well as higher mileages following the pits enlargement). Labour costs and material expenses have been the largest components of the cost of gold sales at the Yakutia Kuranakh business unit, expenses for the transport services (in many cases provided by third parties) are also traditionally high at the Kuranakh mine;
- Irkutsk ore business unit: Being launched on 31 December 2011, Verninskoye mine was in the ramp-up mode for the major part of the reporting year. This resulted in higher TCC than the average TCC calculated for this project. Comparative TCC for 2011 relates to the surrounding small mines (Pervenets and Zapadnoye) which produced 16 k oz and sold 13 k oz in 2011 with relatively high costs;
- Alluvials: The increase in TCC per oz sold at the Irkutsk alluvial business unit was mainly attributable to increased payroll costs (due to bonus payments for exceeding the production plan), increased volumes of repair works and the increased cost of outsourced mining services. Labour costs have been the largest component of the cost of gold sales at the Irkutsk alluvial business unit; and
- Kazakhstan mines: TCC growth was driven by a material decline in the average gold grade in the ore processed at the plants, a decrease in the volumes of cheap processing at the heap leaching facilities, and a deterioration in the ore quality.

Cash flows and net increase in cash for the years ended 31 December 2012 and 2011

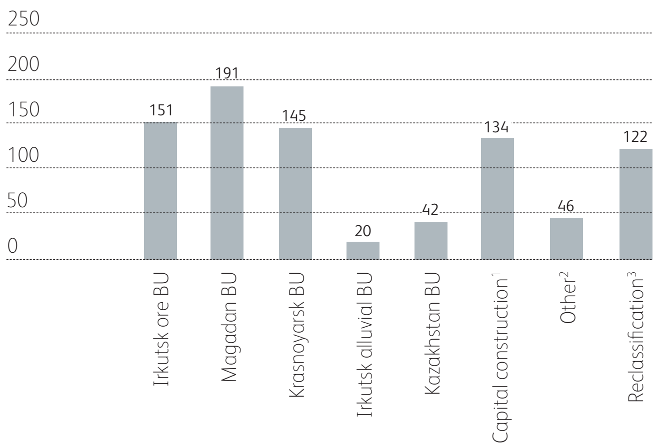
(USD million)

992



Capital expenditures by business units for the year ended 31 December 2012

(USD million)



Note:

[1] Relates to the capital expenditure incurred by LLC Polyus Stroy, a construction division of the Group, and attributable mainly to the construction of the Natalka mine (around USD 132 million).

[2] Includes Yakutia (Kuranakh) BU, exploration expenses not related to the business units presented in the chart.

[3] Includes construction-in-progress, construction materials accounted for at capital construction unit and related mainly to Natalka and Verninskoye; other reconciling items to IFRS.

Cash flow analysis

OPERATING ACTIVITIES

In 2012, the Group generated profit before income tax in the amount of USD 1,237,775 thousand, compared to USD 784,053 thousand in 2011. The increase in profit before taxation resulted from a combination of the increased selling prices and higher gold sales volumes. Operating cash flow before working capital changes was USD 1,414,625 thousand, which was 21% more than in the previous year. In 2012 the Group made significant investments in working capital; inventories increased by USD 155,242 thousand. Net cash generated from operating activities increased from USD 775,588 thousand in 2011 to USD 991,769 thousand in 2012.

INVESTING ACTIVITIES

In 2012, the Group spent USD 763,789 thousand on investing activities, while in 2011 it spent USD 270,546 thousand. The largest spending during the reporting year comprised capital expenditure (purchase of PP&E) totalling USD 750,224 thousand, compared to USD 343,037 thousand in 2011. This outflow was partly offset by the proceeds from the sale of investments in securities, the proceeds from the disposal of the Romanian assets and interest received.

FINANCING ACTIVITIES

Cash inflow from financing activities in 2012 totalled USD 35,972 thousand compared to an outflow of USD 134,958 thousand in 2011. The proceeds from the placement of the block of treasury shares and the drawdown of new loans (total USD 897,839 thousand) were almost fully offset by the outflow for loan repayments and dividends (totalling USD 861,867 thousand).

Capital expenditure

Capital expenditure represents the Group's purchase of property, plant and equipment.

In 2012, Group capital expenditure amounted to USD 850,719 thousand, an increase of 131% as compared with 2011.

The major part of the funds was invested in the construction of the Natalka mine and the assembling of the full circuit at the Verninskoye mine.

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 an original maturity of more than three months can be withdrawn on demand and therefore have 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 and should not necessarily be construed as a comprehensive indicator of the Group's measure of liquidity.

The following table sets forth the Group's net debt as at 31 December 2012 and 2011:

	Years ended 31 December		%
USD'000	2012	2011	change y-o-y
Non-current borrowings	160,792	123,048	31
+ Current borrowings	187,555	675,632	(72)
– Cash and cash equivalents	(959,932)	(657,448)	46
– Bank deposits	(68,286)	(12,175)	461
Net debt (cash and bank deposits)	**(679,871)**	129,057	(627)

Exploration expenses

In 2012 the Group spent USD 46,738 thousand on exploration, which is 47% higher than in 2011. Most of the exploration expenses in 2012 related to drilling, sampling and evaluation, as well as the reserves and resources audit performed.

The table below presents total exploration expenses (additions to exploration and evaluation assets) broken down by deposit for the years ended 31 December 2012 and 2011:

	Years ended 31 December		%
USD'000	2012	2011	change y-o-y
Nezhdaninskoye	19,108	7,508	154
Kazakhaltyn assets	4,977	10,159	(51)
Smezhny	3,961	–	–
Verkhne-Kadrinskaya	3,801	1,532	148
Razdolinskaya	3,559	754	372
Vangashskaya	3,271	2,127	54
Burgakhchan	3,109	1,607	93
Others	4,952	8,006	(38)
Total exploration expenses	**46,738**	31,694	47

A significant part of the Group's exploration expenses were related to the Nezhdaninskoye deposit where the Group performed survey and project works.

Exploration expenses incurred in the reporting year are expensed for those areas where the Group has not obtained a licence, and capitalised for those areas where the Group has been granted a licence. Exploration and evaluation expenditure is 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. At the end of the year, exploration and evaluation assets accrue as a result of additions adjusted for impairment of exploration and evaluation assets, disposals, transfers from mining assets and currency effect.

The table below presents accumulated exploration expenses (additions to exploration and evaluation assets) broken down by deposit as at 31 December 2012 and 2011:

	Years ended 31 December		%
USD'000	2012	2011	change y-o-y
Nezhdaninskoye	249,924	217,316	15
Panimba	28,818	25,935	11
Razdolinskaya	26,907	21,946	23
Olimpiada	23,983	21,604	11
Others	137,637	113,045	22
Accumulated exploration and evaluation assets	**467,269**	399,846	17

Going concern statement

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 and its capital expenditure commitments and plans, together with other risks facing the Group, including the gold price. 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.

Production outlook for the year ending 31 December 2013

Based on the results for 2012, the Group confirms its FY 2013 production guidance of 1.6-1.7 m oz. This guidance assumes further ramp-up of the Verninskoye mine, and further improvement in recovery rates at the Olimpiada and Titimukhta mines. Given the seasonality of alluvial mines, we expect that our production will be split 45-50%/50-55% between the first and second halves of the year, with correspondingly higher cash costs in the second half of the year. Other mines are assumed to show broadly the same production results as in 2012.

The Group will focus on optimising the capacity utilisation at the Blagodatnoye mine, where design parameters of the plant were significantly exceeded in the reporting year. Furthermore, the Group will be looking for an optimal balance between production and cash costs at the alluvials, reducing production from higher-cost deposits, which is expected to have a positive impact on the alluvials cash costs.

Oleg Ignatov
Chief Financial Officer
27 March 2013

Chairman's introduction

The start of a new era

> "I believe that we will continue to maintain and improve the Company's overall performance by improving the corporate governance system".

Dear shareholders,

Last year, we started a new era in the Company's corporate history. On 19 June 2012, Polyus Gold shares were admitted to the premium listing segment of the Official List maintained by the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities. This became the most important corporate event for the Company in 2012.

Though the Company stepped into this new era well prepared, having implemented the majority of the required corporate governance standards and procedures, we still have much to do and to strive for. We constantly seek for opportunities to maximise the effectiveness of the Company's corporate governance by adopting standards that can be ranked amongst "best practice" for UK premium listed companies.

The current Board was mainly formed in 2011, following the Company's reorganisation. In 2012, the composition of the Board changed only once. On 30 March 2012, we accepted the resignation of the former Director and President, Mr. Evgueny Ivanov, and appointed Mr. German Pikhoya, the Company's CEO, as a Director.

At the Company's Annual General Meeting that took place on 28 May 2012, the shareholders voted for re-election of all the Board members for the next calendar year. We highly appreciate this level of support given to us by the shareholders.

On 22 February 2013, ONEXIM Group sold its interest in the Company to Lizarazu Limited (a company associated with Mr. Mutsoev) and Receza Limited and Wamika Trading Limited (companies associated with Mr. Yushvaev), which received 18.50% and 19.28% of the issued share capital of the Company respectively. As a result, Mr. Dmitry Razumov, a Non-Executive Director nominated by ONEXIM, and Mr. Alexander Mosionzhik, a Non-Executive Director nominated by Nafta, resigned from the Board on 05 March 2013.

On 21 March 2013, Mr. Igor Gorin and Mr. Vladimir Chernukhin were appointed to the Board as Non-Executive Directors. Mr. Chernukhin was nominated for appointment to the Board by Lizarazu Limited and Mr. Gorin was nominated by Receza Limited and Wamika Trading Limited.

I am proud to chair a Board that is well qualified, prudent and committed to the Company's interests, and I sincerely believe that we will continue to maintain and improve the Company's overall performance by improving the corporate governance system.

Sincerely yours,

Robert Buchan
Chairman of the Board

Robert Buchan,
Chairman of the Board

Board of Directors' composition

The Board of Directors was composed of nine members: the Independent Non-Executive Chairman (Robert Buchan), one Executive Director (CEO) (German Pikhoya) and seven Non-Executive Directors (Bruce Buck, Kobus Moolman, Adrian Coates, Lord Clanwilliam, Dmitry Razumov, Alexander Mosionzhik and Anna Kolonchina).

The majority of the Board – five of the nine Directors – are considered by the Board to be independent Directors (Robert Buchan, Bruce Buck, Kobus Moolman, Adrian Coates and Lord Clanwilliam) in accordance with the UK Corporate Governance Code.

Robert Buchan
Independent Non-Executive Director
Chairman of the Board

Bruce Buck
Independent Non-Executive Director

Lord Clanwilliam
Independent Non-Executive Director

Adrian Coates
Independent Non-Executive Director
Senior Independent Director

Evgueny Ivanov
(resigned from the Board on 30 March 2012)
Executive Director

German Pikhoya
(appointed to the Board on 30 March 2012)
Executive Director, Chief Executive Officer

Anna Kolonchina
Non-Executive Director

Kobus Moolman
Independent Non-Executive Director

Alexander Mosionzhik[1]
(resigned from the Board on 05 March 2013)
Non-Executive Director

Dmitry Razumov[2]
(resigned from the Board on 05 March 2013)
Non-Executive Director

Note:
[1] Mr. Mosionzhik resigned from the Board following the acquisition of ONEXIM Group's shareholding by Lizarazu Holdings Limited, Receza Limited and Wamika Trading Limited.
[2] Mr. Razumov resigned from the Board following the acquisition of ONEXIM Group's shareholding by Lizarazu Holdings Limited, Receza Limited and Wamika Trading Limited.

Robert Buchan
INDEPENDENT NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE BOARD

Mr. Robert Buchan is 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 Limited., 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 Limited. and Kinross Gold Corp. Mr. Buchan has also served as the Executive Chairman of Allied Nevada Gold Corp. from 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 Limited, 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, and 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 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.) from 2008 until April 2012.

Chairman of the Nominations Committee

Bruce Buck
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Buck is the Managing Partner for Europe at 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 specialises 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

Lord Clanwilliam
INDEPENDENT NON-EXECUTIVE DIRECTOR

Following a career in the British military, Lord Clanwilliam started his business career with Hanson plc, and was seconded from there to the Home Office working with the Rt. Hon Douglas Hurd CBE, then Home Secretary. In 1993, he founded the communications company The Policy Partnership Limited, now called Meade Hall. From 2000 to 2004, he was the non-executive Chairman of the Board at Cleveland Bridge UK Limited, Europe's leading bridge and large steel construction company. In 2007, he was appointed Chairman of Eurasia Drilling Company Limited, the largest drilling company in Russia as measured by metres drilled. He is also a Director of Touchstone Gold, a Columbian gold exploration start-up, which listed on London's Alternative Investment Market in 2012, and is a Director of NMC Healthcare, a FTSE 250 company with operations in the UAE. He also chairs the Charitable Foundation of Oracle Capital, the London based multi family wealth office. Lord Clanwilliam has been a member of the Board of Polyus Gold since 2006.

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 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 an MA degree in Economics from Cambridge University and an MBA from the London Business School.

In his non-executive career, Mr. Coates has served as an advisor 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

Evgueny Ivanov (resigned from the Board on 30 March 2012)
EXECUTIVE DIRECTOR

Mr. Evgueny 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. In March 2012 Mr. Evgueny Ivanov resigned as Company Director and President.

Member of the Health, Safety, Environment and Community Committee

German Pikhoya (appointed to the Board on 30 March 2012)
EXECUTIVE DIRECTOR, CHIEF EXECUTIVE OFFICER

Mr. German Pikhoya has been with Polyus Gold since 2002, initially as Deputy CEO for strategy and corporate development, and later as Chief Executive Officer since 2011. Prior to joining Polyus Gold, from 1998 to 2002, he led business development and acquisition evaluation in Russia for Placer Dome International (now part of Barrick Gold). From 1994 to 1998, he was general manager at OJSC Central Company of the Eurogold Financial and Industrial Group. Mr. Pikhoya graduated from Urals State University in Yekaterinburg with an honours degree in history. As part of his degree, he conducted research at Bowdoin College in the United States. Mr. Pikhoya also graduated from Russian Presidential Academy of Public Administration in Moscow with a degree in economics.

Member of the Health, Safety, Environment and Community Committee

Anna 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

Kobus Moolman
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Moolman has a Master's 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 a Senior Audit Partner. Between 2002 and 2008, he was Senior Audit Partner and Leader of the Mining Industry Group at Deloitte & Touche CIS, in Russia . 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 the Chief Audit Executive for the Saudi Arabian Mining Company (Ma'aden), in the Kingdom of Saudi Arabia.

Chairman of the Audit Committee
Member of the Risk Committee

Alexander Mosionzhik (resigned from the Board on 05 March 2013)
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 Razumov (resigned from the Board on 05 March 2013)
NON-EXECUTIVE DIRECTOR

Mr. Dmitry Razumov is CEO of ONEXIM Group, one of the largest private investment funds in Russia. Prior to this, he held senior executive roles at Norilsk Nickel and Renaissance Capital and was a Director and Founder of Sonic Duo, a mobile operator in Russia, and a Founder and Managing Director of LV Finance, an independent corporate finance advisory. Mr. Razumov was also a member of the Board at Norilsk Nickel, Megafon, one of the largest mobile operators in Russia, and Rusal, the world's largest aluminium producer. He was also Chairman of the Board of International Financial Club (IFC Bank). Presently, he is the Chairman of the Board of Directors of ONEXIM HOLDINGS LIMITED, Investment and Development Group OPIN, Soglasie Insurance Company and YO-AUTO Limited. He is also a member of the Board of LLC Intergeo Managing Company, Renaissance Financial Holdings Limited, Renaissance Capital Investments Limited and Intergeo MMC Limited. Mr. Razumov graduated from Moscow State University for International Relations with Master's degree in International Trade Law.

Board meeting attendance

Director	Designation	Number of Board meetings attended	Total number of Board meetings during the period[1]
Robert Buchan, Chairman	Independent Non-Executive Director, Chairman of the Board, Chairman of the Nominations Committee	11	12
Bruce Buck	Independent Non-Executive Director, Chairman of the HSEC Committee	11	12
Lord Clanwilliam	Independent Non-Executive Director, Chairman of the Remuneration Committee	11	12
Adrian Coates	Independent Non-Executive Director, Chairman of the Risk Committee	12	12
Evgueny Ivanov[2]	Executive Director, President	2	2
German Pikhoya[3]	Executive Director, Chief Executive Officer	11	11
Anna Kolonchina[4]	Non-Executive Director	6	12
Kobus Moolman	Independent Non-Executive Director, Chairman of the Audit Committee	12	12
Alexander Mosionzhik[4]	Non-Executive Director	6	12
Dmitry Razumov[4]	Non-Executive Director	4	11
(Alternate Director – Christophe Charlier)[5]		2	12

Note:
1 Includes meetings by conference call.
2 Mr. Evgueny Ivanov resigned as a Director and President on 30 March 2012.
3 Mr. German Pikhoya was appointed to the Board on 30 March 2012.
4 Due to the restrictions of the UK Takeover Code, Anna Kolonchina, Alexander Mosionzhik and Dmitry Razumov (and his alternate, Christophe Charlier) did not attend Board meetings after the Company had been put into an Offer Period under the UK Takeover Code (from 13 September 2012 through to 22 February 2013).
5 Appointed as alternate Director for Dmitry Razumov on 21 September 2011.

Corporate governance statement

The Board has taken cognisance of the UK Corporate Governance Code 2010, as well as the best practice recommendations, 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 purpose of the Board, according to the Schedule of Matters Reserved for the Board, is to:

- Monitor Group activities to see that sustainable value is being created;
- Evaluate business strategies and monitor their implementation;
- Monitor and review the performance of Management;
- Monitor the performance of the existing asset portfolio and new business initiatives;
- Develop, review and monitor Board and senior executive succession plans;
- Maintain a current view of prevailing market conditions and trends;
- Monitor key performance indicators;
- Provide accountability to shareholders through appropriate reporting and regulatory compliance;
- Monitor the auditing and control mechanisms;
- Understand and ensure the management of operational business and financial risks to which the Group is exposed;
- Observe and ensure compliance with Health, Safety, Environment and Community policy;
- Review its own contribution to the Company's performance;
- Ensure continuing adherence to disclosure provisions of relevant legislation;
- Safeguard the Group's reputation, values, ethics, culture and assets, including knowledge; and
- Evaluate its own performance and that of the Board Committees.

Role of the Chairman

The Chairman is responsible for leadership of the Board.

In particular, he will:

- Ensure effective operation of the Board and its Committees in conformity with the highest standards of corporate governance;
- Ensure effective communication with shareholders, host governments and other relevant constituencies and that the views of these groups are understood by the Board;
- Set the agenda, style and tone of Board discussions to promote constructive debate and effective decision-making;
- Chair the Nomination Committee and build an effective and complementary Board, initiating change and planning succession on Board and group executive appointments;
- Ensure that all Board Committees are properly established, composed and operated;
- Ensure comprehensive induction programmes for new Directors and updates for all Directors as and when necessary;
- Support the CEO in the development of strategy and, more broadly, to support and advise the CEO;
- Maintain access to senior management as is necessary and useful, but not intrude on the CEO's responsibilities;
- Promote effective relationships and communications between Non-Executive Directors and members of the Group's Executive;
- Ensure that the performance of the Board, its main Committees and individual Directors is formally evaluated on an annual basis;
- 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; and
- Establish a harmonious and open relationship with the CEO.

Role of the Chief Executive Officer

The CEO is responsible for the day-to-day management of the Group, for developing its strategy objectives and budgets and implementing these once approved by the Board. He reports to the Chairman and to the Board directly.

Senior Independent Director

Adrian Coates is the Senior Independent Director. As Senior Independent Director he is available to shareholders if they have any concerns which are not resolved through normal channels. He is also available to act as a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary.

Board activity

The Board is obliged to meet at least quarterly. In 2012, 12 meetings were held, including five face-to-face meetings and seven conference calls. The Board also passed five written resolutions.

In September 2012, the UK Takeover Panel (the "Panel") put the Company into an offer period following formal announcements made by the Company's major shareholders, Nafta Moskva and ONEXIM Group, stating that ONEXIM Group intended to sell its share in the Company share capital to two buyers, whose identities had not yet been disclosed to the public, and that Nafta was not among them. On 22 February 2013 ONEXIM sold its interest and the Company was no longer in an offer period under the Takeover Code.

The Board has overall responsibility for the Company's systems of internal control and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to business objectives and can only provide reasonable, and not absolute, protection against material misstatements or losses.

The role of the Non-Executive Directors on the Board is to help develop and constructively challenge proposals on strategy, scrutinise and monitor the performance of management, satisfy themselves as to the integrity of financial information and review the adequacy of the internal control and risk management systems.

The Company considers that the Board and each of its Committees has the appropriate balance of skills, experience, independence and knowledge of the Company to discharge their respective duties and responsibilities effectively.

Diversity

Our diversity goal is to employ people based on job requirements that represent the diversity of our surrounding communities.

Dividend policy

The Company's Dividend policy was approved by the Board at its meeting on 20 April 2012.

The Company aims to pay dividends in the aggregate amount of a minimum of 20% of the Company's net profit calculated in accordance with International Financial Reporting Standards (IFRS) per annum.

In developing recommendations on the amount of dividends to be paid to shareholders annually, and the corresponding part of the net profit to be allocated to such dividend payments, the Board will take into account the need to balance funding of growth projects and the payment of dividends, including any limitations imposed by the production, investment and other financial needs of the Company, the Company's debt position and any tax legislation applicable to the Company.

Following the Dividend policy, the Company in 2012 declared a final dividend in respect of the financial year ended 31 December 2011 in the amount of USD 0.041 per ordinary share.

Compliance with the UK Corporate Governance Code

As a premium listed company, the Company is required to comply with the UK Corporate Governance Code (the "Code") (published by the Financial Reporting Counsel ("FRC") in June 2010). The FRC published a revised Code in September 2012 which applies to accounting periods commencing on or after 1 October 2012 ("2012 Code"). The Board has chosen to adopt the 2012 Code from 1 October 2012 and intends to comply in full with the 2012 Code in 2013.

For the period since its admission to premium listing until 31 December 2012 the Company has been in compliance with the Code provisions set out in the UK Corporate Governance Code except for the following matters:

B.6.1 – Performance evaluation of the Board, its Committees and its individual Directors.
Following the admission of the Company's shares to premium listing in June 2012, implementation of the evaluation requirements of the UK Corporate Governance Code was not carried out in full by the end of the year. The Audit Committee carried out a self-assessment of its performance in September 2012 (and the Chairman of the Audit Committee reported on this process to the Board in March 2013). The Board, under the leadership of the Chairman, plans to implement and carry out the evaluation requirements in full during the course of the current year. In evaluating itself, the Board will also consider the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, including gender, how the Board works together as a unit , and other factors relevant to its effectiveness.

B.2.4 – The work of the Nomination Committee and description of the Board's policy on diversity.
The Nomination Committee did not meet in 2012 as the Board had been constituted (in compliance with the requirements of B.1.2 of the UK Corporate Governance Code) prior to the Company's admission to premium listing in June 2012 and no vacancies occurred or succession planning was considered necessary by the end of the year. The Nomination Committee plans to meet at least twice in the current year. As part of its planned activities for the current year it proposes to develop and seek the approval of the Board to a policy on diversity in accordance with emerging best practice and thereafter to report on progress towards implementing the policy and the achievement of its objectives.

Maintaining dialogue with the investment community

The Company places a great deal of importance on maintaining an active engagement with its key financial audiences: institutional investors, including its current and potential shareholders, and sell-side analysts. The Polyus investor relations team manages the interaction with these audiences on a daily basis.

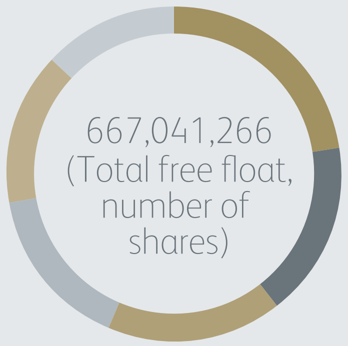
The Company abides by all applicable disclosure requirements for a premium listing on the LSE, which was received in June 2012.

The Company releases trading updates on a quarterly basis, and financial results in accordance with IFRS on a semi-annual basis. Those announcements are always supported by presentations and conference calls conducted on the same day and hosted by senior management. In 2012, in addition to regular conference calls on the results announcements, we began providing webcasts in order to maximise the efficiency of such events.

The relevant reports, announcements and presentations on the results, as well as on any other Company developments that are required to be disclosed to the market, are immediately placed on the Company's website www.polyusgold.com in the 'investors' or 'media' sections. The new corporate website was launched in 2012 and is aimed at streamlining the investor communication process. The market is informed well in advance about upcoming results announcements in the 'investor calendar' section of the website.

Geographical distribution of PGIL free float

(%)



China	23
Rest of the world	17
North America	17
Russia	16
Europe (ex-UK)	15
UK	13

Historical financial information is also available on the website.

The Company's senior management is well exposed to our investor base around the world through regular roadshows (one to two per year), investor conferences (about 10 per year) and other investor meetings. In 2012, the Company participated in 14 investor conferences organised by leading investment banks and other organisations such as the LSE and the Denver Gold Group, and met over 170 institutional investors.

Management oversight

The Investor relations department prepares a biweekly report on share price performance and perceptions of the Company, which is distributed to the senior management.

Approved by the Board and signed on its behalf by

Robert Buchan
Chairman of the Board
27 March 2013

Investor calendar 2012

Event	Date
FY2011 Trading update	30 January, 2012
BMO Global M&M conference, Miami, Florida	26-29 February, 2012
JPMC Russia corporate access days, London	13-14 March, 2012
FY2011 Financial results announcement	2 April, 2012
1Q2012 Trading update	17 April, 2012
BAML Global M&M conference, Miami, Florida	15-17 May, 2012
VTB Russia calling, London	22-24 May, 2012
Rencap Investor conference, Moscow	25-26 June, 2012
Annual General Meeting	28 May, 2012
Morgan Stanley Investor day, Paris	28 June, 2012
The LSE Metals & BRICs Investor day, London	5 July, 2012
1H2012 Trading update	18 July, 2012
1H2012 Financial results announcement	30 August, 2012
Deutsche Bank 2012 Global EM conference, New York	5-7 September, 2012
Denver Gold Forum, Denver, Colorado	9-12 September, 2012
Management Roadshow	September, 2012
Minex Russia Forum, Moscow	3 October, 2012
VTB Russia calling, Moscow	4 October, 2012
9M2012 Trading update	18 October, 2012
Annual BAML Russia & CIS conference, London	12 -13 November, 2012
Goldman Sachs EEMEA conference, London	26-28 November, 2012
Goldman Sachs Annual Global M&M conference, New York	27-28 November, 2012

Audit Committee report

Committed to good governance

Please refer to the Company's website for a detailed description of the role of the Audit Committee: www.polyusgold.com/company/corporate_governance/audit_committee/

Kobus Moolman,
Chairman of the Audit Committee

Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board of Directors from the Non-Executive Directors of the Company. The Audit Committee's Terms of Reference were established and approved on 7 October 2011.

Composition of the Audit Committee

Starting from 1 January 2012, the Audit Committee is composed of three members:

- Kobus Moolman;
- Adrian Coates; and
- Lord 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 fulfils 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 will be sought.

The Audit Committee is authorised 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 and 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.

MEETINGS AND DISCUSSIONS

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.

The Audit Committee met eight times in 2012.

Highlights of the 2012 activities and actions

FINANCIAL REPORTING

Financial reporting procedures

At the beginning of the reporting year, the Company announced an intention to apply to have its shares admitted to the premium listing. Being a premium-listed company it is important to have an effective finance function to ensure that the Company meets its obligations on external and internal financial reporting. Therefore, the adopting of the Financial Reporting Procedures (FRPs) acceptable for premium-listed companies was the most important item during the year. During the reporting year both the Audit Committee and the management have been very proactive in improving the quality of financial reporting.

On 5 December 2011 the Audit Committee reviewed the FRPs implemented by the Group. At the beginning of the year, the Audit Committee provided the guidance, indicating additional outstanding shortcomings which the Company had to improve to meet the requirements applicable to premium-listed companies. On 19 January 2012, the Audit Committee noted that most of the improvements in the FRPs had been made by management.

Meetings

In 2012 the Committee met eight times.

Director	Designation	Number of Committee meetings attended	Total number of Committee meetings during the period
Kobus Moolman	Non-Executive Director, Chairman of the Committee	8	8
Adrian Coates	Non-Executive Director, Senior Independent Director	8	8
Lord Clanwilliam	Non-Executive Director	6	8

Overview
Performance
Governance
Financial statements

By 19 June 2012, when the Company's ordinary shares were admitted to the premium segment, it met all the requirements on FRPs. The financial department had been substantially strengthened with new employees who undertook the function of Annual Report, interim management report, annual financial statements and financial press release preparation, as well as preparation of monthly and quarterly reports to the Audit Committee. Monthly management accounts that comply with Russian accounting standards (RAS) and quarterly management accounts under International financial Reporting Standards (IFRS) are prepared. The Company established The Controls, Policies and Procedures Manual and The IFRS Accounting Policies Manual. The Company approved Related Party Transaction Procedures. The budget papers are now transformed to the IFRS outlay through the financial model of the Group. The model was developed by April and later updated in August and November of the reporting year. A detailed timetable for the production of the Annual Report for 2012 was provided to the Audit Committee on 9 November 2012.

Financial statements approval (FY2011 and 1H2012)

The review of the half-yearly and annual financials is the primary role of the Committee in relation to financial reporting. The CFO reports to the committee on the achievements, while the external auditor reports on findings and outcomes of their half-year review and annual audit. The significant issues in relation to the 2012 accounts were:

- WIP methodology amendments calculation, in particular related to the gold-in-circuit at the Olimpiada mine;
- IFRIC 20 "Stripping costs in the production phase of a surface mine";
- Exploration and evaluation assets accounting; and
- Capital construction-in-progress presentation.

In addition to the implementation of financial reporting procedures, the Audit Committee had also reviewed and approved financial statements for the year ended 31 December 2011 and six months ended 30 June 2012.

Draft FY2011 financial statements were reviewed by Committee members at the meeting held on 29 March 2012. The financial statements were approved and forwarded to the Board with the Committee's recommendation to adopt and approve, and later published on 2 April 2012.

Draft half-yearly financials were reviewed and approved at the meeting dated 23 August 2012. The Audit Committee forwarded to the Board the half-yearly financial statements together with their recommendations to adopt and approve, and the Board made the final approval and the financial statements were made public on 30 August 2012 as the back half of the interim management report.

Annual Report 2011 and interim management report 1H2012 approval

Since the beginning of the year, the Audit Committee had been working closely with management providing amendments to the draft annual report for the year ended 31 December 2011.

The final draft of the Annual Report was reviewed by the Committee on 29 March 2012. The Annual Report 2011 including the financial statements was published on 12 April 2012.

The interim management report for the 1H2012 was reviewed by the Audit Committee on 23 August 2012. Several amendments with regards to the layout and presentation of the front half of the document were suggested. All the amendments were made and the interim financial report was published on 30 August 2012.

It was decided to start developing the Annual Report for 2012 as early as November 2012. Since that time the Audit Committee has been fully involved in its preparation, including text, concept and design.

Going concern paper review

According to the Listing Rule 9.8.6 of the FSA and Principles 1 and 3 of FRC Guidance, the Company developed the financial model of the Group and on the basis of this prepared going concern assessment papers for the periods 30 March 2012 – 30 June 2013 and 1 July 2012 – 31 August 2013. The Audit Committee reviewed the papers during its meetings on 29 March 2012 and 23 August 2012. The papers were accepted and recommended to the Board for approval.

Other

In addition the Audit Committee reviewed the consistency of the accounting policies of the Group and methods used to account for significant or unusual transactions and considered whether the Group had followed the appropriate accounting standards.

Internal financial controls

In terms of internal financial controls, the Audit Committee reviews the adequacy and effectiveness of the Group's internal financial controls, annual budget, anti-bribery policy and related party transactions.

Annual budget

During its meeting dated 6 December 2012, the Audit Committee reviewed the Group's annual budget for 2013 prepared by management and recommended to the Board for approval.

Anti-bribery and anti-corruption

The Audit Committee is also responsible for the introduction of the anti-corruption principles in the Group and control over their execution. In October 2011, the Board of Directors approved an anti-corruption policy in the Group. During 2012, the policy was introduced to all business units. Anti-corruption work and training have been performed since the adoption of the policy. The Audit Committee receives quarterly reports on anti-corruption policy execution.

Related-party transactions review and approval

The Company's ordinary shares were admitted to the premium segment on 19 June 2012. On 8 June 2012, in order to meet the requirements, the Board of Directors approved Related Party Transaction Procedures. According to the Listing Rules, depending on the nature and size, some of the transactions require review by the Audit Committee and approval by the Board of Directors.

There were no related-party transactions that required review by the Audit Committee in the reporting year, besides the depositing of cash with Bank "Mezhdunarodnyi Finansovyi Klub" (MFK), identified as a Related Party. However, all transactions with MFK had been implemented before the Company's shares were admitted to the premium list and did not require any retrospective review and approval.

Internal audit

In terms of internal audit, the Audit Committee's key responsibilities include monitoring the effectiveness of the Group's internal audit function, approving the appointment of the head of the internal audit function, approving the annual internal audit plan and reviewing internal auditor reports to the Audit Committee.

Annual internal audit plan

In March 2012, the Audit Committee reviewed an internal audit plan for 2012. The Committee reviewed the main risk areas described in the plan and enquired if the Group is prepared for the internal audit in all of these areas. In addition, the Audit Committee checked the compliance of the Group's entities with local accounting, tax and legislative requirements. The annual internal audit plan was approved on 29 March 2012.

The Audit Committee meets with the Head of internal audit on a regular basis without management being present to discuss the remit and independence of the internal audit function.

During its meeting in March, the Audit Committee agreed to receive internal auditor reports (IAR) on a quarterly basis.

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. During 2012, 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.

Audit timetable for 2012

The audit timetable for 2012 was presented to the Audit Committee on 19 January 2012. After the discussion of deadlines, the Audit Committee approved the audit timetable and requested management to incorporate the plan with the Annual Report 2012 preparation plan.

Auditor's fees approval

The Audit Committee is responsible for the review and approval of auditor's fees for the year end and interim financial statements. As the Company reports on a semi-annual basis, the approval happens twice a year. In 2012 Deloitte charged the Group USD 3.5 million (2011: USD 6.6 million) for audit and audit related services.

Auditor appointment for 2013

On 28 May 2012, the Audit Committee recommended to the Board to put to the shareholders for approval at the Annual General Meeting, the appointment of Deloitte LLP as the Group's external auditor for the year ending 31 December 2013. Deloitte LLP was first appointed as auditors of the Group in 2012 following the premium listing on the London Stock Exchange.

Other questions

Besides its main responsibilities as outlined in its Terms of Reference, the Audit Committee also reviewed and approved on the following matters:

Premium listing related documentation

During the Audit Committee meeting held on 19 April 2012, a number of documents required for the premium listing were reviewed. It was resolved that the documents were found to be satisfactory and if the amendments implemented, the Audit Committee would recommend the Board to approve them.

Non-audit service policy

On 28 May 2012 the Audit Committee adopted the non-audit service policy applicable to the current auditor of the Group. The policy reviews conditions of non-audit services if provided by the auditor of the Group.

In order to provide safeguards to auditor independence (particularly the self-interest threat) in the provision of non-audit services the policy presumes monetary limits over which any engagement in non-audit services should be approved by the Committee. The Audit Committee annually reviews the independence and objectivity of the external auditors. Every six months the Audit Committee receives a report analysing fees paid for the non-audit work by the external auditors or reporting accountants. In addition the Company should report annually on the Group's annual expenditure with the external auditor on non-audit services and explain how and when the external auditor provided non-audit services and auditor independence.

In August 2012 ZAO Deloitte CIS was chosen for an independent assessment of the effectiveness of the Internal Audit function. Also in September Deloitte was chosen as an independent assurance consultant for the Global Reporting Initiative (GRI) assessment.

Responsibilities discharge

According to provision C.3.8 of the UK Corporate Governance Code, the Audit Committee reports on how it discharges its responsibilities on the significant issues reviewed by the Committee.

In order to discharge its responsibilities, the Audit Committee invites the CFO, as well as other executive managers and external consultants, to attend the meetings.

Control over implementing FRPs was discharged to management. The Audit Committee provided management with guidance, which contained a significant number of action points. The response to the action list was discharged to management. All improvements done in the financial reporting area were immediately reflected in the action list. The Audit Committee reviewed several action lists during the year and noted an impressive improvement in the FRP.

The preparation of financial statements, Annual Report, management reports and going concern papers was discharged to the management team. The audit of the financial statements was discharged to the independent auditor. The development of various policies was assigned either to management or to an external consultant. In addition, management provides the Committee with accounting memos to consider whether the Group follows new and amended accounting standards.

Committee evaluation

The Audit Committee undertook a detailed self-assessment questionnaire in September 2012. Reviewing the results, the Chairman of the Committee concluded that during the year the Committee members and management made good progress; however there was still room for further improvement, particularly in the areas of communication with the internal audit team and risk evaluation.

Audit Committee statement

Having discussed information received from the management, auditors and consultants, the Audit Committee states that the procedures and financial records can be relied upon for the preparation of the annual financial statements.

The Audit Committee considers that the Annual Report is in compliance with the FSA disclosure and transparency rules. The Audit Committee considers that the annual financial statements are in compliance with IFRS.

The Audit Committee has recommended to the Board that the Annual Report be approved by the Board of Directors.

Approved by the Audit Committee and signed on its behalf by

Kobus Moolman
Chairman of the Audit Committee
27 March 2013

The Company operates a zero-tolerance policy on bribery or any other form of corruption at all levels.

Any evidence of violations of applicable anti-corruption laws will be investigated, as a result of which, disciplinary measures may be taken.

Policy and Procedures

At the end of 2011, the Company, with the assistance of Debevoise & Plimpton LLP, carried out a comprehensive risk assessment of the principal lines of the Company's activities, in order to form the basis for developing the Company's Anti-corruption Policy. The policy adopted by the Company takes into account the location and scope of activities of the Company and is aimed at ensuring compliance with the requirements of the UK Bribery Act of 2010 and Russian anti-corruption legislation.

The Company has also designed practical measures ensuring compliance with the established requirements with a distribution of specific tasks among the functional units within the Company.

Top level commitment

Close attention of top management of the Company is paid to the issues of Company's compliance with the anti-corruption legislation. These issues are regularly brought for discussion by the Board of Directors and the Audit Committee.

Risk assessment and due diligence

The Company maintains a preliminary check, approval, and subsequent control of the proper execution of all projects. Adequate measures of protection are taken, up to Company's refusal to participate in projects containing high risks. All risk assessment and due diligence processes are supported by providers of special information on a contractual basis.

Communication

The Anti-corruption Policy is applicable to all Company personnel; all employees have been acquainted with the Anti-corruption Policy and made a commitment to adhere to the established requirements.

The Anti-corruption Policy stipulates the obligation of each employee to report any activity that contravenes the established requirements. All accessible communication systems have been introduced to support whistleblowing and speak-up schemes.

The corporate portal provides information on the Anti-corruption Policy, Ethics Code and communication methods.

Monitoring and review

The Compliance team, with the assistance of the Internal audit team, carry out on a regular basis the control over observance of the Anti-corruption Policy requirements by off-site and on-site study of the documentation for each controlled business processes, and conduct studies on the accuracy of transactions in accounting and reports.

Compliance team

The Company operates a distributed Compliance function, in which all the functional units participate, according to the approved list of procedures for execution of the Anti-corruption Policy and the current anti-corruption legislation.

The Director of economic security ensures the enforcement of the Anti-corruption Policy, the implementation of appropriate procedures, and coordinates and controls the processes of compliance throughout the Company. Five staff members in the Corporate Centre of the Company to coordinate and ensure compliance with requirements established by the Anti-corruption Policy. Responsible members of management have been appointed in all business units and professional services of the Company, forming the local compliance teams.

Ensuring stable progression

Summary of the role of the Nomination Committee

The Nomination Committee was formed by a resolution of the Board of Directors on 26 July 2011. The Nomination Committee was appointed by the Board for a period of up to three years. The Board also appointed the Committee Chairman who is also the Chairman of the Board (Robert Buchan).

The Committee was set up to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and to make recommendations to the Board with regard to any changes. It is expected to give 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.

A majority of the current Board of Directors were elected in 2011 and neither corporate governance rules, nor business strategies required a close look at the Board composition, succession planning, or changes to the Board's membership. The Company's general policy is to maintain management continuity in order to ensure stable progress in the development of the Board's skills, knowledge and practices.

Composition of the Nomination Committee

The Nomination Committee comprises four members, all of whom are independent Non-Executive Directors:

- Robert Buchan;
- Bruce Buck;
- Adrian Coates; and
- Lord Clanwilliam.

The Board considers that the current composition of the Nomination Committee complies with the requirements of the UK Corporate Governance Code.

Meetings and discussions

There were no meetings of the Nomination Committee during 2012.

Approved by the Nomination Committee and signed on its behalf by

Robert Buchan
Chairman of the Nomination Committee
27 March 2013

Please refer to the Company's website for a detailed description of the role of the Nomination Committee: www.polyusgold.com/company/corporate_governance/nomination_committee/

Robert Buchan,
Chairman of the Nomination Committee

Operating at maximum effectiveness

Please refer to the Company's website for a detailed description of the role of the HSEC Committee: www.polyusgold.com/company/corporate_governance/hsec_committee/

Bruce Buck,
Chairman of the HSEC Committee

Summary of the role of the HSEC Committee

The Health, Safety, Environment and Community Committee is appointed by the Board of Directors from two Non-Executive Directors and one Executive Director of the Company.

Composition of the HSEC Committee

Starting from 30 March 2012, the HSEC Committee is composed of three members:

- Bruce Buck; and
- Lord Clanwilliam; and
- German Pikhoya. (Appointed as a member of the Committee in place of Evgueny Ivanov following Evgueny Ivanov's resignation as a Director of the Company.)

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.

Highlights of 2012 activities and actions

- Polyus Gold Environmental, Health and Safety policies were reviewed by the Committee and signed by the Committee Chairman and Chairman of the Board;
- Flash reports regarding fatalities submitted to the Committee within 24 hours after the occurrence of an accident;
- The Committee reviewed and approved the 2010-2011 Sustainability Report which had been prepared in accordance with GRI requirements;
- The Committee approved the Company Road Map to become a member of the International Council on Mining and Metals by the end of 2013;
- The DuPont Safety Leadership training programme was requested by the Committee and is being delivered to all high level managers of the PGIL business units;
- The Golden Safety Rules were approved by the Committee and introduced at all Polyus Gold operational business units;
- The Committee reviewed the independent HSE audit report prepared by Bureau Veritas and approved the Action plan based on recommendations and proposed corrective actions; and
- Quarterly review of management's response to the most serious health and safety incidents.

Approved by the HSEC Committee and signed on its behalf by

Bruce Buck
Chairman of the HSEC Committee
27 March 2013

Meetings

In 2012 the Committee met three times.

Director	Designation	Number of formal Committee meetings attended	Total number of Committee meetings during the period
Bruce Buck	Non-Executive Director Chairman of the Committee	2	3
Lord Clanwilliam	Non-Executive Director	2	3
German Pikhoya	CEO	2	2
Evgueny Ivanov	President	1	1

Evaluating and considering the future

Please refer to the Company's website for a detailed description of the role of the Remuneration Committee: www.polyusgold.com/company/corporate_governance/remuneration_committee/

On behalf of the Remuneration Committee, the Board presents its report on Directors' Remuneration for the year ended 31 December 2012. Although it is not a requirement of Jersey company law to have the Directors' Remuneration Report approved by shareholders, the Board believes that as a Company whose shares are listed on the premium segment of the London Stock Exchange it is important in terms of its corporate governance for it to do so.

Lord Clanwilliam,
Chairman of the Remuneration Committee

This report has been divided into separate sections for:

1 information which is unaudited; and

2 information which the Company's auditor has reported as having been properly prepared.

(Unaudited information)
Summary of the role of the Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors from the Non-Executive Directors of the Company. The Remuneration Committee was formed by the resolution of the Board of Directors on 26 July 2011.

Composition of the Remuneration Committee

Starting from 1 January 2012, the Remuneration Committee is composed of three members:

- Lord Clanwilliam;
- Adrian Coates; and
- Bruce Buck.

The Board considers that the current composition of the Remuneration Committee complies with the requirements of the UK Corporate Governance Code.

The Remuneration Committee comprises three members, all of whom are independent Non-Executive Directors, according to the terms of the Remuneration Committee. Members of the Committee are appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee.

Appointments to the Committee are made by the Board for a period of up to three years, which may be extended for further three-year periods, provided the member still meets the membership criteria.

Highlights of 2012 activities and actions

In 2012, the Remuneration Committee, among other issues, started the process of evaluating and considering the future remuneration principles of the Company.

To this end, the Committee heard from panel of three prospective remuneration advisors, with the view to choosing one or more advisors to enter into specific contract negotiations to provide the Committee with advice on executive pay and non-executive board pay (including the Non-Executive Chairman of the Board), Towers Watson were engaged as remuneration advisors, to specifically look at executive pay in the context of the Russian market.

Within the framework of the process of elaborating the remuneration structure, a new proposed remuneration structure for senior management was drafted, comparable to that of other London listed and international gold mining companies, and an appropriate balance between fixed and variable pay elements, as well as short and long term incentives.

The proposed remuneration structure had been discussed by the Committee at its meetings held in the course of 2012, with the Management Team's representatives in attendance, and a number of revisions had been made to the proposed structure.

After consideration, agreement was reached that the proposed structure was acceptable and it was resolved that the high level structure be approved, and that shareholder consultation would commence.

It is intended that once key shareholders agree, the arrangements will be implemented as soon as practicable.

Meetings

In 2012 the Committee met 10 times.

Director	Designation	Number of Committee meetings attended	Total number of Committee meetings during the period
Lord Clanwilliam	Non-Executive Director, Chairman of the Committee	10	10
Bruce Buck	Non-Executive Director	8	10
Adrian Coates	Non-Executive Director, Senior Independent Director	10	10

In 2012 the Board consisted of:

- two Executive Directors: German Pikhoya (elected on 30 March 2012) and Evgueny Ivanov (resigned on 30 March 2012); and
- eight Non-Executive Directors: five independent Directors (Robert Buchan, Bruce Buck, Lord Clanwilliam, Adrian Coates and Kobus Moolman), two Directors (Anna Kolonchina and Alexander Mosionzhik) nominated by an entity, where the beneficial owner is Suleiman Kerimov and one Director (Dmitry Razumov) nominated by an entity, where the beneficial owner is Mikhail Prokhorov.

Executive Directors' remuneration

Executive Directors' remuneration consists of salary, annual bonuses and other emoluments. Executive Directors do not receive fees for their directorship, but are compensated for their duties in the Group. Salaries are fixed by the contracts.

None of the Executive Directors have a service contract with the Company.

German Pikhoya was appointed CEO of the Company on 26 October 2011. He also signed a contract to undertake CEO duties of OJSC Polyus Gold and CJSC Polyus on 1 July 2011.

Total remuneration of German Pikhoya for 2012 was USD 6,320,819 and includes the period before and after he became a Board member.

Evgueny Ivanov signed a contract to undertake duties of Managing Director for the international projects of CJSC Polyus from 10 December 2010. He resigned from this position on 20 October 2011. On 26 October 2011, he was appointed President of the Company and he resigned from the position of President of the Company on 30 March 2012.

2012 bonuses are based on annual performance in 2011 measured by the following indicators:

- Financial measures, which includes achieving targeted levels of Adjusted EBITDA, Net Asset Value (NAV) and Total Cash Costs;
- Operational measures, which include gold output and gold recovery rate;
- Health and safety management, which is measured by incidents per 1,000 employees; and
- Market factors, such as market standing, in terms of mineral reserve base and production volume, as well as share price in comparison to the peer group.

Executive Directors' remuneration

The table below presents bonus measures performance in 2011:

	Below target	On target	Better than target
Financial measures			
Adjusted EBITDA			✓
NAV			✓
TCC			✓
Operational measures			
Production			✓
Recovery		✓	
Health and safety			
Number of incidents	✓		
Market			
Market standing		✓	
Share price	✓		

Non-Executive Directors' remuneration

Mrs. Kolonchina, Mr. Mosionzhik and Mr. Razumov have not been paid by the Company for their directorship in 2012.

Independent Non-Executive Directors' remuneration consists of fees, expense allowances and other benefits and emoluments.

Non-Executive Director's fees are fixed in the contract with each Non-Executive Director. The contract signed with the Chairman specifies a fee of USD 250,000 per annum, the contracts signed with other Non-Executive Directors specify a fee of USD 200,000 per annum for each Director. The members of the Audit Committee are additionally paid USD 30,000 per annum each for executing their duties, effective June 2012.

Approved by the Remuneration Committee and signed on its behalf by

Lord Clanwilliam
Chairman of the Remuneration Committee
27 March 2013

Aggregated Directors' remuneration (Audited information)

The total amounts for Directors' remuneration in 2012 and 2011 were as follows:

	For the year ended 31 December	
USD	2012[1]	2011[3]
Emoluments paid to or receivable in respect of qualifying services		
Directors' fees	902,500	525,000
Basic salary	2,452,992	914,890
Annual bonuses (for 2011 and 2010 respectively)	5,042,337	986,730
Other emoluments[2]	872,550	366,264
Aggregate emoluments	9,270,379	2,792,884
Fees paid to third party[3]	240,000	150,000
Total	9,510,379	2,942,884

Aggregated key management remuneration is disclosed in the Consolidated financial statements for the year ended 31 December 2012 (page 110 of this Annual report).

Directors' remuneration in 2012

The table below sets out the gross remuneration paid out to the Directors for 2012:

USD	Robert Buchan	Adrian Coates	Lord Clanwilliam	Kobus Moolman	German Pikhoya[1]	Evgueny Ivanov	Bruce Buck[3]	Total
Emoluments paid to or receivable in respect of qualifying services								
Directors' fees	250,000	217,500	217,500	217,500				902,500
Basic salary					2,452,992			2,452,992
Annual bonuses (for 2011)					3,153,009	1,889,328		5,042,337
Other emoluments[2]					714,818	157,732		872,550
Aggregate emoluments	250,000	217,500	217,500	217,500	6,320,819	2,047,060		9,270,379
Fees paid to third party[3]							240,000	240,000
Total	250,000	217,500	217,500	217,500	6,320,819	2,047,060	240,000	9,510,379

Note:

[1] German Pikhoya was appointed as a Director on 30 March 2012, his remuneration is shown for the full year 2012, which includes amounts payable to him for his services as CEO.

[2] Other emoluments include compensation for unused leave, meals, healthy behaviour payments, medical insurance, compensation for the directorship in the Group's subsidiaries, excessive part of the daily allowance for travelling on business trips and compensation for travelling on business trips outside of contracted days.

[3] Fees paid to Bruce Buck presented with amounts paid to Skadden, Arps, Slate, Meagher and Flom (UK) LLP under a contract (letter of appointment) to provide the Company with services of Mr. Bruce Buck (USD 150 thousand and USD 240 thousand for 2011 and 2012 respectively). The Contract requires Mr. Bruce Buck to allocate sufficient time to the Company to discharge his Director's responsibilities effectively. According to the Contract Mr. Bruce Buck's appointment commenced on 26 July 2011, Mr. Bruce Buck has the same general legal responsibilities to the Company as any other Director.

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and independent auditor's report, for the year ended 31 December 2012. The Corporate Governance Statement set out on pages 52 to 54 forms part of this report.

Principal activities

The principal activity of the Group is the production and sale of gold. In order to maintain its development the Group is also involved in exploration, construction and research activities. The gold production activity is described in the section "Global leader" of the Annual Report.

The subsidiaries principally affecting the profits and net assets of the Group in the reporting year are described in Note 6 to the consolidated financial statements for the year ended 31 December 2012.

Business review

The information about the business review including a description of the performance, key KPIs, risks, operational and financial performance can be found on pages 4 to 46, which are incorporated in this report by reference:

- Summary of the performance during the year is presented on pages 4 to 5;
- Key performance indicators are described on pages 8 to 9;
- Description of risks associated with the Group can be found on pages 68 to 71; and
- Operational review – please see pages 19 to 35 of the Annual Report; and financial review – pages 36 to 47 of the Annual Report.

Information about the use of financial instruments by the Company and its subsidiaries is given in Note 32 to the financial statements.

As a whole the Annual Report provides information about the Group's businesses, its financial performance during the year and likely future developments. Other than as described in this report, there have not been any significant changes to the Group's principal activities during the year under review.

Dividends

The dividend policy is described on page 53 of the Annual Report. The dividends for the year ended 31 December 2012 are subject to the Board review and shareholders' approval.

Directors and Directors' interests

The composition of the Board of Directors is disclosed on pages 49 of the Annual Report. As of 31 December 2012 three Directors held shares in the Company.

Director	Number of shares	% Total shares outstanding
Adrian Coates	33,000	0.001
Kobus Moolman	39,579	0.001
Lord Clanwilliam	2,656	0.00009

Acquisition of the Company's own shares

At the Annual General Meeting held in 2012, shareholders authorised the Company to make on-market purchases of up to 303,214,996 of its ordinary shares, representing approximately 10% of the Company's issued share capital at that time. Shareholders will be asked at the 2013 Annual General Meeting to renew this authority. The Directors have no present intention to exercise this authority, if granted.

During the financial year ended 31 December 2012, the Company did not make any on-market or off-market purchases of its own shares under any share buy-back programme.

The remuneration of the Directors set out in the Directors' Remuneration Report on pages 61 to 63.

Capital structure

The Company has 3,600,000,000 shares authorised and 3,032,149,962 shares issued. The details of the movements in the Company's issued share capital during the year are shown in note 23 to the consolidated financial statements for the year ended 31 December 2012. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

Pursuant to the authority granted to them by the shareholders at the Company's EGM held on 8 June 2012 the Directors have the authority to allot shares up to a maximum nominal amount of £15,160.74. The Directors have not exercised this authority. The Directors will seek renewal of this authority at the Company's 2013 AGM.

On 11 May 2012, Jenington International Inc, a subsidiary of the Company, completed the sale of the Company's treasury shares. 151,607,496 shares were sold to Chengdong Investment Corporation, a wholly-owned subsidiary of CIC International Co. Ltd., and 50,198,271 shares and 25,153,897 Level I GDRs (one GDR is equal to one ordinary share) to JSC VTB Bank. The gross proceeds received from the two transactions were equal to USD 635,487,000, less USD 11,115,000 of arrangement fees directly attributable to the sale of the treasury shares. At 31 December 2012 the Company and its subsidiaries held no treasury shares.

Registration and domicile

The Company is incorporated and registered in Jersey under company number 91264. The Company has its registered offices at Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES, Channel Islands. The Company's London office is Argyll, 18b Charles Street, London W1J 5DU, United Kingdom.

Annual General Meeting

The date of the Company's AGM was not settled at the date of this Annual report. The notice and circular will be dispatched as a separate document to all shareholders subject to the Board's approval. The notice and circular will set out the venue of the AGM and draft resolutions to be proposed at the AGM with an explanation on each resolution. The notice and circular will be also available at www.polyusgold.com no fewer than 21 clear days before the meeting.

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. All suppliers are subject to the Group's standard contract terms, which among other terms, stipulate 15 day payment terms after the date of supply.

A tender process is applicable for all mining, processing, production and capital project purchases without exception. The Group is not committed to any significant forward purchase orders.

The supply process in the Group is based on a matrix structure whereby business unit procurement departments report not only to the general director of each respective business unit, but also to chief procurement officer of the Group. To achieve effectiveness and efficiency the majority of Group's procurement is done centrally, with some immaterial goods purchased locally.

Fixed assets

The book value of the Group's fixed assets as of 31 December 2012 was USD 2.2 bln. It mainly consists of the Group's interests in land, machinery, equipment and buildings.

Charitable donations

During the year the Group made charitable donations of USD 6,339 thousand, principally to local charities serving the communities in which the Group operates. There were no political donations during the year ended 31 December 2012.

Substantial shareholdings

At 31 December 2012, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following holdings of voting rights in the Company:

Nafta Moskva and its affiliated companies, where the beneficial owner is Mr. Suleiman Kerimov (40.22%), ONEXIM Group and its associated companies, where the beneficial owner is Mr. Mikhail Prokhorov (37.78%), Chengdong Investment Corporation, a wholly owned subsidiary of CIC International Co, Ltd (4.99%) and JSC VTB Bank (3.65%).

On 22 February 2013, ONEXIM's interest in the Company was purchased by Receza Limited and Wamika Trading Limited, where the beneficial owner is Mr. Gavriil Yushvaev (who now holds 19.28%) and Lizarazu Limited, where the beneficial owner is Mr. Zelimkhan Mutsoev (who now holds 18.50%). There were no other changes to the significant shareholders' ownerships as of 27 March 2013.

Substantial shareholdings as at 27 March 2013:

Shareholder	Number of shares	Nature of holding	% of issued share capital
Nafta Moskva[1]	1,219,680,676	Indirect	40.22
Lizarazu Limited[2]	560,947,743	Indirect	18.50
Wamika Trading Limited[3]	303,214,996	Indirect	10
Receza Limited[3]	281,265,281	Indirect	9.28
Chengdong Investment Corporation[4]	151,607,496	Indirect	4.99
JSC VTB Bank	110,761,797	Indirect	3.65

Note:

[1] Nafta Moskva is an entity where the beneficial owner is Mr. Suleiman Kerimov.

[2] Lizarazu Limited is an entity where the beneficial owner is Mr. Zelimkhan Mutsoev.

[3] Wamika Trading Limited and Receza Limited are entities where the beneficial owner is Mr. Gavriil Yushvaev.

[4] Chengdong Investment Corporation is a wholly-owned subsidiary of CIC International Co. Ltd.

Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Deloitte have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board,

German Pikhoya
Chief Executive Officer
27 March 2013

Risk Committee

Please refer to the Company's website for a detailed description of the role of the Risk Committee: www.polyusgold.com/company/corporate_governance/risk_committee/

Adrian Coates,
Chairman of the Risk Committee

Risk management and internal control

The Board has applied principle C.2 of the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is also responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C.2.1 of the UK Corporate Governance Code, the Board regularly reviews the effectiveness of the Group's risk management and internal control systems. The Board's monitoring covers all material controls, including financial, operational and compliance controls. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of risk management and internal control arising during the period covered by the report including the work of internal audit. The Audit Committee and Risk Committee assists the Board in discharging its review responsibilities.

During the course of its review of the risk management and internal control systems, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Meetings

In 2012 the Committee met four times.

Director	Designation	Number of Committee meetings attended	Total number of Committee meetings during the period
Adrian Coates	Non-Executive Director, Senior Independent Director, Chairman of the Committee	4	4
Kobus Moolman	Non-Executive Director	4	4
Anna Kolonchina[1]	Non-Executive Director	1	4

Note:
[1] Due to the restrictions of the UK Takeover Code, Anna Kolonchina did not attend Risk Committee meetings after the Company entered an Offer Period under the UK Takeover Panel (from 13 September 2012 to 22 February 2013).

Summary of the role of the Risk Committee

The Risk Committee is appointed by the Board of Directors from the Non-Executive Directors of the Group. The Risk Committee's Terms of Reference were established and approved on 26 October 2011, and include all matters indicated in Section C.2 of the UK Corporate Governance Code.

Composition of the Risk Committee

Starting from 1 January 2012, the Risk Committee is composed of three members:

- Adrian Coates;
- Kobus Moolman; and
- Anna Kolonchina.

The Chairman of the Risk Committee is Adrian Coates. The Board believes that the current composition of the Risk 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 Risk Committee is authorised 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; and to call any employee to be questioned at a meeting of the Committee as and when required.

Meetings and discussions

The Risk Committee's agenda is linked to the Company's periodic reports to ensure proper disclosure of risks and risk factors. The agenda is predominantly cyclical and maintains a continuous view of risks as well as consideration of new risk factors that the Company is facing.

In 2012, the Risk Committee continued to work with the Company's Risk Management Department in the development of a comprehensive approach to the identification, assessment and mitigation of the substantive risks faced by the Company. The Committee approved the framework for technical and production risk assessment including the setting of tolerance levels rebased to financial values (previously tolerance levels were specified as loss of gold production). These tolerance levels were subsequently approved for implementation by the Board. The Committee tasked the Company's Risk Management Department with expanding the scope of the risk coverage matrix to include broader business risks (financial, economic, legal etc). Accordingly, the Company has produced the first Enterprise-Wide Risk Matrix with the intention of applying the risk management process across the totality of the risks faced by the Group, and coordinating the ERM with the scheduled activities of the Internal Audit department.

Given the importance of the Natalka Project to the Company, the Committee sponsored a specific exercise to assess the Natalka Project development risks. McKinsey & Co. was retained to prepare a report on the key risks, assisted by the Company's Risk Management Department. The Report was presented to the Committee and subsequently to the Board in December. A number of key development risks were identified and the Company is now considering and implementing mitigation actions.

The Committee also received a specific report on the Company's IT risks as part of its ongoing review of the Disaster Recovery checklist.

The Committee received a quarterly report from the Company's Risk Management Department on all technical and production Critical and Substantial Risks and their planned mitigation.

Approved by the Risk Committee and signed on its behalf by

Adrian Coates
Chairman of the Risk Committee
27 March 2013

Overview
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Risk management

The activities of the Polyus Gold Group are associated with a variety of risks that may have financial, operational or reputational impact and which may affect the Group's production and financial results.

The Group is committed to achieving successful development, through effective risk management, an efficient distribution of resources, and strengthening of the Group's competitiveness.

Successful risk management requires, amongst other things, identification and assessment of potential threat parameters, and development of measures aimed at mitigating potential risks. The overall risk management process is governed by the Risk Committee, composed of independent Non-Executive Directors appointed by the Board of Directors. The Risk Committee ensures that there is a robust framework for identifying and assessing key risks to the business. The principal risks and uncertainties facing the Group have been categorised into headline risk areas. The main areas of associated risks and the measures to manage them are described below.

Ore reserves and mineral resources

The Group's activities rely heavily upon its available ore reserves and mineral resources, which are subject to a number of assumptions, particularly the gold price, production costs and recovery rates.

Root cause:
Ore reserves and mineral resources are difficult to quantify, actual volumes may be inaccurate and therefore are subject to significant correction. The evaluation of ore and mineral reserves depends to a certain extent on statistical conclusions made on the basis of the results of limited volumes of drilling and other analyses that may turn out to be incorrect. The evaluation and classification of ore and mineral reserves may also be affected by the changes in the prices of gold.

Impact:
If the quantity and quality of the explored ore reserves and mineral resources are not confirmed, the production efficiency of mining operations may deteriorate as a result of increasing labour intensity and costs.

Treatment:
The Group invests considerable sums every year in programmes for anticipating geological prospecting which is undertaken using the leading technologies. The most advanced explorations are being executed at the Nezhdaninskoye and Bamskoe gold deposits in the Irkutsk region. The Group is also looking to develop the lower horizons of the Olimpiada deposit. In order to confirm mineral and ore resources and reserves the Group engages independent international experts to conduct audits on prospective and existing deposits and to provide surveys on the results of the exploration activity. The Natalka deposit was audited by Micon International.

Mining and production activity

The Group is exposed to a number of natural and event risk factors which include flooding, pit slope and rim slide, accidents caused by the use of mining equipment, explosive work preparation and performance, damage of power supply facilities or machinery breakdown.

Root cause:
The Group's production activities are carried out in remote far east regions from Krasnoyarsk to Magadan, which are subject to adverse weather conditions. As a result, the delivery of equipment, technological materials and spare parts is more difficult, and they are subject to extra wear and tear and require specific services and repair conditions, hence increasing production costs.

Impact:
These risks could result in suspended ore production and recovery, increased costs, health and safety, social and adverse environmental impact and affect the Group's production activities.

Treatment:
Mining machinery, transport and new technologies, including those developed by the Group, are used for operations in areas which have complicated geological and severe climatic conditions. The Group aims to mitigate the risks associated with unplanned production interruptions through various processes, including probability analysis and effective risk management. Such risk management includes the identification of potential threat parameters, modelling different risk scenarios, with analysis of the root causes of each and every potential negative event. The Group implements different organisational and technique actions aimed at preventing accidents and emergencies. Thus, during 2012, several critical risks were mitigated followed by a 2% production-at-risk indicator decrease. The progress report on the risks remediation plan is reviewed by the Risk Committee and revised on a regular basis.

Counterparty and supply chain risks

There are risks of late delivery and non-compliance with contracts due to failure of contractors, manufacturers or suppliers of mining and processing equipment and technological materials.

Root cause:
The Group's principal operations are located in remote areas with harsh climates and with a poor road infrastructure. The delivery of supplies to the areas where the Group operates may be disrupted or transportation costs may increase. During the winter time the minimum air temperature at the largest production sites (Olimpiada and Blagodatnoye) in Krasnoyarsk region is -61°C, the year average is -5°C. The main trans-shipment terminal at Lesosibirsk, designed to handle, trans-ship, store and deliver all supplies to the sites, is connected by a ground road which is about 320 km, and involves a ferry over the Enisey river or ice crossing. Due to unfavourable weather conditions, transportation is impossible for 2-3 months a year.

During the different global economic cycles suppliers are exposed to a variety of negative factors which may hamper the production and delivery of the necessary supplies to meet the Group's demand for component parts, spare parts and equipment or result in an increase in costs.

Impact:
The inability to obtain strategic consumables, raw and technological materials, technical supply, mining and processing equipment in a timely manner could adversely affect the timing of the introduction of new production capacity and production plans.

Treatment:
To mitigate these risks, the Group regularly monitors the financial performance of its major counterparties and takes measures to increase the number of actual and potential counterparties it conducts business with. To lower the dependence on external energy suppliers the Company mines its own deposit of coal at Kokuy (Krasnoyarsk region) and delivers it to the Olimpiada power station. There is a careful acceptance control of new equipment and technological materials prior to delivery. A special division, LLC Polyus Logistics, was established to carry out logistic functions and improve the effectiveness of purchasing and transportation leverage through optimising transportation routes. The Group also keeps an adequate emergency stock of spare parts and inventories to avoid production interruptions during the spring and autumn road slush.

Market and inflation risks

The Group's income is sourced from gold sales, which are generally effected at spot prices in US dollars. Also, the Group's activity is exposed to relatively high rates of inflation in Russia.

Root cause:
Gold prices are quoted on the international markets in US dollars. Accordingly, the economic results of the Group depend, to a considerable extent, on the fluctuations of gold prices. The gold market is cyclical and sensitive to any economic changes. The price of gold is affected by a number of factors that are beyond the control of the Group. The costs, including in particular materials and utilities, wages and services, are denominated in Russian Roubles and hence subject to exchange rate and inflation changes. Increasing tariff rates on energy by "natural monopolies" may result in increased costs. Despite the fact that the inflation rate for consumer goods in Russia has significantly decreased over the last 12 years from 18.6 to 6.6, the annual rise of tariffs for electric energy, gas and fuel is still high at up to 10-15%.

Impact:
A substantial continued gold price reduction may result in a decrease in profitability of gold exploration and extraction activities. Increased inflation induced by the current economic climate may have an adverse impact on the Group's financial results.

Treatment:
In the current economic climate, gold is used to hedge potential losses in currency and capital markets. Currently the level of demand for gold remains stable and maintains high price levels. The Group constantly monitors gold markets and does not enter into hedge transactions. In order to reduce the impact of increasing tariff rates, the Group seeks to develop and modernise its own energy-generating facilities and to purchase and consume energy resources based on long-term fixed-price contracts. Prospective inflationary changes are also considered as a part of the analysis when planning the budget and costs of implementing investment projects.

Liquidity risk

The Group is exposed to liquidity risk in terms of being able to fund operations and growth.

Root cause:
Liquidity risk arises from uncertainty or volatility in the capital or credit markets due to perceived weaknesses of the global economic environment or possibly as a response to shock events. Liquidity risk also arises when lenders are insecure about the long-term cash generating capacity of the Group.

Impact:
If the Group is unable to obtain sufficient credit due to capital market conditions, it may not be able to raise sufficient funds to develop new projects, fund acquisitions or meet its ongoing financing needs. As a result, revenues, operating results, cash flows or financial position may be adversely affected.

Treatment:
Management of liquidity risk is intended to maintain a sufficient level of monetary resources to fund production-, management-, and investment-related needs, to ensure stability of compliance with the financial obligations of the Group and to develop the appropriate capital structure. The Group monitors on a regular basis production levels, operational expenditures, prices of raw materials, volumes of floating assets and capital expenditure. The enterprises of the Group implement a coordinated automatic programme of cash assets record-keeping. The measures taken to regulate liquidity risk enable the Group to maintain its competitiveness and long-term financial solvency.

Regulatory risk

The activities of the Group may be adversely impacted by the failure to obtain, or termination and non-renewal of its licences.

Root cause:
The ability of the Group to carry out its activities depends on its licences, in particular those licences relating to mining rights, and on being able to obtain new licences and complying with their terms. The Group owns a large number of the licences for the exploration of gold and other minerals. The terms of these documents require the Group to comply with a number of industrial standards, employ qualified personnel, ensure that the necessary equipment and operation quality control systems are available, maintain relevant documentation and provide information to the licensing authorities when requested. The Group intends to exploit the deep horizons of the Olimpiada deposit, which may require special permission to carry out underground mining works.

Impact:
Failure to comply with the terms of licences may result in the termination of licences critical to the operations or confer obligations on the Group, which may decrease its profitability. Absence or cessation of a licence will cause a production halt and, as a consequence, essential financial losses.

Treatment:
The Group is focused on strengthening the control over compliance with licence agreements and industrial standards requirements on a continuous basis. These control activities include the analysis and immediate response to comments or reports made by state regulatory and supervisory authorities in connection with their inspections of the Polyus Group's business activities.

Environmental legislation

The Group's activities are subject to environmental control and regulation as a result of the use of environmentally hazardous substances, and the disposal of operational waste and hazardous substances into the environment, soil disturbance, potential harm to wildlife and other factors.

Root cause:
Changes in environmental legislation and the introduction of stricter licensing requirements may result in additional expenditure to modify industrial processes and cause an increase in environmental charges.

Impact:
Potential impacts include fines and penalties, statutory liability for environmental remediation and other financial consequences that may be significant. Governments may force closure of mines on a temporary or permanent basis or refuse future mining right applications.

Treatment:
The Group seeks to comply with its environmental obligations and follows the requirements of Russian and international standards, agreements, conventions and protocols applicable to it. The task of enhancing the efficiency of Group performance is intended, among other things, to reduce emissions of hazardous substances and the development of waste disposal sites. "Bureau Veritas Certification" has performed an audit of CJSC Polyus and JSC "Aldanzoloto" to certify compliance with the international standard ISO14000 (Environmental management system). CJSC Polyus has passed the first round of certification audit to comply with the requirements of standard OHSAS 18001: 2007.

Project risks

The implementation of the Group's investment projects for the most part is subject to geological, market, operational and compliance risks.

Root cause:
Market risks are caused by changes in the price of gold, exchange rates and inflation. Operational risks include: the risk of late commissioning of the object; the breach of the functioning of the mine due to errors in the design, construction and installation, which may result in costs exceeding the planned project costs and hamper the mine; and the risk of a shortage of skilled technicians. Given the competition in the recruitment of workers and employers and the location of the associated companies in remote areas, the Group may not be able to attract the required number of qualified specialists for the implementation of investment projects.

Impact:
Realisation of project risks may result in late commissioning, increased cost of the project, reduced profitability and efficiency of the project, and revocation of licences for the exploitation of mineral resources.

Treatment:
To reduce these project risks, the Group has developed procedures for careful and comprehensive study, selection and analysis of investment projects proposed for implementation. Each project is subject to approval by the Group's Investment Committee, which is constituted with members with expertise in economics, production and law. Control over investment projects is exercised at all stages of implementation. Professional and reliable consultants are engaged to provide audit and assistance in risk identification and ongoing control over the execution of the large investment projects, including design development, subcontracting procurement, construction, commissioning as well as reporting to stakeholders.

Consolidated financial statements
for the year ended 31 December

Contents

Directors' responsibility statement

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 74, is made with a view to distinguishing 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 2012, 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 is 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 proper 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 2012 were approved on 27 March 2013 by the Board of Directors.

On behalf of the Board of Directors:

German Pikhoya
Chief Executive Officer
London, 27 March 2013

Independent auditor opinion

Independent auditor's report to the members of Polyus Gold International Limited

We have audited the group financial statements (the "financial statements") of Polyus Gold International Limited for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by European Union.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matters

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

We have reviewed the directors' statement in relation to going concern as if the company had been incorporated in the UK and have nothing to report to you in that respect.

Douglas King FCA
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
London, UK
27 March 2013

Consolidated income statement

for the years ended 31 December

(in thousands of US Dollars, except for earnings per share data)

	Notes	2012	2011*
Gold sales	7	2,784,499	2,340,650
Other sales		63,606	62,060
Total revenue		**2,848,105**	**2,402,710**
Cost of gold sales	8	(1,361,827)	(1,143,033)
Cost of other sales		(45,674)	(46,343)
Gross profit		**1,440,604**	**1,213,334**
Gain on disposal of subsidiaries	5	6,268	–
Selling, general and administrative expenses	9	(267,903)	(225,618)
Other income / (expenses), net	10	12,803	(24,077)
Impairment of property, plant and equipment	14	(17,249)	(23,501)
Impairment of capital construction-in-progress	15	(19,198)	–
Impairment of exploration and evaluation assets	16	(338)	(54,708)
Impairment of stockpiles		–	(25,209)
Gain on loan settlement and sale and purchase agreement termination	25	79,084	–
Research expenses		(2,079)	(2,581)
Operating profit		**1,231,992**	**857,640**
Finance costs	11	(34,791)	(71,403)
Income from investments, net	12	35,960	3,630
Foreign exchange gain / (loss)		4,614	(5,814)
Profit before income tax		**1,237,775**	**784,053**
Income tax	13	(257,249)	(210,850)
Profit for the year		**980,526**	**573,203**
Profit for the year attributable to:			
Shareholders of the Company		929,679	483,474
Non-controlling interests		50,847	89,729
		980,526	573,203
Weighted average number of ordinary shares in issue during the period ('000s)		2,950,916	2,960,311
Earnings per share (US cents), basic and diluted[1]		32	16

Note:
* The comparative information for the year ended 31 December 2011 reflects adjustments made in connection with early application of IFRIC 20 (refer to Note 2).
[1] There were no financial instruments or any other instances which could cause antidilutive effect on earnings per share calculation.

Consolidated statement of comprehensive income
for the years ended 31 December
(in thousands of US Dollars)

	Note	2012	2011*
Profit for the year		980,526	573,203
Available-for-sale financial assets:			
Loss from change in fair value of available-for-sale investments		(3,976)	(8,976)
Losses recycled to profit or loss on disposal of available-for-sale investments	12	(581)	(17,023)
		(4,557)	(25,999)
Effect of translation to presentation currency		200,568	(195,632)
Other comprehensive income/(loss) for the year		196,011	(221,631)
Total comprehensive income for the year		1,176,537	351,572
Attributable to:			
Shareholders of the Company		1,108,189	317,460
Non-controlling interests		68,348	34,112
		1,176,537	351,572

Note:
* The comparative information for the year ended 31 December 2011 reflects adjustments made in connection with early application of IFRIC 20 (refer to Note 2).

Consolidated statement of financial position
at 31 December
(in thousands of US Dollars)

	Notes	2012	2011*
Assets			
Non-current assets			
Property, plant and equipment	14	2,216,637	1,771,107
Capital construction-in-progress	15	623,277	371,668
Exploration and evaluation assets	16	467,269	399,846
Investments in securities and other financial assets	17	16,034	3,643
Inventories	18	242,005	206,801
Other non-current assets		–	35
		3,565,222	2,753,100
Current assets			
Investments in securities and other financial assets	17	78,360	63,468
Inventories	18	659,480	539,442
Deferred expenditures	19	19,090	18,512
Trade and other receivables	20	45,369	24,712
Advances paid to suppliers and prepaid expenses		40,619	29,636
Taxes receivable	21	220,835	150,022
Cash and cash equivalents	22	959,932	657,448
		2,023,685	1,483,240
Total assets		5,588,907	4,236,340
Equity and liabilities			
Capital and reserves			
Share capital	23	482	482
Additional paid-in capital	23	2,151,765	2,189,240
Treasury shares	23	–	(765,013)
Investments revaluation reserve		–	4,557
Translation reserve		(76,684)	(259,751)
Retained earnings		2,110,869	1,438,992
Equity attributable to shareholders of the Company		4,186,432	2,608,507
Non-controlling interests		282,645	236,029
		4,469,077	2,844,536
Non-current liabilities			
Site restoration and environmental obligations	24	119,150	149,876
Borrowings	25	160,792	123,048
Deferred tax liabilities	26	208,998	184,207
Other non-current liabilities		25,695	24,008
		514,635	481,139
Current liabilities			
Borrowings	25	187,555	675,632
Trade, other payables and accrued expenses	27	289,846	192,077
Taxes payable	28	127,794	42,956
		605,195	910,665
Total liabilities		1,119,830	1,391,804
Total equity and liabilities		5,588,907	4,236,340

Note:
* The comparative information for the year ended 31 December 2011 reflects adjustments made in connection with early application of IFRIC 20 (refer to Note 2).

Consolidated statement of changes in equity

for the years ended 31 December

(in thousands of US Dollars)

			Equity attributable to shareholders of the Company								
	Notes	Number of outstanding shares, (thousands)	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	**Total**
Balance at 31 December 2010		3,082,656	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*		–	–	–	–	–	–	483,474	483,474	89,729	573,203
Other comprehensive loss*		–	–	–	–	(25,999)	(140,015)	–	(166,014)	(55,617)	(221,631)
Total comprehensive income*		–	–	–	–	(25,999)	(140,015)	483,474	317,460	34,112	351,572
Effect of reorganisation		(312,955)	(37)	220,885	(258,323)	–	–	(417,460)	(454,935)	417,460	(37,475)
Increase of ownership in subsidiary		35,489	–	(119,623)	119,623	–	–	(365,336)	(365,336)	(223,480)	(588,816)
Dividends declared to shareholders of the Company	23	–	–	–	–	–	–	(72,327)	(72,327)	–	(72,327)
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	–	–	(48,949)	(48,949)
Balance at 31 December 2011*		2,805,190	482	2,189,240	(765,013)	4,557	(259,751)	1,438,992	2,608,507	236,029	2,844,536
Profit for the year		–	–	–	–	–	–	929,679	929,679	50,847	980,526
Other comprehensive income/ (loss)		–	–	–	–	(4,557)	183,067	–	178,510	17,501	196,011
Total comprehensive income		–	–	–	–	(4,557)	183,067	929,679	1,108,189	68,348	1,176,537
Dividends declared to shareholders of the Company	23	–	–	–	–	–	–	(124,318)	(124,318)	–	(124,318)
Sale of treasury shares	23	226,960	–	–	727,538	–	–	(133,484)	594,054	30,318	624,372
Transfer of balance relating to call option	23	–	–	(37,475)	37,475	–	–	–	–	–	–
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	–	(52,050)	(52,050)
Balance at 31 December 2012		3,032,150	482	2,151,765	–	–	(76,684)	2,110,869	4,186,432	282,645	4,469,077

Note:
* The comparative information for the year ended 31 December 2011 reflects adjustments made in connection with early application of IFRIC 20 (refer to Note 2).

Consolidated statement of cash flows

for the years ended 31 December

(in thousands of US Dollars)

	Notes	2012	2011*
Net cash generated from operating activities	29	**991,769**	**775,588**
Investing activities			
Proceeds from subsidiaries' disposal, net of cash disposed	5	20,973	–
Proceeds from termination of the sale and purchase agreement	25	40,647	–
Purchases of property, plant and equipment		(750,224)	(343,037)
Payments for stripping activity asset		(81,802)	(28,453)
Proceeds from sales of property, plant and equipment		2,874	1,911
Interest received		35,942	15,359
Purchases of investments in securities and placement of deposits in banks		(58,265)	(37,596)
Proceeds on sales of investments in securities and redemption of bank deposits		26,066	121,270
Net cash utilised in investing activities		**(763,789)**	**(270,546)**
Financing activities			
Acquisition of subsidiary's shares		–	(588,816)
Proceeds from sale of treasury shares	23	624,372	–
Dividends paid to shareholders of the Company	23	(124,318)	(73,191)
Dividends paid to shareholders of non-controlling interests		(47,547)	(26,225)
Proceeds from borrowings	25	273,467	560,000
Repayment of borrowings	25	(690,002)	–
Other		–	(6,726)
Net cash from / (utilised) in financing activities		**35,972**	**(134,958)**
Net increase in cash and cash equivalents		**263,952**	**370,084**
Cash and cash equivalents at beginning of the year	22	**657,448**	**326,905**
Effect of foreign exchange rate changes on cash and cash equivalents		38,532	(39,541)
Cash and cash equivalents at end of the year	22	**959,932**	**657,448**

Note:
* The comparative information for the year ended 31 December 2011 reflects adjustments made in connection with early application of IFRIC 20 (refer to Note 2).

Notes to the consolidated financial statements

for the year ended 31 December 2012

(in thousands of US Dollars)

1. General

Polyus Gold International Limited (the "Company") was incorporated on 26 September 2005 and re-registered as a public limited company under Companies (Jersey) Law 1991 on 18 November 2005.

On 19 June 2012, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange's premium listed market.

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 licence area located in the Magadan region, Nezhdaninskoye licence areas located in the Sakha Republic, Kyrgyzstan 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 34.

2. 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 and its capital expenditure commitments and plans, considerations of gold price, 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") as adopted by the European Union ("EU"). 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").

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 as adopted by the EU. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS as adopted by the EU.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39 "Financial Instruments: recognition and measurement".

Certain reclassifications were performed in the comparative financial information to be consistent with the classification in the reporting year.

(in thousands of US Dollars)

2. Basis of preparation and presentation (continued)

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 2012, but are not mandatory for the current reporting period and therefore have not been applied:

	Effective for annual periods beginning on or after
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	1 January 2013
IFRS 7 "Financial Instruments: Disclosures" – amendment	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 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 34 "Interim Financial Reporting" – amendment	1 January 2013
IAS 32 "Financial instruments: Presentation" – amendment	1 January 2014
IFRS 9 "Financial Instruments – Classification and Measurement"	1 January 2015

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.

Early adoption of IFRIC 20 and restatement of the comparative figures

Before adoption of IFRIC 20 the Group capitalised stripping costs, using the life-of-mine stripping ratio. If the actual stripping ratio exceeded the expected average life-of-mine stripping ratio, stripping costs related to the stripping in excess of the life-of-mine ratio were deferred and recognised as a separate non-current asset. When the actual stripping ratio was below the expected average life-of-mine ratio, the shortfall in stripping cost to meet the average life-of-mine stripping ratio was expensed.

In 2012, the Company early adopted IFRIC 20 "Stripping costs in the Production Phase of a Surface mine" to account for costs directly related to its surface mining stripping activity.

IFRIC 20 requires prospective application of the standard to production stripping costs incurred on or after the beginning of the earliest period presented. Deferred stripping costs related to production which existed at the beginning of the earliest period presented are recognised and amortised on the same basis as new stripping activity assets could be identified with a remaining component of an ore body. If such balances could not be identified with the remaining component of the ore body that was made more accessible by the stripping activity, the asset is reduced and recognised as an adjustment to opening retained earnings.

The adoption of IFRIC 20 has not resulted in the write down of the previously recognised deferred stripping cost balance as at January 2011.

The reconciliation of the previously reported and adjusted components of the consolidated financial statements as of and for the year ended 31 December 2011 is as follows:

	31 December 2011		
	As previously reported	Adjustments	As restated
Consolidated statement of financial position			
Assets			
Property, plant and equipment	1,684,749	86,358	1,771,107
Deferred stripping costs	64,460	(64,460)	–
Inventories, non-current	207,789	(988)	206,801
Inventories, current	543,023	(3,581)	539,442
Equity and liabilities			
Translation reserve	(258,426)	(1,325)	(259,751)
Retained earnings	1,424,516	14,476	1,438,992
Non-controlling interests	235,317	712	236,029
Deferred tax liabilities	180,741	3,466	184,207
Consolidated income statement for the year ended			
Cost of gold sales	(1,162,019)	18,986	(1,143,033)
Income tax	(207,052)	(3,798)	(210,850)
Consolidated statement of comprehensive income for the year ended			
Effect of translation to presentation currency	(194,307)	(1,325)	(195,632)
Total comprehensive income for the year attributable to:			
Shareholders of the Company	468,998	14,476	483,474
Non-controlling interests	89,017	712	89,729
Consolidated statement of cash flows for the year ended			
Operating activities			
Profit before income tax	765,067	18,986	784,053
Adjustments for:			
Amortisation and depreciation	187,949	2,132	190,081
Expensed stripping costs	10,935	(10,935)	–
Investing activities			
Payments for stripping activity asset	(18,270)	(10,183)	(28,453)

(in thousands of US Dollars)

3. Significant accounting policies

3.1 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 interests 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.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" (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.

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 the 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:

Subsidiaries	Functional currency
Jenington International Incorporated	US Dollar
Polyus Exploration Limited	US Dollar
Polyus Investments Limited	US Dollar
JSC "MMC Kazakhaltyn" and its subsidiaries	Kazakh Tenge

3.2 Presentation currency

The Group presents its consolidated financial statements in the US Dollar ("USD"), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting 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 the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction.

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

	2012	2011	2010
Russian Rouble/US Dollar			
Year end rate	30.37	32.20	30.47
Average for the year	31.09	29.39	30.36
Kazakh Tenge/US Dollar			
Year end rate	150.74	148.40	147.40
Average for the year	149.11	146.62	147.35

3.3 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.

(in thousands of US Dollars)

3. Significant accounting policies (continued)

3.4 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 sale 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 is recognised when the services are rendered.

3.5 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the 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 the 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.

3.6 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.

3.7 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.

3.8 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 and mine infrastructure, processing plant, mineral rights and mining and exploration licences 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 6 to 20 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	12 years
Blagodatnoye	9-20 years
Kuranakh	15 years

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

Stripping activity asset

Stripping costs incurred during the production phase are considered to create two benefits, being either the production of inventory in the current period and/or improved access to the ore to be mined in the future. Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset, if the following criteria are met:

- future economic benefits (being improved access to the ore body) are probable;
- the component of the ore body for which access will be improved can be accurately identified; and
- the costs associated with the improved access can be reliably measured.

If not all of the criteria are met, the production stripping costs are included in the cost of inventory which are expensed in the consolidated income statement as cost of gold sales as they are sold.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are not included in the costs of stripping activity asset.

The Group uses an allocation basis that is based on volumes of waste extracted compared with expected volumes of ore extracted from a specific component of the ore body to allocate stripping costs between inventory and the stripping activity asset in accordance with the Group's mine operating plans. Production forecasts included in the mine operating plans are based on estimated proven and probable ore reserves under the Russian Resource Reporting Code.

The stripping activity asset is accounted for as a part of property, plant and equipment and subsequently depreciated using the straight-line method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. After initial recognition the stripping activity asset is carried at cost less depreciation and any impairment losses.

3. Significant accounting policies (continued)

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.

3.9 Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine project development such as construction of buildings, infrastructure, processing plant, machinery and equipment. When the capital construction-in-progress has been completed and in a condition necessary for them to be capable of operating in the manner intended by management, the objects are reclassified to mining assets.

Finance costs
Finance costs directly attributable to the construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other finance costs are recognised in the consolidated income statement in the period in which they are incurred

3.10 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.

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 others, indicate that exploration and evaluation assets must be tested for impairment:

- the term of the exploration licence in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

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

3.11 Inventories

Refined gold, ore stockpiles 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. 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.

3. Significant accounting policies (continued)

3.12 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 a 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 32.

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 a 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 investments revaluation reserve is included in the consolidated income statement for the period.

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

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

Loans and receivables

Loans and receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

4. Critical accounting judgements 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 judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Critical judgements in applying accounting policies

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 judgements 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 judgements 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:

- economic useful lives of property, plant and equipment;
- exploration and evaluation assets;
- deferred stripping costs;
- impairment of tangible assets;
- site restoration and environmental obligations;
- income taxes; and
- contingencies.

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.

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.

Exploration and evaluation assets

Management's judgement 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.

Exploration and evaluation assets: Nezhdaninskoye deposit

The Nezhdaninskoye deposit is treated and classified as an exploration and evaluation asset because, at the current stage certain reserves have been identified, but a decision on the deposit has not yet been made. Among the future options are:

- construction of a full cycle processing plant, with subsequent sale of gold doré;
- construction of a gold concentrate production plant, with subsequent sale of flotation concentrate; and
- sale of the deposit to independent third parties at a price above accumulated exploration and evaluation expenses.

Management continues to evaluate the deposit and has not taken a final decision.

Stripping activity asset

The Group incurs stripping costs during the production phases of its surface mining operations. Significant judgement is required to distinguish between the production stripping which relates to the extraction of inventory and that relates to the creation of a stripping activity asset.

In order to perform the allocation the Group is required to identify separate components towards which the stripping costs have been incurred for the ore bodies in each of its mines. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. For the purposes of identification of separate component the Group uses mine operating plans, which are based on estimated proven and probable ore reserves under the Russian Resource Reporting Code.

Each discrete stage of mining identified at mine plan is considered as units of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after another), these stages would be identified as components. These assessments are undertaken for each individual mine.

Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that the volume of waste extracted compared with expected volume of a specific component of the ore body, for a given level of ore production, to be the most suitable allocation basis.

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 judgement 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 management's understanding of the current legal requirements in the various jurisdictions, terms of the licence 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 judgement 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 judgements 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 the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

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 judgements and estimates of the outcome of future events.

(in thousands of US Dollars)

5. Disposal of subsidiaries

During the year ended 31 December 2012 the following subsidiaries of the Group:

- Romaltyn Mining S.R.L., Romaltyn Exploration S.R.L., Romaltyn Limited (previously attributable to Kazakhstan business unit);
- GRK Bargold Ltd and Yakutskoe GRP Ltd (previously attributable to the Exploration business unit), were sold to independent non related parties.

Romaltyn Mining and Romaltyn Exploration (together, "the Romanian assets") hold rights to various mining assets in Romania including a gold treatment plant with an annual processing capacity of 2.5 million tonnes (currently not in operation) and a number of exploration properties. Romanian assets were acquired in 2009, together with the Group's subsidiaries in Kazakhstan. The disposal of the Romanian assets was driven by the strategic objectives of the Group and the increased focus on our core large-scale operations.

GRK Bargold and Yakutskoe GRP hold rights to a number of exploration properties in Russia. The Group's investment in GRK Bargold was fully impaired during the year ended 31 December 2011.

There were no contingent liabilities or deferred consideration applicable to the sale. All the proceeds were received in cash.

The following assets and liabilities were disposed during the year ended 31 December 2012:

	Romanian assets/liabilities	GRK Bargold and Yakutskoe GRP assets/liabilities	**Total assets/liabilities disposed**
Property, plant and equipment	9,772	–	9,772
Capital construction-in-progress	6,572	–	6,572
Exploration and evaluation assets	3,880	544	4,424
Cash	572	686	1,258
Other assets	900	18	918
Site restoration and environmental obligations	(5,022)	–	(5,022)
Other liabilities	(1,947)	(12)	(1,959)
Total net assets disposed	**14,727**	**1,236**	**15,963**
Proceeds	20,000	2,231	22,231
Gain on disposal	**5,273**	**995**	**6,268**

6. Segment information

For management purposes, the Group is organised into 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 eight (2011 – seven) identified reportable segments are located and described as follows:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – Extraction, refining and sale of gold from the Olimpiada, Blagodatnoye and Titimukhta mines, as well as research, exploration and development work at the Olimpiada deposits;
- ***Kazakhstan business unit*** (Republic of Kazakhstan and Kyrgyzstan) – Extraction, refining and sale of gold from Aksu, Bestobe, Akzhal and 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 sale of gold from several alluvial deposits;
- ***Irkutsk ore business unit*** (Irkutsk region, Bodaibo district of the Russian Federation) – Extraction, refining and sale of gold from the Verninskoye mine, research, exploration and development works at Pervenets, Verninskoye and Medvezhiy Zapadny deposits, and electricity and utilities production and sales in the Bodaibo district of the Irkutsk region;
- ***Yakutia Kuranakh business unit*** (Sakha Republic of the Russian Federation) – Extraction, refining and sale of gold from the Kuranakh mines;
- ***Magadan business unit*** (Magadan region of the Russian Federation) – Represented by OJSC "Matrosov Mine" which performs development works at the Natalka deposit;
- ***Exploration business unit*** – Comprising two operating segments that are combined into one reportable segment as they satisfy the criteria for aggregation:
  - Yakutia (Nezhdaninskoye) business unit (Sakha Republic of Russian Federation) – Research and exploration works at the Nezhdaninskoye deposit; and
  - Krasnoyarsk region, Irkutsk region, Amur region, and others – Research and exploration works in several regions of the Russian Federation;
- ***Capital construction unit*** – Represented by LLC "Polyus Stroy" and CJSC "Vitimenergostroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits. In 2012, following the significant increase of construction activities, CODM started to analyse this segment separately. Previously, LLC "Polyus Stroy" was reported within the Krasnoyarsk business unit. Information for the comparative period was not restated due to the insignificance of its operations in 2011. CJSC "Vitimenergostroy" was established in 2012.

The reportable segments derive their revenue primarily from gold sales. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for the 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.

(in thousands of US Dollars)

6. Segment information (continued)

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

	Gold sales	Segment profit/(loss)	Capital expenditures	Depreciation and amortisation
For the year ended 31 December 2012				
Business units				
Krasnoyarsk	1,948,587	990,463	144,555	112,379
Irkutsk alluvial	363,552	97,009	19,825	10,944
Yakutia Kuranakh	229,719	57,245	23,446	9,420
Kazakhstan	166,475	64,485	42,152	21,061
Irkutsk ore	76,166	29,687	151,188	6,477
Magadan	–	(20,061)	191,043	5,632
Exploration	–	(10,083)	22,535	2,103
Capital construction	–	1,339	133,916	5,528
Total	**2,784,499**	**1,210,084**	**728,660**	**173,544**
For the year ended 31 December 2011				
Business units				
Krasnoyarsk	1,641,380	918,078	236,780	104,821
Irkutsk alluvial	350,213	102,795	22,808	6,550
Yakutia Kuranakh	184,735	13,797	12,569	8,298
Kazakhstan	160,825	5,773	38,583	14,939
Irkutsk ore	3,497	(13,042)	111,751	7,307
Magadan	–	(16,313)	22,026	3,784
Exploration	–	(14,107)	11,213	973
Total	**2,340,650**	**996,981**	**455,730**	**146,672**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the years ended 31 December 2012 and 2011.

The segment measure of profit/(loss) reconciles to the IFRS reported profit before income tax on a consolidated basis as follows:

	Year ended 31 December 2012	2011
Segment profit	**1,210,084**	**996,981**
Differences between IFRS and management accounts:		
Capitalised exploration works	21,895	(206)
Provisions and accruals	(26,692)	(49,109)
Additional depreciation charge and amortisation of mineral rights	(22,314)	(39,145)
Calculation of gold-in-process at net production cost	493	(26,912)
Difference in stripping costs capitalisation	29,867	32,559
Other	(11,227)	(3,219)
Adjusted segment net profit	1,202,106	910,949
Unallocated central costs, results of financing and investing activities and differences in accounting treatment under IFRS	35,669	(126,896)
Profit before income tax	**1,237,775**	**784,053**

The segment capital expenditures reconciles to the IFRS reported numbers on a consolidated basis as follows:

	Year ended 31 December 2012	2011
Segment capital expenditures	**728,660**	**455,730**
Differences between IFRS and management accounts:		
Differences at the moment of recognition of capital expenditures	46,175	(85,268)
Reclassification of advances paid for property, plant and equipment and construction works	(21,041)	20,148
Reclassification of materials related to construction works	71,375	(9,322)
Differences in capitalised exploration and evaluation costs	2,015	(12,635)
Other	4,861	(1,821)
Adjusted segment capital expenditure	832,045	366,832
Unallocated central capital expenditures	18,674	1,307
Capital expenditures	**850,719**	**368,139**

The segment depreciation and amortisation reconciles to the IFRS reported numbers on a consolidated basis as follows:

	Year ended 31 December 2012	2011
Segment depreciation and amortisation	**173,544**	**146,672**
Additional depreciation charge	16,373	30,010
Amortisation of mineral rights	5,941	13,399
Depreciation and amortisation	**195,858**	**190,081**

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

	31 December 2012	2011
Russian Federation	3,224,228	2,392,751
Republic of Kazakhstan	310,821	308,358
Kyrgyzstan	14,069	31,084
Romania	–	17,170
United Kingdom	70	94
Total	**3,549,188**	**2,749,457**

(in thousands of US Dollars)

6. Segment information (continued)

The impairment losses under IFRS in relation to Property, plant and equipment attributable to each reportable segment are presented as follows:

	Year ended 31 December 2012	2011
Business units		
Magadan	11,622	–
Kazakhstan	4,307	11,417
Irkutsk ore	1,189	7,193
Irkutsk alluvial	131	–
Krasnoyarsk	–	4,891
Total	17,249	23,501

The impairment losses under IFRS in relation to Capital construction-in-progress attributable to each reportable segment are presented as follows:

	Year ended 31 December 2012	2011
Business units		
Kazakhstan	17,054	–
Exploration	2,063	–
Irkutsk alluvial	81	–
Total	19,198	–

The impairment losses under IFRS in relation to Exploration and evaluation assets attributable to each reportable segment are presented as follows:

	Year ended 31 December 2012	2011
Business units		
Exploration	239	43,596
Krasnoyarsk	99	5,054
Irkutsk ore	–	4,351
Kazakhstan	–	1,707
Total	338	54,708

7. Gold sales

	Year ended 31 December 2012	2011
Refined gold	2,588,722	2,179,825
Other gold-bearing products	195,777	160,825
Total	2,784,499	2,340,650

8. Cost of gold sales

	Year ended 31 December 2012	2011
Fuel, consumables and spares	454,584	389,537
Labour	373,431	279,780
Tax on mining	202,409	179,116
Utilities	60,136	54,240
Outsourced mining services	31,264	22,147
Refining costs	5,621	5,067
Other	81,223	72,929
Sub-total	1,208,668	1,002,816
Amortisation and depreciation of operating assets (Note 14)	190,387	184,067
Increase in gold-in-process and refined gold inventories	(37,228)	(43,850)
Total	1,361,827	1,143,033

9. Selling, general and administrative expenses

	Year ended 31 December 2012	2011
Salaries	142,569	116,295
Taxes other than mining and income taxes	62,226	42,630
Professional services	30,279	36,350
Amortisation and depreciation	3,737	4,830
Other	29,092	25,513
Total	267,903	225,618

10. Other (income) / expenses, net

	Year ended 31 December 2012	2011
Change in estimations of decommissioning liabilities (Note 24)	(15,247)	–
Other	(6,961)	(2,156)
Change in allowance for reimbursable value added tax	(618)	6,602
Donations	6,339	5,468
Loss on disposal of property, plant and equipment and capital construction-in-progress	3,684	5,933
Penalties on tax on mining	–	8,040
Non-recoverable VAT	–	190
Total	(12,803)	24,077

11. Finance costs

	Year ended 31 December 2012	2011
Interest on borrowings	22,648	31,241
Unwinding of discounts	12,143	11,999
Debt modification expense	–	26,928
Other	–	1,235
Total	34,791	71,403

(in thousands of US Dollars)

12. Income from investments, net

	Year ended 31 December 2012	2011
Interest income on bank deposits	35,757	16,252
Gain on disposal of AFS investments	581	17,023
Loss from investments in listed companies held for trading accounted for at fair value through profit and loss	(378)	(20,984)
Loss on derivatives classified as held for trading accounted for at fair value through profit and loss	–	(8,661)
Total	35,960	3,630

13. Income tax

	Year ended 31 December 2012	2011
Current tax expense	242,616	200,297
Deferred tax expense	14,633	10,553
Total	257,249	210,850

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

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 2012	2011
Profit before income tax	1,237,775	784,053
Income tax at statutory rate applicable to principal entities (20%)	247,555	156,811
Tax effect of non-deductible expenses and other permanent differences	5,198	25,463
Unrecognised tax losses	124	11,109
Effect of different tax rates of subsidiaries operating in other jurisdictions	15,565	14,483
Tax effect of utilisation of tax losses not previously recognised	(6,128)	(4,990)
Other	(5,065)	7,974
Income tax expense at effective rate of 21% (2011: 27%)	257,249	210,850

14. Property, plant and equipment

	Mining assets	Non-mining assets	Stripping activity asset	Total
Cost				
Balance at 31 December 2010	2,356,373	70,313	61,023	2,487,709
Additions	160,674	14,386	39,493	214,553
Transfers from capital construction-in-progress and reclassifications	90,693	(26,523)	–	64,170
Transfers from exploration and evaluation assets (Note 16)	264	–	–	264
Change in decommissioning liabilities (Note 24)	7,833	–	–	7,833
Disposals	(25,698)	(468)	–	(26,166)
Effect of translation to presentation currency	(130,593)	(2,519)	(6,704)	(139,816)
Balance at 31 December 2011	2,459,546	55,189	93,812	2,608,547
Additions	318,364	14,286	96,623	429,273
Transfers from capital construction-in-progress and reclassifications	210,312	5,643	–	215,955
Transfers to exploration and evaluation assets (Note 16)	(1,656)	–	–	(1,656)
Change in decommissioning liabilities (Note 24)	(28,986)	–	–	(28,986)
Disposals	(25,774)	(1,414)	–	(27,188)
Disposals of subsidiaries	(13,580)	–	–	(13,580)
Effect of translation to presentation currency	133,134	3,145	8,081	144,360
Balance at 31 December 2012	3,051,360	76,849	198,516	3,326,725
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2010	(634,041)	(29,591)	–	(663,632)
Charge	(201,023)	(4,716)	(8,166)	(213,905)
Reclassifications	(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	712	44,816
Balance at 31 December 2011	(807,617)	(22,369)	(7,454)	(837,440)
Charge	(215,988)	(4,477)	(15,031)	(235,496)
Disposals	21,549	302	–	21,851
Disposals of subsidiaries	3,808	–	–	3,808
Impairment	(17,249)	–	–	(17,249)
Effect of translation to presentation currency	(43,677)	(1,067)	(818)	(45,562)
Balance at 31 December 2012	(1,059,174)	(27,611)	(23,303)	(1,110,088)
Net book value				
31 December 2011	1,651,929	32,820	86,358	1,771,107
31 December 2012	1,992,186	49,238	175,213	2,216,637

During the year ended 31 December 2012, impairment of mining assets in the amounts of USD 11,622 thousand and USD 1,189 thousand were recognised following the decision to abandon activities related to the Omchak deposit and other deposits in the Irkutsk ore business unit respectively.

The remaining amount of impairment charge was a result of impairment at the Kazakhstan business unit, due to reassessment of property, plant and equipment requirements and plans for their future use. As the result, certain assets' net book value and expected economic useful life exceeded the anticipated recoverable value.

(in thousands of US Dollars)

14. Property, plant and equipment (continued)

During the year ended 31 December 2011, impairment of mining assets in the amount of USD 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 a result, certain assets' net book value and expected economic useful life exceeded the anticipated recoverable value and accordingly an impairment was recorded in the amount of USD 11,417 thousand.

The carrying values of mineral rights included in mining assets were as follows:

	31 December	
	2012	2011
Mineral rights	332,609	335,470

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December	
	2012	2011
Cost of gold sales (Note 8)	190,387	184,067
Selling, general and administrative expenses and cost of other sales	5,471	6,014
Capitalised within capital construction-in-progress	39,638	23,824
Total	235,496	213,905

The carrying value of mining assets under development and not yet in production for which depreciation has not yet commenced was equal to USD 335,313 thousand at 31 December 2012 (2011: USD 306,090 thousand).

The carrying values of property, plant and equipment pledged to a bank guarantee liability were as follows:

	31 December	
	2012	2011
Pledged property, plant and equipment	52,375	4,613

15. Capital construction-in-progress

	Year ended 31 December	
	2012	2011
Balance at beginning of the year	371,668	295,582
Additions	471,331	161,385
Transfers to property, plant and equipment	(215,955)	(64,170)
Disposals	(1,221)	(460)
Disposals of subsidiaries	(6,572)	–
Impairment	(19,198)	–
Effect of translation to presentation currency	23,224	(20,669)
Balance at end of the year	623,277	371,668

During the year ended 31 December 2012, impairment of Capital construction-in-progress in the amount of USD 16,742 thousand was recognised following the reassessment of recoverability of certain assets' book value at the Talas Gold Mining Company (incorporated in Kyrgyzstan and included in the Kazakhstan business unit).

The remaining amount of the impairment charge was a result of impairment at the Exploration business unit due to the reassessment of plans for the future use of certain capital construction-in-progress assets.

16. Exploration and evaluation assets

	Year ended 31 December	
	2012	2011
Balance at beginning of the year	399,846	442,316
Additions	46,738	31,694
Transfer to mining assets, net (Note 14)	1,656	(264)
Impairment	(338)	(54,708)
Disposals of subsidiaries	(4,424)	–
Effect of translation to presentation currency	23,791	(19,192)
Balance at end of the year	467,269	399,846

During the year ended 31 December 2012, the Group impaired USD 338 thousand of exploration and evaluation assets, because those assets did not demonstrate any future commercial viability.

During the year ended 31 December 2011, the Group impaired USD 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.

As of 31 December 2012 and 31 December 2011, accumulated capitalised exploration and evaluation expenses directly attributable to the Nezhdaninskoye deposit amounted to USD 249,893 thousand and USD 217,316 thousand respectively.

17. Investments in securities and other financial assets

	31 December	
	2012	2011
Non-current		
Loan Participation Notes	13,286	–
Loans receivable	2,748	3,643
Total	16,034	3,643
Current		
Bank deposits	68,286	12,175
Equity investments in listed companies held for trading	9,276	14,857
Other	798	1,692
AFS equity investments	–	34,744
Total	78,360	63,468

AFS investments, carried at fair value

At 31 December 2011, AFS investments primarily comprised shares owned in Rosfund, SPC (Cayman Islands) acquired in July 2006.

During the year ended 31 December 2012, the Group sold all Rosfund, SPC shares for USD 30,768 thousand (USD 13,286 thousand were paid by Loan Participation Notes, USD 383 thousand by shares, USD 14,000 thousand in cash and remaining USD 3,099 thousand remained short-term receivable as of 31 December 2012) and recognised a gain in the amount of USD 581 thousand in the consolidated income statement (Note 12).

Loan Participation Notes issued by EMIS Finance BV are fully guaranteed by CJSC "Rosbusinessconsulting" ("RBC") with the fixed semi-annual coupons from 6% to 7%, denominated in USD with maturity in the years 2015-2018.

Bank deposits

Bank deposits at 7.8 – 8.76% (2011: 2.14 – 8.05%) per annum are denominated in RUB with a maturity date at the end of June 2013.

(in thousands of US Dollars)

18. Inventories

	31 December 2012	2011
Inventories expected to be recovered after 12 months		
Stockpiles	242,005	206,801
Total	242,005	206,801
Inventories expected to be recovered in the next 12 months		
Gold-in-process at net production cost	185,320	160,177
Refined gold at net production cost	24,393	24,757
Total metal inventories	209,713	184,934
Stores and materials at cost	449,767	354,508
Total	659,480	539,442

The Group has 4.5 million tonnes of stockpiles (2011: 5.6 million tonnes) which are carried at zero value, as previously these stockpiles were considered to be waste materials.

19. Deferred expenditures

	31 December 2012	2011
Deferred expenditures	19,090	18,512

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

20. Trade and other receivables

	31 December 2012	2011
Trade receivables for gold sales	20,284	4,869
Other receivables	36,342	24,984
Less: Allowance for doubtful debts	(11,257)	(5,141)
	25,085	19,843
Total	45,369	24,712

Substantially all gold sales are made to banks with immediate payment terms. Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services. The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licences and certifications.

	31 December 2012	2011
The average credit period on gold-bearing product sales to customers, other than banks was	23 days	7 days
The average credit period for other receivables was	52 days	57 days
The Group's largest customers (individually exceeding 5% of the total balance) represented, of the total outstanding balance of other accounts receivable, at the reporting date	29%	15%

21. Taxes receivable

	31 December 2012	2011
Reimbursable value added tax	210,383	129,493
Income tax prepaid	6,683	17,821
Other prepaid taxes	3,769	2,708
Total	220,835	150,022

22. Cash and cash equivalents

		31 December 2012	2011
Bank deposits	– RUB	524,947	487,467
	– foreign currencies	100,000	–
Current bank accounts	– RUB	100,411	146,761
	– foreign currencies	232,769	21,992
Other cash and cash equivalents		1,805	1,228
Total		959,932	657,448

Bank deposits are denominated in RUB and USD and bear interest of 1.3-8.7% per annum with original maturity within three months.

23. Share capital

The authorised share capital of the Company comprises 3,600,000 thousand ordinary shares with a par value of GBP0.0001 per share.

The issued and fully paid up share capital of the Company comprises 3,032,150 thousand ordinary shares issued at a premium, resulting in share capital of USD 482 thousand and additional paid-in-capital of USD 2,151,765 thousand.

Treasury shares

On 11 May 2012, Jenington International Inc, a subsidiary of the Group, completed the sale of the Company's treasury shares. 151,608 thousand shares were sold to Chengdong Investment Corporation, a wholly-owned subsidiary of CIC International Co. Ltd., and 50,198 thousand shares and 25,154 thousand Level I GDRs (one GDR is equal to one ordinary share) to JSC VTB Bank. The gross proceeds received from the two transactions were equal to USD 635,487 thousand, less USD 11,115 thousand of arrangement fees directly attributable to the sale of the treasury shares.

In connection with the sale of the treasury shares, the Group transferred the remaining balance of USD 37,475 thousand relating to the call options to acquire all the rights and obligations under the Gold Lion Holdings convertible loan agreements [see note 25 (viii)] from the treasury share account to the additional paid-in capital account.

Dividends to shareholders of the Company

	Year ended 31 December 2012	2011
Dividend declared and paid during the year, USD thousand	124,318	72,327
Dividend declared and paid during the year, US cents per share	0.04	0.02

24. Site restoration and environmental obligations

	Year ended 31 December 2012	2011
Balance at beginning of the year	149,876	136,410
New obligations raised (Note 14)	2,012	–
Change in estimation (Notes 10 and 14)	(46,245)	7,833
Unwinding of discount on decommissioning obligations (Note 11)	12,143	11,999
Effect of translation to presentation currency	5,203	(6,366)
Disposal of subsidiaries (Note 5)	(5,022)	–
Other	1,183	–
Balance at end of the year	119,150	149,876

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

	31 December 2012	2011
Discount rates	6.21-8.27%	6.83-9.28%
Inflation rates	2.5% -8.1%	3.3%-7.4%
Expected mine closure dates	2013-2050	2012-2050

(in thousands of US Dollars)

24. Site restoration and environmental obligations (continued)

The present value of costs to be incurred for settlement of the site restoration and environmental obligations is as follows:

	31 December 2012	2011
Due from second to fifth year	3,156	7,322
Due from sixth to 10th year	11,447	49,012
Due from 11th to 15th year	45,877	27,534
Due from 16th to 20th year	34,884	7,719
Due thereafter	23,786	58,289
Total	**119,150**	**149,876**

25. Borrowings

		31 December 2012		31 December 2011	
		Nominal rate %	Outstanding balance	Nominal rate %	Outstanding balance
HSBC credit facility	(i)	3 months USD LIBOR+3%	99,325	–	–
Unicredit Bank credit facility	(ii)	3 months USD LIBOR+2.95%	99,544	–	–
Société Générale credit facility to OJSC "Pervenets"	(iii)	3 months USD LIBOR + 2.4%	44,444	3 months USD LIBOR + 2.4%	50,000
Unicredit Bank credit facility to OJSC "Pervenets"	(iv)	3 months USD LIBOR + 2.4%	44,444	3 months USD LIBOR + 2.4%	50,000
Société Générale export financing credit facility agreement to CJSC "Gold Mining Company Polyus"	(v)	6 months USD LIBOR + 0.55%	25,389	–	–
Deutsche Bank letters of credit with deferred payment to OJSC "Matrosov Mine"	(vi)			–	–
– nominated in USD		6 months USD LIBOR + 0.65%	30,856	–	–
– nominated in EUR		Cost of fund (COF) + 0.8%	4,345	–	–
Guaranteed senior notes	(vii)	–	–	9.875%	204,520
Gold Lion Holdings Limited loans	(viii)	–	–	10.00%	34,160
Société Générale credit facility	(ix)	–	–	LIBOR + 1.95%	230,000
VTB credit facility	(x)	–	–	LIBOR + 2.25%	230,000
Total			**348,347**		**798,680**
Less: current portion due within 12 months			(187,555)		(675,632)
Long-term borrowings			**160,792**		**123,048**

Summary of borrowing agreements

(i) HSBC credit facility
On 10 February 2012, the Company entered into a three year USD 100 million credit facility with HSBC to fund the redemption of the Guaranteed senior notes [see note (vii) below]. The facility was fully utilised as of 31 December 2012.

(ii) Unicredit Bank credit facility
On 29 December 2011, the Company entered into a two year USD 100 million facility agreement arranged by Unicredit Bank to fund the redemption of Guaranteed senior notes [see note (vii) below]. The facility was fully utilised as of 31 December 2012.

(iii) Société Générale credit facility to OJSC "Pervenets"
On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011 Société Générale transferred USD 50 million of the facility to a new lender, Unicredit Bank [see note (iv) below]. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012. As of 31 December 2012, USD 50 million had been drawn down and the first repayment made.

(iv) Unicredit Bank credit facility to OJSC "Pervenets"
On 6 October 2011, Société Générale transferred USD 50 million of the facility [see note (iii) above] to a new lender Unicredit Bank. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012. As of 31 December 2012 USD 50 million had been drawn down and the first repayment made.

(v) Société Générale export financing credit facility agreement to CJSC "Gold Mining Company Polyus"
As of 31 December 2012, USD 25,389 thousand was utilised out of a USD 67,502 thousand export financing credit facility agreement with Société Générale for making available financing to be used for the purchase of mining equipment. The facility is established for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. The maturity of the outstanding amounts varies from 2013 to 2016.

(vi) Deutsche Bank letters of credit with deferred payment to OJSC "Matrosov Mine"
During the year ended 31 December 2012, OJSC "Matrosov Mine" entered into number of letter of credit agreements for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from June to September 2013.

(vii) Guaranteed senior notes
On 15 March 2012, USD 200 million guaranteed senior notes were redeemed at 102.344% of nominal value funded by two USD 100 million loans from HSBC and Unicredit Bank, see notes (i) and (ii) above.

(viii) Gold Lion Holdings Limited loans
On 11 June 2009, the Company (formerly KazakhGold) signed two convertible loan agreements with Gold Lion Holdings Limited, a company represented by former shareholders of KazakhGold (KazakhGold now forms the Kazakhstan Business Unit of the Group). Principal amounts of USD 21,650 thousand and USD 9,375 thousand together with accrued interest were to be payable on 6 November 2014.

During the year 2012, a Restated and Amended Principal Agreement (the "RAPA") and a Sale and Purchase Agreement (the "SPA") were signed between the Group and companies represented by the former shareholders of KazakhGold according to which the former agreed to acquire the Group's operating subsidiaries in Kazakhstan and Kyrgyzstan, were terminated.

The termination of the SPA resulted in:

- the gain of USD 38,437 thousand following the Gold Lion loan settlement by a way of novation of all its rights, benefits and obligations under Gold Lion Holdings Limited loan agreements to Jenington International Inc., a subsidiary of the Group, for no additional monetary consideration; and
- an additional gain of USD 40,647 thousand.

Had the transaction been completed both of these amounts would have been included in the purchase price consideration in accordance with the SPA terms.

(ix) Société Générale credit facility
On 15 May 2012, the Société Générale credit facility and corresponding accrued interest were fully repaid.

(x) VTB credit facility
On 15 May 2012, the VTB credit facility and corresponding accrued interest were fully repaid.

(xi) Unused credit facilities
On 15 March 2012, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, entered into a three year RUB 10 billion (approximately USD 329 million) credit line with VTB to fund its general corporate purposes. The interest rate is subject to a separate agreement under each of the credit line drawdowns but cannot exceed 20% or MosPrime Rate + 6.5% for RUB denominated drawdown and 14% or LIBOR/EURIBOR + 13.5% – for USD/EURO denominated drawdown.

On 25 July 2012, OJSC "Matrosov Mine", a subsidiary of the Company, entered into a finance agreement with VTB Bank for a total amount of up to RUB 5 billion (approximately USD 165 million). The facility will be utilised in the form of letters of credit issued by VTB Bank on the subsidiary's request, with the repayment period not later than five years after the drawdown date at an interest rate of 10% per year. The facility will be used to support the purchase of equipment for the Natalka project.

CJSC "Gold Mining Company Polyus" guaranteed liabilities of the subsidiary under all the finance agreements.

HSBC, Unicredit Bank and Société Générale credit facilities contain certain financial covenants. The Group believes that it was in compliance with these covenants as of 31 December 2012.

(in thousands of US Dollars)

26. Deferred tax liabilities

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

	Year ended 31 December 2012	2011
Net deferred tax liability at beginning of the year	184,207	182,948
Recognised in the consolidated income statement	14,633	10,553
Effect of translation to presentation currency	10,158	(9,294)
Net deferred tax liability at end of the year	208,998	184,207

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 2012	2011
Property, plant and equipment	192,923	178,067
Inventory	61,592	54,383
Investments	(1,825)	1,370
Receivables	(1,322)	(1,596)
Accrued operating expenses	(42,370)	(48,017)
Total	208,998	184,207

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 2012	2011
Unrecognised deferred tax asset	40,143	40,019

Such tax losses expire in periods up to 10 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 2012	2011
Unrecognised deferred tax liability	78,020	61,839

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.

27. Trade, other payables and accrued expenses

	31 December 2012	2011
Trade payables to third parties	41,204	30,980
Other payables		
Other accounts payable and accrued expenses	103,968	24,973
Wages and salaries payable	81,768	61,977
Dividends payable	25,906	39,004
Interest payable	726	3,718
Bank guarantee liability	–	37
Total other payables	212,368	129,709
Accrued annual leave	36,274	31,388
Total	289,846	192,077

The average credit period for payables at 31 December 2012 was 21 days, (2011: 17 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.

28. Taxes payable

	31 December 2012	2011
Income tax payable	30,583	2,721
Value added tax	14,227	6,262
Social taxes	20,319	12,958
Tax on mining	15,306	13,260
Property tax	4,123	4,703
Other taxes	43,236	3,052
Total	127,794	42,956

29. Net cash generated from operating activities

	Note	Year ended 31 December 2012	2011
Profit before income tax		1,237,775	784,053
Adjustments for:			
Gain from disposal of subsidiaries	5	(6,268)	–
Loss on disposal of property, plant and equipment	10	3,684	5,933
Change in allowance for reimbursable value added and tax provision	10	(618)	6,602
Finance costs	11	34,791	71,403
Income from investments	12	(35,960)	(3,630)
Amortisation and depreciation	14	195,858	190,081
Impairment of property, plant and equipment	14	17,249	23,501
Impairment of capital construction-in-progress	15	19,198	–
Impairment of exploration and evaluation assets	16	338	54,708
Impairment of stockpiles		–	25,209
Gain on loan settlement and sale and purchase agreement termination	25	(79,084)	–
Change in allowance for doubtful debts		778	(546)
Foreign exchange gain / (loss), net		(4,614)	5,814
Other		31,498	3,971
		1,414,625	1,167,099
Movements in working capital			
Inventories	18	(104,392)	(168,688)
Deferred expenditure	19	521	(230)
Trade and other receivables	20	(20,819)	(5,811)
Advances paid to suppliers and prepaid expenses		(4,423)	(354)
Taxes receivable	21	(78,489)	8,029
Trade and other payables and accrued expenses	27	(7,135)	29,813
Other non-current liabilities		4,044	4,026
Taxes payable	28	18,939	(4,130)
Cash flows from operations		1,222,871	1,029,754
Interest paid		(27,613)	(23,423)
Income tax paid		(203,489)	(230,743)
Net cash generated from operating activities		991,769	775,588

(in thousands of US Dollars)

30. Related parties

Related parties include substantial 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 2012. During 2011, the Group had a number of transactions with its shareholders such as exchange of shares and share buy-backs during the Reorganisation of the Group, which are described in the annual consolidated financial statements for the year ended 31 December 2011.

Entities under common ownership

The Group had the following outstanding balances with entities under common control:

	31 December 2012	31 December 2011
Cash and cash equivalents at Bank "Mezhdunarodniy finansoviy club"	151,692	149,323
Loan Participation Notes "RBC"	14,366	1,019
Investments in securities and other financial assets at "Mezhdunarodniy finansoviy club"	7,603	1,553
Equity investments in listed companies held for trading "RBC"	7,465	7,660
Advances and prepaid expenses paid to suppliers	298	216

The amounts outstanding at 31 December 2012 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.

The Group entered into the following transactions with entities under common control:

	Year ended 31 December 2012	Year ended 31 December 2011
Purchase of goods and services	2,988	2,224
Interest income	10,147	5,136

Key management personnel

	Year ended 31 December 2012	Year ended 31 December 2011
Short-term compensation of key management personnel amounted to	35,012	24,495

31. Commitments and contingencies

Commitments

Capital commitments

The Group's contracted capital expenditure commitments are as follows:

	31 December 2012	31 December 2011
Contracted capital expenditure commitments	481,849	107,019

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 to 2060.

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

	31 December 2012	31 December 2011
Due within one year	2,928	4,275
From one to five years	9,236	7,629
Thereafter	19,085	17,199
Total	31,249	29,103

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 for a lawsuit against JMC "MMC Kazakhaltyn" with a potential exposure of USD 15 million. Management believes that this claim will not have a material adverse impact on the Group.

KazakhGold dispute

During the year ended 31 December 2012, the Restated and Amended Principal Agreement (the "RAPA") signed on 10 April 2011 was terminated (see Note 25) following non compliance with a number of conditions.

Sale of the Company's Kazakhstan and Kyrgyzstan assets

On 18 December 2012, Sale and Purchase Agreements were signed according to which the Company sells all its Kazakhstan and Kyrgyzstan assets to the third party companies consisting of Institute Project B.V., Financial Services B.V. and Folkstand Consortium Limited.

As of 31 December 2012, completion of the transactions was subject to certain conditions, including the receipt of all necessary governmental consents, approvals and waivers in Kazakhstan, which were beyond the Company's control, thus the Kazakhstan and Kyrgyzstan subsidiaries sale were treated as continuing operations.

Insurance

The insurance industry is not yet well developed in the Russian Federation and the 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.

Taxation contingencies in the Russian Federation

Commercial legislation of Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgements about business activities. If a particular treatment, based on management's judgement 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 taxpayer 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, 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 estimate that there was no tax exposure at 31 December 2012 (2011: USD 2,607 thousand). This amount had not been accrued at 31 December 2012 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 modernises technology to meet more stringent standards.

(in thousands of US Dollars)

31. Commitments and contingencies (continued)

The Group is obliged in terms of various laws, mining licences 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 licence agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration and environmental obligations.

32. Risk management activities

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings as described in Note 25) less cash and cash equivalents (disclosed in Note 22) 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.

	31 December	
	2012	2011
Financial assets		
Financial assets at FVTPL		
Equity investments in listed companies held for trading	9,276	14,857
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	959,932	657,448
Bank deposits	68,286	12,175
Trade and other receivables	45,369	24,712
Loans receivable	2,748	3,643
Loan Participation Notes accounted for at amortised cost	13,286	–
AFS financial assets, carried at fair value		
AFS investments	–	34,744
Total financial assets	1,098,897	747,579
Financial liabilities		
Borrowings	348,347	798,680
Trade payables	41,204	30,980
Other payables	242,519	154,443
Other non-current liabilities	524	4,772
Total financial liabilities	632,594	988,875

The main risks arising from the Group's financial instruments are the price of equity investments, foreign currency, credit and liquidity risks. Due to the fact that the Group has a 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 2012 interest expense for the year 2012 would increase/decrease by USD 3,039 thousand.

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 would increase/decrease as follows:

	Year ended 31 December	
	2012	2011
Profit before tax	928	1,486
Investment revaluation reserve	–	3,474

The Group normally places its excess cash into deposits in top rated Russian banks.

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 2012, the Group held the following financial instruments measured at fair value:

	Level 1	**Level 2**	**Total**
Equity investments in listed companies held for trading	9,276	–	9,276
Total	9,276	–	9,276

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

During the reporting periods, there were no transfers between Level 1 and Level 2.

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with a 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.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in USD based on international quoted prices, and paid in local currencies, RUB or Tenge. The majority of the Group's expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of RUB against USD. In assessing this risk, management takes into consideration changes in gold price.

(in thousands of US Dollars)

32. Risk management activities (continued)

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 2012	2011
USD	348,508	62,809
EURO	1,888	222
Total	**350,396**	**63,031**

Liabilities	31 December 2012	2011
USD	381,499	888,405
EURO	14,087	680
Total	**395,586**	**889,085**

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 2012	2011
Profit or loss (RUB to USD)	3,852	61,910
Profit or loss (RUB to EURO)	1,612	64
Profit or loss (KZT to USD)	(553)	20,650

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.

The Group employs 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 84% 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 2012	2011
Trade receivables for gold sales	20,284	4,869

Gold sales to the Group's three major customers, individually exceeding 9% of the Group's gold sales are presented as follows:

	Year ended 31 December 2012	2011
Gold sales to three major customers exceeding 9% of the Group's gold sales	2,336,743	2,060,107

Other receivables include amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. The procedures for accepting a new customer include check by a security department and responsible on-site management for a business reputation, licences 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. Following the development of new capital projects during 2012, the Group arranged certain external finance facilities with the banks, see Note 25 (xi).

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 2012 based on undiscounted contractual payments, including interest payments:

	Borrowings				
	Principal	**Interest**	**Other non-current liabilities**	**Trade and other payables**	**Total**
Due within three months	11,481	2,053	524	282,997	297,055
Due within three to nine months	61,235	4,526	–	–	65,761
Due within nine to 12 months	115,294	2,673	–	–	117,967
Due in the second year	52,811	4,080	–	–	56,891
Due in the third year	108,366	659	–	–	109,025
Due in the fourth year	290	2	–	–	292
Due thereafter	–	–	–	–	–
Total	**349,477**	**13,993**	**524**	**282,997**	**646,991**

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	Interest	Other non-current liabilities	Trade and other payables	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 12 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 thereafter	–	–	3,588	–	3,588
Total	**795,713**	**36,877**	**8,063**	**181,705**	**1,022,358**

(in thousands of US Dollars)

33. Events after the reporting date

On 28 February 2013, Polyus Gold International Limited completed the transaction for the sale of all its subsidiaries in Kazakhstan and Kyrgyzstan to a consortium of independent third party companies consisting of Institute Project B.V., Financial Services B.V. and Folkstand Consortium Limited for a total consideration of USD 297,282 thousand (see Note 31).

There have been no material reportable events since 31 December 2012 and the date of signing this report except for mentioned above.

34. Investments in significant subsidiaries

#	Subsidiaries	Nature of business	Effective % held[1] 31 December 2012	2011
	Incorporated in Russian Federation			
1	OJSC "Polyus Gold"[2]	Management company	95	95
2	CJSC "Gold Mining Company Polyus"	Mining	95	95
3	OJSC "Aldanzoloto GRK"	Mining	95	95
4	OJSC "Lenzoloto"	Market agent	61	61
5	CJSC "ZDK Lenzoloto"	Mining	63	63
6	CJSC "Lensib"[3]	Mining	38	38
7	CJSC "Svetliy"	Mining	53	53
8	CJSC "Marakan"	Mining	53	53
9	CJSC "Dalnaya Taiga"	Mining	52	52
10	CJSC "Sevzoto"[3]	Mining	41	41
11	OJSC "Matrosov Mine"	Mining (development stage)	95	95
12	CJSC "Tonoda"	Mining (exploration stage)	95	95
13	OJSC "Pervenets"	Mining	95	95
14	OJSC "South-Verkhoyansk Mining Company"	Mining (development stage)	95	95
15	LLC "Polyus Stroy"	Construction	95	95
	Incorporated in British Virgin Islands			
16	Polyus Exploration Limited	Geological research	95	95
	Incorporated in Republic of Kazakhstan	Mining	100	100
17	JSC "MMC Kazakhaltyn"			
	Incorporated in British Virgin Islands			
18	Jenington International Inc	Market agent	95	95
	Incorporated in Cyprus			
19	Polyus Investments Limited	Market agent	95	95

Note:

1 Effective % held by the Company, including holdings by other subsidiaries of the Group.

2 Effective % includes 92.95% of ordinary shares held directly by the Company as at 31 December 2012 and 2011.

3 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 they are therefore consolidated even though the effective interest is less than 50% as at 31 December 2012 and 2011.

Glossary

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 optimises 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.

Glossary continued

Ore body
Mineralised body which is either profitably exploited, or which manifests reasonable certainty of profitable exploitation.

Ore field
The total number of mines used to exploit a common mineral deposit or a group of closely interconnected ore bodies (diggings).

Ore reserve (JORC Code)
The part of measured and/or indicated mineral resources that may be mined on an economically profitable basis.

Oxide 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

Km
Kilometre

KPI
Key Performance Indicators

kV
kilovolt

LTI
Lost Time Injury

LTIFR
Lost Time Injury Frequency Rate

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

Contacts and advisors

Polyus Gold International Limited
Address: Argyll,
18b Charles Street,
London W1J 5DU

Tel.: +44 (0) 20 3585 3537
Fax: +44 (0) 20 3585 3538

www.polyusgold.com
info@polyusgold.com

Mikhail Seleznev
Director,
Capital Markets and Investor Relations

Tel.: +44 (0) 20 8528 1450

ir@polyusgold.com

Sergei Lavrinenko
Director, Communications

Tel.: +7 (495) 641-33-65

pr@polyusgold.com

Registrar:
Computershare Investor
Services (Jersey) Limited

PO Box 329,
Queensway House,
Hilgrove Street,
St Helier,
Jersey JE4 9XY

Tel.: +44 (0) 1534 281200

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